

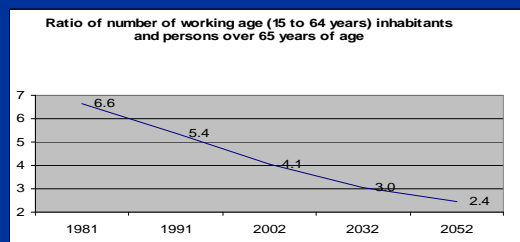
**REASONS FOR CHANGES,
OPTIONS AND DILEMMAS**

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**WHY DO WE NEED FURTHER
CHANGES?**

DEMOGRAPHIC REASONS

- With a share of 16,8% of elderly in its population, Serbia belongs to countries with pronounced ageing.



Unfavorable system features

- System support ratio (number of insured/pensioners) is unfavorable - only 1,6 (1,4 in the employees insurance)
- Mid-term – opportunity in “internal reserves”, increase of employment and reduction of informal economy

Unfavorable system features

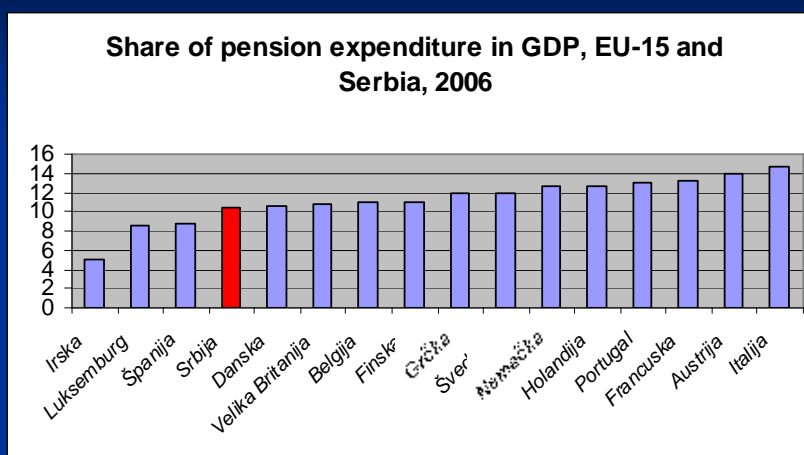
- The share of disability pensioners is still rather high – 23%
- The share of pensioners older than 65 is only 62.3% even among the old-age pensioners in the employees` insurance
- There is less than 20% of pensioners within the employees` insurance with “full” years of service
- Almost 20% of pensioners within the employees` insurance were retired with accelerated years of service

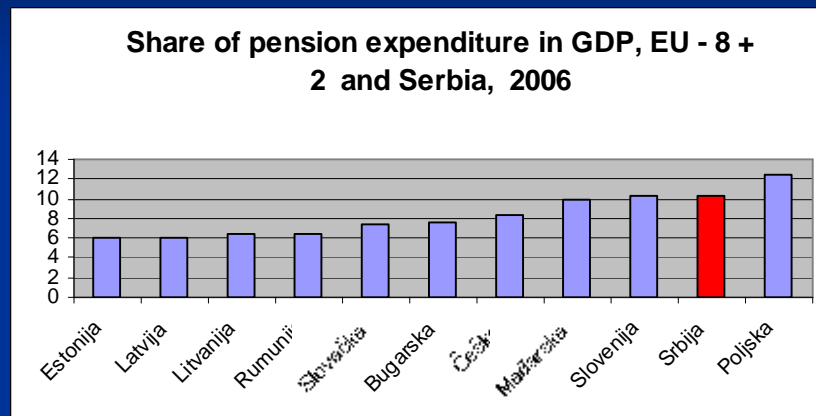
Indicators of pensioners' living standard and its maintenance

- In 2008, pensions in the employees insurance stood at 59.2 % of average wages
- In 2008, pensions of those pensioners within the employees` insurance who had “full” years of service and more stood at over 80% of average wages
- A significant share of pensioners receive pensions below average (over 60%)
- However, according to the Living Standard Survey, the poverty rate among pensioners is lower than that of the general population average (in 2007 it was 5.3, compared to 6.6%)
- The hypothetical net replacement rate for a average earner with 40 years of service is approximately 73% in 2008 (which is at the level of EU-8+2 countries, slightly lower than EU-15)
- In the long run, the hypothetical replacement rate is declining to an unacceptably low level (43% in 2020)

Financial indicators

- In 2008, the expenditures for net pensions were 333,1 billion RSD, or 11,9% of GDP
- According to data for 2006, these expenditures are :
 - Slightly lower than the EU average
 - Among the highest in transition countries that have joined the EU
 - Among the lowest compared to EU-15 countries





Some comparisons with transition countries that have joined the EU

- Contribution rates in Serbia are lower
- Retirement age for men in Serbia is higher
- Differences between men and women in Serbia are not decreasing
- Pension in payment indexation and past earnings valorization based only on costs of living are unusual
- Net replacement rate is at EU average
- In the long run, sustaining the pensioners' living standard in Serbia is very unfavorable (net replacement rates are low)
- Pension expenditures in Serbia are among the highest compared to EU8+2, but they are still below average for EU

OPTIONS AND DILEMMAS

Further changes in the 1st pillar

- Dilemmas about the pension and disability insurance for farmers
- Dilemmas about the introduction of NDC
- Change of rules for rights to accelerated years of service, including the adequacy of contribution level
- Short term/mid-term
 - reexamination of adequacy of pension in payment and general point indexation based only on costs of living
 - adequate inclusion of military pensioners into the system
- Mid-term
 - dilemmas about the general point indexation
 - reduction of retirement age gap between men and women
- Improvement of control mechanisms and administration in order to increase revenues and reduce the informal economy

IInd pillar

- Experiences of other countries, especially in the light of the current global economic crisis, do not speak in favor of an uncritical acceptance of the IInd pillar
- Implicit (gross) transitional costs of introducing the IInd pillar in Serbia would be between 0.6% and 1.7% annually, for 40 years
- It is a large investment with uncertain results, and there is no clear evidence that it would create conditions for safer and sufficiently high pensions for today's generations of workers
- In Serbia, the financial market is still underdeveloped and the administrative capacities are not sufficient to regulate it

Instead of a Conclusion – The Most Common Misconceptions

- The pension funds were destroyed in the 1990s
- Pension expenditures are extremely high, among the highest in Europe
- The Pension and Disability Insurance Fund's deficit is great and growing, and it is the most important indicator for the overly high pension expenditures burden
- There is a large number of pensioners in relation to the general population
- Pensioners are among the most vulnerable groups
- Pensions in Serbia are low in comparison with wages