Universal Social Protection

Universal old-age pensions in

Kosovo

Old-age pension scheme

During 2001-2003 period, Kosovo implemented an entirely new pension system comprised of three “pillars”. Pillar I includes a basic old age pension (paid to all Kosovars, 65 years of age and older) and a disability pension. Both pensions are financed from general revenues rather than an earmarked wage tax. The objective of the benefit is to prevent old age poverty by ensuring all elderly have access to a pension. The disability pension is narrowly focused on total and permanent disability, ensuring that scarce resources are well focused on the truly disabled. Pillar II of the system is a mandatory, defined-contribution, savings pension program whereas Pillar III provides for supplemental, individual or employer-sponsored pension schemes.

Main lessons learned

- In the context of challenging economic and social conditions, Kosovo opted for a basic old age pension in an effort to address high poverty rates among the elderly. The decision to implement a universal pension also proved affordable given the small share of elderly in total population. Kosovo’s young demographics permitted all elderly to be provided with a pension at fiscally manageable cost.
- Even though the basic old age pension has effectively reached all elderly Kosovars and played a significant role in bringing down poverty rates, the level of the benefit remains quite low relative to GDP per capita. Therefore, alternative mechanisms for old age income provision and savings would need to be improved and developed to allow for higher income replacement in retirement.
- The basic old age pension has promoted poverty avoidance among the elderly without the imposition of high payroll taxes on working-age individuals - since there are no wage-based contributions.
- Having access to an old age pension has likely played a part in reducing social exclusion rates among the elderly.

1. What does the pension system look like?

Overall structure: The old age pension scheme in Kosovo[1] – introduced in 2002 – is a noncontributory, general revenue financed pension scheme which provides a flat-rate benefit to all Kosovars 65 years of age and older.

Coverage: The basic old age pension achieves almost full pension coverage in an environment where only a small share of the population earns formal wage income, in contrast to the old Yugoslav system that reached only about half of Kosovo’s elderly. The number of basic old age pension recipients in 2014 was 125,800 while according to the 2011 Census, the population over the age of 65 was 116,785.

Benefits: All Kosovars above age 65 are eligible for the basic old age pension. Disability pensions are available to fully disabled resident citizens aged between 18 and 65. The scheme is financed from the budget and is operated by the Ministry of Labor and Social Welfare (MLSW), with no benefits available for partially disabled individuals – i.e. individuals with a disability level below 100 percent. The uniform monthly benefit is EUR 75, equal to the basic pension and about 23 percent of GDP per capita.

The pension landscape in Kosovo has rapidly expanded since the 2001-2003 reforms and at present includes numerous programs, covering both elderly and working age people. Figure 1 outlines the various pension schemes which range from funded defined contribution pensions (KPST) to universal, flat, non-contributory provisions. The basic pension remains a general-revenue financed universal flat benefit, covering all citizens aged 65 and over. The contributory pension is a budget-financed defined benefit scheme for

[1] Throughout this brief, references to Kosovo should be taken to be within the meaning of the UN Security Council Resolution 1244, adopted on 10 June 1999.

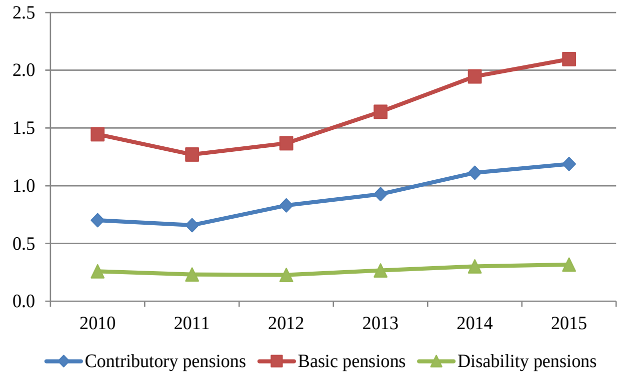
citizens above age 65 with a sufficiently long work experience prior to 1999. Eligibility requires at least 15 years of contributions prior to 1999 into the social security scheme of Yugoslavia. Basic and contributory pension cannot be paid to the same person. Eligible individuals were, until 2015, entitled to a flat benefit of EUR 140, with the same residence and administrative procedures in place as for the basic pension.

Figure 1: Pension landscape in Kosovo[2]

Type of Pension	Age	Target group	Benefit Amount
Basic pension	65	All	Flat (75)
Contributory pension	65	Beneficiaries based on law from before 1999*	Education-linked (158-240)**
Disability pension	<65	100 % disabled	Flat (75)
Work disability pension	<65	Work accident or professional disease	Flat (75)
Family pension (Spouse, children or parents)	Spouse <65	Beneficiaries based on law from before 1999* or family of work disabled	Flat (75 +20% per eligible child)
Trepca early pension	50-64	Involuntary unemployed > 50% disabled	Flat (105)
Kosovo Pension Savings Trusts	65	All	Phased withdrawal (at least 150) or annuity

Financing: The basic old-age pension is funded from general government revenues, on a pay-as-you- go basis, with universal eligibility upon reaching age 65 regardless of other income sources. The cost of the basic old age pension amounted to 2.1% of GDP in 2015.

