

ORGANIZATION AND OPERATIONS OF PRIVATE PENSION INSTITUTIONS IN ALBANIA

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Abstract

Pension reforms, despite the changes that have between them, stretching and realized through the contributors and beneficiaries, and therefore any parametric structural reform implemented in order to maintain the balance of public pension scheme. In its entirety, the social security system is characterized by significant changes both from the institutional perspective and from that of the methods of its organization. The reform of public pension schemes and their support in private schemes is an ongoing problem for all countries of the world. This reform takes a special importance to the fact that existing schemes have caused a great waste of public budget and a reduction of national savings being made in this way an obstacle to growth. In Albania in addition of the public pension's system, operate the private pension's institutes, licensed by the state. According to the statistics show that up to December 2010, these institutes operate private pensions: Raiffeisen Pensions, Capital and Sigma IPP, with a total of 4992 contributors involved in this scheme. The operation of private institutions of pension is necessary, to supplement and complete social security scheme and are necessary to ensure a higher level of living of individuals. They create convenience for individuals to receive additional income in the future. The level of their income after retirement will consist of the income they provide as a result of involvement in the scheme of compulsory insurance plus benefits received from participation in private pension funds. These funds provide opportunities for raising the national savings rate, serving as an important resource for stimulating new investment, as well as affecting the removal of distortions in the labor market, contributing to reducing the informal market. Even demographic factors, identify the need for private insurance. So the combination and harmonization of these insurance schemes encourage economic progress.

Keywords: Private pension institutions, pension reforms, investment incentives, labor market, demographic factors.

The contribution of social insurance began to appear in simple forms, such as care for orphans, for state officials and later with the gradual development of market economy. In medieval social care for poor and unable to work initially regarded as private and religious problem and should be provided by family or religious institutions. With the development of feudal rule and consolidation of monarchical states, poverty began to be seen as a social problem by taking measures to relieve her.

In Albania, from 1945 up to 1990, social protection in general and the administration of labor and social issues in particular, have been very embryonic. This is explained in a country that stood aside mechanisms of market economy. Responsibilities regarding work, employment, social security and other social issues were scattered across various ministries, such as the Ministry of Industry, Energy, Mining, agriculture, health, transport, through union branches, through local and regional committees and in the enterprises themselves state.

With all the reforms that are made or intended to be made in response to financial pressure exerts a gradual aging of the population on public pension system, it is hard to imagine that he can survive to infinity. Thus, increasing the retirement age, increasing the percentage of social security contributions, passing the collection of contributions to the tax authorities (to avoid informality in the labor market), etc., can serve as a temporary painkiller, but not as a cure for final curing of the public pension.

Protection of the rights and interests of pensioners, grouped into these main areas:

- Increase the size of pensions;
- avoiding distortions in the reports of the size of the minimum pension with maximum
- The demand for reducing the retirement age for professions difficult;

- Implementation of other social facilities for pensioners generally associated with meeting the requirements of the elderly status.

Course forms the mandatory state pension has its own significance in terms of increasing the welfare of retired and currently we can say that Albania has managed to avoid a financial crisis in the social security system with benefits substantially compensated.

Among the parametric reforms to the perfection of existing social security scheme and its adaptation to the requirements arising from new economic laws and social and contemporary experiences. opportunities for the creation of private pension funds were met with approval according to law 7943, dated 01.06.1995 "On Institutes supplementary pensions and private pensions", as amended by Law nr.8393, dated 02.09.1998 and law Nr. 9181, dated 05.02.2004, for professions difficult and very difficult in the country. Based on these provisions, was established Institutes Inspectorate private supplementary pensions, the Council of Ministers, as the only state authority which will deal with licensing and supervision of private funds that can be created in. This authority licensed the Institute Garantsig IPP "Sha, as the first institution that will operate in the Albanian market in the field of private pension insurance.

In these conditions as a completion of the current pension system retiree's model works Institutes Private Pensions. Social and economic mission to meet a third of the population in our country has passed through the pension system reform, the PAYG system, the multi-column alternated system, as well as private pension system. It is clear that the mandatory state pension forms have their own significance in terms of increasing the welfare of pensioners, but the application of the multi-column social security scheme allows the contributors to select the company they themselves prefer to manage their additional

contributions. Under these conditions, the Institute of Private Pensions works as a completion of the current pension system retirees' model.

This model, which in other words included in the second column and third pension, has to do with linking individual contracts to workers with these private institutions are in two forms: mandatory (second pillar) and voluntary (column third).

Application of private pension schemes emerged as a necessity to acquire additional supplementary pension scheme that guarantees binding. Always referring to the fact that compulsory schemes for several years will continue to provide relatively lower benefits in relation to claims of individuals in terms of benefiting from this scheme, an annuity is insufficient to meet essential needs, the income those that continue to remain under the poverty line.

Necessity of establishing private funds in Albania was a result of the low level of income per capita compared with other European countries in the elderly. In such emergency conditions as a necessity born of the time, finding new forms and ways to precede this problem, mainly those connected with the accompanying mandatory scheme that operated in our country.

Private pension fund - is a merger of assets, legally separated which are purchased by contributing to a pension plan for the sole purpose of financing the benefits from this plan. Members of the fund have the legal right or benefit or some other contractual claim against the assets of the pension fund. Pension funds may take the form of a trust, an independent institution with legal capacity (e.g. foundation or general partnership), or a fund legally disconnected without legal capacity managed by a fund management company pension or any other financial institution acting on behalf of plan / fund.

Pension Fund consists of two parts:

- a) The share of benefits fund, administered in order to ensure an uninterrupted payment of benefits derived from it,
- b) The share of investment fund, administered to ensure levels higher investment.

Sources of establishing the pension fund are:

- a) Contributions of the insured and / or employers;
- b) Subsidies;
- c) Other income, including receipts from the dagger delays of irregularities in the payment of contributory liability, as well as donations or legacies of entities (physical and legal persons) to the pension fund;
- d) Income from management of pension fund assets.

Company pension fund management - is a financial institution in the form of a company that has both single management activities of pension funds legally separated. The period of protection, as a result of the pension insurance fund, called all those periods for which contributions are paid.

Private pensions are a new alternative in which each person chooses his future, planning the voluntary early retirement scheme through a contractual relationship where the set

monthly amount and number of years of payment of contributions, open an individual account where all amounts invested. In this context, investment savings, collected interest which is added contributions, still be reinvested for the period to draw pension. So, such a chain of actions satisfactory guarantees a pension created by the individual himself. Private supplementary pension schemes collect contributions from individuals who wish to participate in these schemes and usually invest the individual contributions cautiously, and therefore creating the possibility for each contributor to benefit from a supplementary aging private pension other than that of the state. Establishment of a development strategy and its consolidation creates a positive impact beyond social terms and into a wider perspective through making use of these funds in the financial system of the whole economy to increase competitiveness in various fields of investments, bonds, deposit bonds, etc.

Issues of social security and that of funding for specific programs are quite extensive and complex. It carries with it significant social problems, therefore the solution to them through the reform of the pension system has as its ultimate goal to increase the chance for a more relaxed financial third of the population. Institutes established for their composition, are open and complex funds, where the founders, who have also provided their employees, are major companies operating in sectors of the economy difficult professions as metallurgy, cement, construction, etc. and bank financial institutions and insurance companies that represent security guarantee continuity of funding. Albanian economy during the second quarter of 2009 rose by 5.3 percent versus the second quarter of 2008, compared with the first quarter of 2009 rose by 1.0 percent. Agricultural activity in the second quarter of 2009 compared with the same quarter the previous year increased by 2.7 percent and 0.3 percent versus the first quarter of 2009.

The number of contributors to these institutes has increased significantly over the past year. At the end of 2007 there were only 2 872 people contributing to private pension scheme, and at the end of 2008 this number amounted to 3 861 persons for the three institutes, or an increase of 34, 4 percent. In the same way is also enhanced total value of contributions. In 2007 the amount of contributions, according to official statistics of the AMF, was more than 32 million, and at the end of 2008 this amount was more than 53 million, marking an increase of about 65 percent.

The number of operators who operate is three: Institute of Supplementary Private Pension Capital, Raiffeisen Pensions, Sigma IPP, which develop economic activity based on Albanian legislation and regulations for its implementation. The following are graphical presentations of some data on voluntary private pensions market for the period January-September 2010, compared to the same period of 2009. This information is provided by the AMF (Financial Supervisory Authority) web site:

Table 1: The Voluntary Private Pensions' Market (contributors)

Shoqëria	Kontribute (në lekë)		Ndryshimi (në %)	Pjesa ndaj Totalit (në %)	
Company	Contributions (in leks)		Change (in %)	Share in total value (in %)	
Periodha Janar - Shtator / January - September	2009	2010	10/09 -1	2009	2010
Raiffeisen PENSIONS	36,425,880	50.434.238	27.94	54.02	45.06
Capital	16,123,071	45.065.548	130.84	26.75	40.27
Sigma IPP	13,135,862	16.140.362	17.07	19.22	14.67
Total	65,684,813	97,088,279	47.81	100.00	100.00

Table: 2 The Voluntary Private Pensions' Market (contributors)

Shoqëria	Numri kontribuesve		Ndryshimi (në %)	Pjesa ndaj Totalit (në %)	
Company	Number of contributors		Change (in %)	Share in total value (in %)	
Periodha Janar - Shtator / January - September	2009	2010	10/09 -1	2009	2010
Raiffeisen PENSIONS	1,679	1,786	6.37	37.91	35.78
Capital	1,774	2,191	23.51	40.05	43.89
Sigma IPP	976	1,015	4.00	22.04	20.33
Total	4,429	4,992	12.71	100.00	100.00

According to the graphical representation for the period January-September 2010, noted that there is a high growth pace of contributions and number of contributors, namely the extent of 47.81% and 14.46%. So it turns out that increased credibility of private pension administration, so every day more and more targeted measures are taken to improve the pensions market in order disappearance of informality. Most essential is the participation in private funds at a time when the public sector employees as well as private could not meet the seniority of 35 years for full retirement benefit age.

Institute private pension established only by legal entities that have Albanian nationality. Any employer, who has more than 500 employees, has the right to establish a pension institution. When the Institute of pensions established by more than one person, in this case it suffices that one of them has more than 100 employees and together made 500 employees. Any individual can become a member in a pension fund, just as it has entered a contract with the company management. Company manager, prepares the contract type for each of the pension funds under management. This contract is used for all members in a pension fund. Management company before you start promoting the pension fund and bond retirement fund contracts with any person shall not later than March 31 of each year to publish a prospectus containing true and correct information on the pension fund that administers. The information contained in the prospectus must be

updated by adding the necessary pages of updated information.

Each person named insured, if the age of 18, has permanent residence in the Republic of Albania and has a contract with the Institute of pensions. For people who do not live in Albania, the contract signed in order to apply the Albanian legislation in case of dispute. Under the legislation supplementary pension benefits are not taxed. Insured persons in a private pension fund may transfer their contributions to a pension fund another.

Funds Supervisory Authority shall issue regulations on the ways, conditions and procedures for payment of pension. To ensure sustainability of the pension funds will be invested on the stock exchange in securities as a form of alternative investments in any other sector. Another important fact is that nobody has the right to include pension funds as collateral in making loans, or in case of bankruptcy. Withdrawal of assets from individual account pension fund, before meeting the other conditions, will be called premature withdrawal, which is accompanied by penalties, which are calculated in relation to time met by instant member since his first contribution until the time of premature withdrawal. Company manager, at any time, should have a capital of at least 15,625,000 lek. