

THE CHALLENGES OF THE SOCIAL INSURANCE SYSTEM IN ALBANIA

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Abstract

Democratic transformations in the last two decades in Albania have enabled not only the construction of fundamental institutions of the market economy, but have also created the necessary conditions for increased attention and care to groups and different classes of society. In this process, overcoming poverty remains a major challenge for strengthening the stability of the country, increasing social cohesion and generating cash resources in favor of the most vulnerable groups' layers. Transition from plan to market system was accompanied by negative consequences related pension system with massive unemployment as a result of the collapse of the public sector of the economy reached epidemic growth of the informal economy and massive appearance early retirement of many employees as a result of the closure or restructuring of public enterprises. The analysis in this paper will focus on three moments in terms of the social insurance system in Albania. First, it reflects an analysis of factors that have contributed to the social insurance scheme after the change of political system that took our country and influences that have had these factors in the improvement of schemes currently operating. Second, it describes the relationship that exists between the state and social insurance schemes, especially in financial terms. And finally, a factor that negatively affects insurance system and the informal economy and the role it plays on the system.

Keywords: Social insurance system, informal economy, "pay as you go", economically active, retirement, Albania

INTRODUCTION

The current system of social insurance in Albania started to be applied in 1993 with the entry into force of Law no. 7703, dated 11.5.1993 "On Social Insurance in the Republic of Albania". Mandatory social insurance schemes in Albania is a scheme based on the principle of "pay as you go", the principle of individual responsibility for social risks of the future and the principle of solidarity between generations. Benefit payments guaranteed by an amount that covers at least the minimum standard of living as defined by the Council of Ministers.

The elderly are traditionally respected and are valued for their authority, wisdom, dignity and experience accumulated over a lifetime. These values are often neglected, and the elderly often presented as a burden on the economy that should be providing social and health services. The elderly are usually in good health, but there are many of them who seek health care services, often to create a negative image for the elderly, for pensioners. Social insurance system is an important component to realize the rights and improve the quality of life of the elderly. Pensions are the most important element of social protection of the elderly. According to the Ministry of Labor Social Affairs and Equal Opportunities (2003) actually about 17 % of the total populations benefit pensions. This indicator has clear growth trend. Because of internal and external migration and new mindsets and psychology Albanian family economy, the pension system in the future will play a special role to support the elderly. Low level of payment of pensions has forced a no small part of the elderly to continue working even after retirement. According to the Survey on Problems of the Elderly show that 40.5% of respondents in rural areas worked after retirement while in urban areas, this figure is 28%. Elderly men who continue to work are 37.2% compared with 26.4% in women (Ministry of Labor Social Affairs and Equal Opportunities, 2008). Active participation for all ages includes creating opportunities for older people to continue to contribute to society. Socio-economic contribution of the elderly carried beyond their participation in economic activities. They often play an active role in the family and in economic and social life of the community. They make great contributions that are difficult to quantify in economic terms: care for family members, auxiliary role in productive work, in keeping the family economy and community volunteer activities that contribute to the preparation of the future workforce. All these contributions in different sectors, including unpaid work (informal sector) of all ages, especially women, need to be evaluated. Elderly being active participants in the development process should also be beneficial. All have the right to benefit from development. The impact of the elderly in social and economic development of society dictates the need to take measures for the integration and empowerment of older persons. In accordance with Robins (1999) no matter your plans for retirement as soon as you start to plan your budget and how much information you have, the better it will be for you.

The negative impact of the different factors the level of beneficiaries of Social Insurance System in Albania

Developments and changes that took place in the economic system and social development, in the early 1990s, carried their reflections in the social insurance system and especially its finances. The transition from the planned economy system in the market economy, in its infancy, in addition to heavy acquired rights in the pension system, because of a financially unstable legislation, was associated with several other adverse consequences. They were in massive unemployment as a result of the collapse in the public sector of the economy, rampant growth of the informal economy, massive exit early retirement of many employees as a result of the closure or restructuring of public enterprises, what, among other things, were followed by dramatic deteriorating report contributor / beneficiary, widely known as supportive or report dependency ratio. This ratio fell to 1.1 contributor critical limit for 1 beneficiary.

Tax on social insurance scheme analyzed in two ways: it in the village and in the private sector. In the context of significant changes to the social insurance system has undergone since 1993 until now, in order to adapt to social and economic changes in the country, in 1998 adopted a new pension scheme for farmers. The focus of this reform was to build a gradual equalization of pension's strategy new village with the city. Farmers were given the right, if you pay contributions for past periods, then was forgiven interest on delays and if half of the period of insurance required in the relevant year had charge contribution, under the new law, plus working period in the former agricultural cooperative, then they benefit pension city (Institute of Social Security, 2012). The fact that currently rural pension is equal to that of the city, while the contribution is equal to 1/3 of the city, makes this scheme with a lot of demand for coverage contributory final budget funding or subsidy. But the collection of contributions to the self-employed in agriculture, is considered as a great and as yet unresolved problem of the Albanian social insurance schemes essence a significant number of the population lives in the countryside, suffering non-participation of this category of self-employed. Village pensioners continue to receive their pensions, regardless of the low number of contributor's farmers. Also, the private sector of the economy has increased the social insurance scheme evasion as many subjects who develop non-agricultural activities in rural areas do not register and carry out economic activities unlicensed and therefore do not pay contributions.

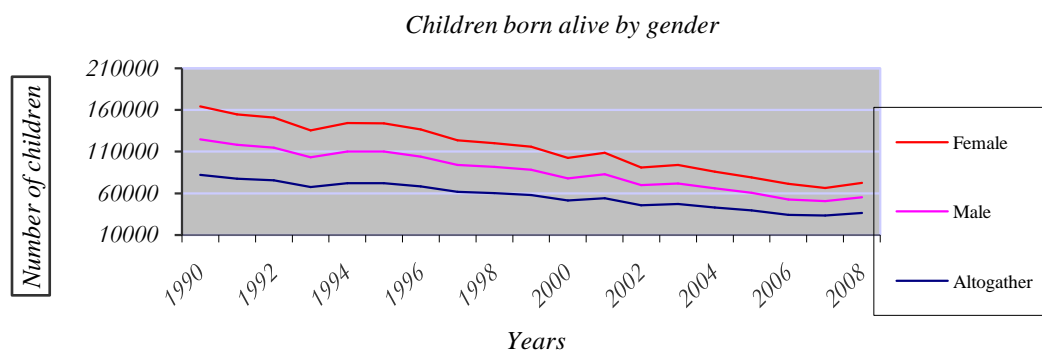
Migration and urbanization: Political, economic and social situation after 1990 was accompanied by the mass movement of people abroad and massive displacement within the country. Emigration from Albania belongs to particular age groups. In accordance with Instat database about 95% of migrants are aged 15 - 45 years and nearly 71% are male. This phenomenon has resulted in the reduction of the working population, or otherwise reduces the

number of contributors to social insurance scheme and its impact on bringing about a balance of contributors report dis - beneficiaries.

The age structure of the population: Ministry of Labor Social Affairs and Equal Opportunities (2003) states that Albania has a population of relatively young age, nearly half the population is under 25 years old. In these demographic developments, the elderly population is expected to double in the next 20 years. This age of the population poses a challenge for the future. The aging of the population affects the pension system, health services and economic productivity. Ageing of the population in Albania has influenced the reduction of mortality and average life duration. By decreasing the mortality derived human life at all ages. But the pension problem cannot be reduced to a single dimension demographic. The reduction of unemployment coefficient and informality in the labor market and labor productivity is able to reduce the financial burden of pensions for any busy person. This raises the need to develop policies that integrate demographic development.

The population aging or the population trend for less children born. Reasons for the decline of this indicator are numerous as: high immigration population in fertile age, the increase in the average age of marriage for women and men, the increase in the number of divorces, the use of family planning methods, etc. According to Instat database in the past 20 years, the number of total births of children has decreased by 56%.

Figure 1 : Children born alive by gender

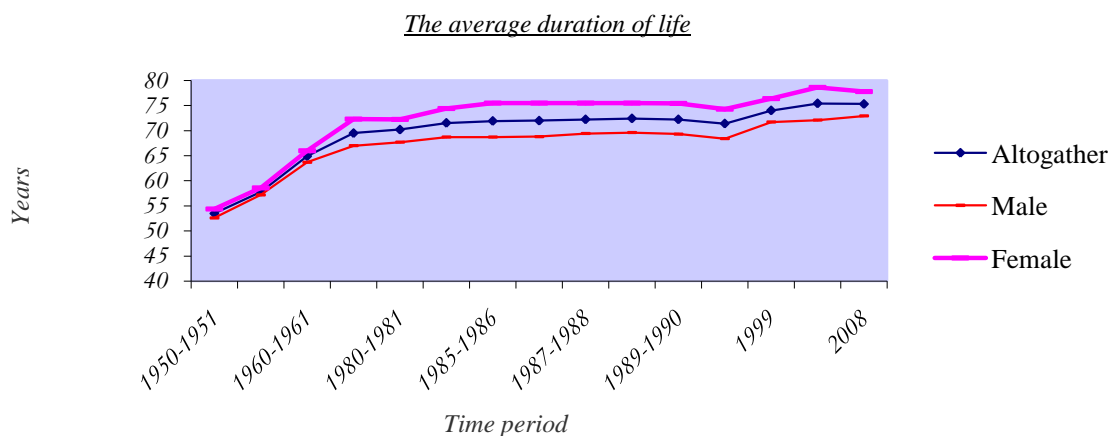


Source: *Institute of Statistics in Albania*

Also, according to the official reports published by the Institute of Statistics, it has been observed that over the years has increased mortality level stability. And, in terms of gender breakdown, we note that the total deaths, men are the ones who die more than women, about 56% of total cases.

Following this, it is statistically proven that women live longer than men, and the life expectancy of the entire population has increased from 53.5 years in 1950, reaching 75.3 years in 2008.

Figure 2: The average longevity for males and females



Source: *Institute of Statistics in Albania*

This increase in life expectancy of women compared to men has played a role in the evasion of social insurance coverage scheme. Based on Law no. 7703, dated 11.05.1993 "On Social Insurance in the Republic of Albania, as amended, the period of payment of contributions (or periods of being active work) for women is 30 years and for men is 35 years. What can we say that children come out 5 years earlier at their retirement and life expectancy is higher than men, or the period of benefit social insurance scheme contribution is greater than that of males (not include here the fact that the amount of retirement pension for women is lower than men).

Legislation for social insurance schemes in Albania. Social insurance system in our country operates in such a way that a citizen even though the maximum contribution sheds throughout his life, in old age he could not take more than the maximum pension age. According to July 2012 Decision of the government, the maximum amount of retirement pension is 24000 Lek / Month. But there are exceptions schemes that are more than obvious that part of our society since more than 20 years have held important positions in the legislative and governing. Their benefits start to come retirement age. "On the basis of supplementary pension law a deputy governor or senior constitutional functions, if he is removed from office and starts another job with lower salary, benefit immediately from the difference between the salary insurance scheme that has taken state function and the new salary". Also, they have the right to retirement at the age of 55 years. "A former member or senior who leaves office at the age of 55 years is entitled to a pension equal to 50 percent of his salary for three years". Added privileges

when they reach the official retirement age functionaries. "According to the law, in addition to ordinary pension that takes any other citizen deputies, governors and former senior officials have the right to receive additional pension, which increases in proportion to the years that have kept on task and can reach up to 75 percent of their salary". In fact, the adoption of this law in the Assembly of the Republic of Albania has always taken full vote. If you think that since 1992 has more than 250 former senior state officials who are involved in these schemes and pension benefit amounts 5-6 times higher than the maximum age pension amount of a citizen, the calculations would result high and occupy a considerable share of the state's annual budget.

The change of political system, economic and social relations made it necessary remodeling of the social protection system according to contemporary schemes. Reform of the social insurance system is realized by setting its underlying principles of social justice. Setting contributory principle means that for equal contributions to ensure equal benefits. Eligibility criteria are unique for all participants in the insurance scheme, so e.g. retirement age is 60 for men and 35 years of insurance period. Measure old age pension consists of a basic level of benefits for all citizens, which should provide necessary subsistence minimum in our society, and an additional set about individual contributions. Most important reforms that have changed the parameters of the system have been studied and approved in the period from 2002 to 2009. Undertaking these reforms is dictated by a number of factors, the main of which are: the pension system deficit, which had reached about 1% of GDP and forecasts that highlighted further deterioration of this situation, considered high; the percentage of contribution to the social insurance fund amounted to 42.5% of salary, was considered too high and direct impact by discouraging people to formal insurance, distorted labor market and turning into its opposite, thus providing less revenue for the system.

The role of the State as contributing entity in the financing of Social Insurance Schemes

To have a financially sustainable system the contribution incomes at least must be equal to the cost of benefits. Factors that affect the amount of income from contributions are the number of contributors, on which wages are calculated and paid contributions and the contribution rates. The number of contributors depends on the labor force, employment and unemployment levels, the rate of immigration, as well as the level of informal economy. As a result of the country's economic development and increase the quality of contributions administration, the number of contributors over the years is increased, but still far from the number that need to have a satisfactory system dependency rate.

Based on the dates published by the Institute of Social Insurances in Albania, in our country lives 570 thousand pensioners or about 17 percent of the population, for whom is paid a

financial bill of 80 billion. Instead of counted 480 thousand people who pay social insurance, while the rest of the money compensated from the state budget. One of the most important reforms that were undertaken in 2002 was to reduce with 4% the social insurance contribution rate. This reduction created the premises for increasing the number of contributors and reducing the informal economy and the gray. Albania ranks today as one of the countries with lower labor taxes in the region and in Europe, which creates in addition to lowering the fiscal burden for employer's formalization of labor relations and increasing the number and income from contributions.

Table 1: The growth of contributions and the incomes in recent years

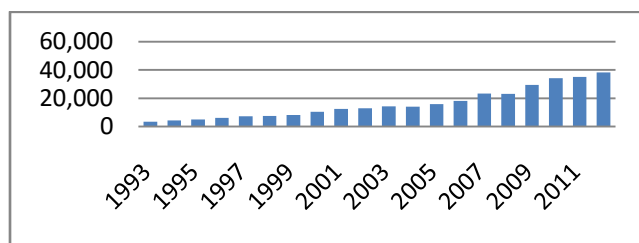
	2005	2006	2007	2008	2009	2010	2011
<i>Income from contributions</i>	33.628	36.025	37.664	42.795	44.245	45.020	47.884
<i>Number of contributors</i>	865.264	733.685	861.061	739.773	684.585	651.779	692.110

Note: Revenues are expressed in millions Lek and the number of contributors has fluctuated from year to year, as a result of the forgiveness of interest on arrears for the self-employed in agriculture.

Source: (Hado, 2012)

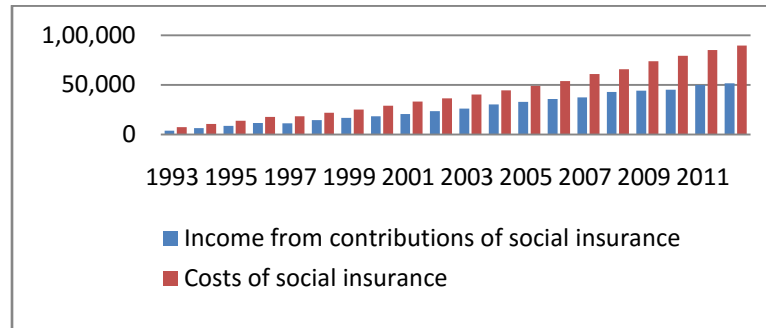
However, despite the measures taken, the incomes from contributions continue to be low compared to the cost of social insurance, which brings a very high dependence on the scheme from the budget. Over the years stands out spending growth rates were significantly higher than the growth rate of income. Moreover, the pension increase policy has been a totally cope bill from the state budget, and over the years, the gap between spending and revenue has been deepened and dependence on the state budget has become a necessity. And based on the Finance Ministry draft budget the situation becomes even more critical if the following year's revenues will continue to grow at 3 - 4%, while in the 2012-2014 PBA insurance costs projected to reach 102 billion. Data on income and social insurance costs in years are shown in the figure below:

Figure 3: The annual level of Subsidization



Source: Ministry of Finance Database

Figure 4: The annual level of incomes from contributions and costs of social insurance system



Source: Ministry of Finance Database

With this performance, unless urgent measures are taken to increase the number of contributors and reduce evasion, Albania in the future will spend almost as social insurances spending for investment in roads, schools and hospitals altogether.

The informal economy and it's negative role in the pension system.

Another factor that has adversely affected the pension system and related to mass unemployment is the informal economy. To give a definition of the informal economy is something difficult. This is not because of the difficulties of knowledge about ways of measuring and evaluating the size and scope of the sector, but also because the authors look at the problem from different angles and give definitions related, but different. Should be recognized that in developing countries and those in transition informal economy provides a significant contribution to economic growth, while being associated with a number of problems remain to be addressed by policy makers and practitioners of economic policy. According to Mema and Preçi, (2003) the term "informal economy" shall be defined to include economic activities "secret" and "illegal" income which should have been reported to the tax authorities, but are hidden from them - for different reasons. A number of attempts have been undertaken to identify the effects of economic informality and economic prosperity. These are two variables that have a negative correlation between them. A high informal sector leads to an increase in unproductive activities (especially in concealment, protection or detection of hidden economic activities legally and illegally) and then in a significant loss of scarce resources. A high informal sector tends to cause a bad distribution of production factors, mainly because informal enterprises - that are not able to use (fully) market support institutions such as the police or courts banks - insufficient use capital intensive production technology, which would eventually make their goods and services uncompetitive.

The main factors that led to the strengthening of the informal economy in this period are:

- At the first period of transition the closure of massive different jobs in Albania.
- Demographic shifts toward lowland areas, big cities and especially to Tirana.
- A high level of the political interventions in the public administration and in the economic decisions.

The drafting of new legislation and continuous improvements, but that still leaves room for a high level of informal economy.

CONCLUSIONS

Financial stability and development of the social insurance system in Albania, as well as in other countries, has been and remains influenced by the country's economic power, economic stability, demographic situation, the development of the labor market, the unemployment rate, the employment rate and the salaries, etc. The impact of these indicators has accompanied this system since its beginnings from 1993 until today, sometimes helping to improve its financial sustainability, sometimes providing more funds, but sometimes dictating undertaking reforms that have changed the parameters of the system, giving it more financial breathing, more fairness and coherence of unification with the development of social insurance systems in Europe.

Although a number of indicators identified system improved enough that we are already in the reform of the gradual increase in the retirement age have been completed, again found a high deficit of the pension branch which amounts to approximately 1% of GDP and worsening trend. This state of system indicators and especially its fragile financial stability evidenced again the necessity of taking measures to reform the system and the contribution of all parties to achieve a reform that will withstand time.

Opportunities to undertake reforms, the choice of the most appropriate scheme or changes in theory are numerous, but the success or failure of the expected results of which depends on the amount and the measures taken to provide funds that will finance the system. Pension reforms, notwithstanding the differences between them, extended and implemented by participants and beneficiaries, and therefore any structural reform will keep in mind the disposition that would be necessary to keep in balance the public pension scheme. Persons that benefit from the insurance systems have deserved acquired rights and of course have the right to ask for more to improve the quality of their lives.

Certainly it remains a vast economic field for further study researches in order to find the appropriate suggestions directed to the policymakers just to do the necessary improvements.

Recently the government has undertaken reforms in order to improve the social insurance scheme in the country, the results of which remain to be viewed in further studies.

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