Figure 2: Pension Expenditures as a percentage of GDP, 2010-2015



Source: Kosovo Ministry of Labor and Social Welfare

Legal aspects and institutional arrangements for delivery: United Nations Interim Administration Mission in Kosovo (UNMIK) Regulation 2001/35 of Pensions in Kosovo was the first act to regulate pension policy in Kosovo after 1999. It established the legislative foundation for Pillars II and III. Regulation 2002/15 provided the legislative foundation for Pillar I. The Pension Administration Department at the Ministry of Labor and Social Welfare (MLSW) is responsible for managing and administration of the pension scheme set by applicable legislation. Pensions are paid through the banking system.

2. How was this major breakthrough achieved?

Before 1990, the employed population in Kosovo was insured by the Pension System of the former Yugoslavia. The pension amount was determined according to years of contributions and earnings. The decision to opt for a new, universal, flat benefit was based on the following key factors:

[2] *Effectively this corresponds to a minimum eligible career before 1999 of 15 years. The benefit range for education is not yet determined – the numbers indicate the targeted range as indicated by the authorities.

** The benefit range for education is not yet determined – the numbers indicate the targeted range as indicated by the authorities.
***For newly recognized cases after 1999 – unspecified for others

1) A desire to avoid high contribution rates and to promote long-term fiscal sustainability.
2) The low rate of coverage provided by the old system.
3) The poor state of contribution records for the old system.
4) Political challenges in determining how to equitably treat those who were forced out of their jobs and denied the opportunity to participate in the pension program in the decade following the political changes of 1989.

The new basic pension was designed so that it does not discriminate based on work history or ethnicity. The rationale behind the implementation of the basic pension scheme was to create a pension system that covers the whole population; the Yugoslav pension system covered only about half of the elderly in 1998.

The basic pension scheme was designed to address the needs of all population groups, including: 1) the elderly who contributed to the past system (up to 25,000 old-age pensioners, or less than 1.5% of the population, who felt they are entitled to benefits based on these past contributions; plus approximately 25,000 over 65 who were receiving survivor and disability pensions); 2) The elderly who did not contribute to (or were excluded from) the past system (roughly 90,000, or up to five percent of the population, who may be equally in need of a pension as those who contributed); and 3) the current working-age (up to 1.4 million individuals 16-65, who were not making contributions to any pension system and were not earning entitlements to any future pensions). Since 2008, a parallel pension system providing top-up pensions to pensioners who paid contributions to the pensions system of the republic of Serbia before the conflict has been implemented.

The system preceding the current old age basic pension scheme was ineffective on several fronts. The old system was a typical East European system with very high contribution rates, frequent delays in payment of pensions, a high level of evasion, early retirement ages, and special categories of earlier retirement, a complicated benefit formula, and increasing financial unsustainability. Although the Kosovar population is young, it will start to age rapidly and therefore will be subject to the same demographic pressures that confront the Yugoslav system. Therefore, it was decided that a clean start should be made with a new, modern pension system.

3. What are the main developmental results and impact on people's lives?

The basic old age pension protects almost all elderly Kosovars against old age poverty at a relatively low cost. The basic old age pension is 75 EUR per month which equals about 23% of GDP per capita. Although the level of the benefit may not appear sufficiently adequate, it is important to remember that the primary objective of the basic old age pension is old-age poverty prevention. The mandatory defined contribution pension scheme (KPST) provides a mechanism for additional savings for those who wish to replace a higher percentage of their income earned during their active years.

The structure of the basic old age pension system was formed with the vision to create a pension system which would also promote economic development. The basic pension scheme was structured in a way, to the extent possible, that would facilitate savings and investment of the population, rather than relying on mechanisms that are similar to issuance of government debt. Furthermore, the pension system was intended to promote development of the labor market, suggesting that contribution rates be set at reasonable levels and that pension programs offer participants acceptable returns on their contributions so that there are incentives to participate.

4. What's next?

Although the law defines the indexation of the basic pension level in line with yearly cost of living increases, this has not always not been observed. In fact, pension increases have typically occurred on an ad-hoc basis.

There has been a conversation around limiting the eligibility for basic old age pension to resident citizens and introducing strict residency controls. This measure could be an effective component of reforms aimed at boosting the adequacy of the basic old age pension while also controlling its fiscal costs.

This Universal Social Protection brief was produced by Miglena Abels of World Bank. It was reviewed by Isabel Ortiz, Kenichi Hirose and Loveleen De of the ILO.

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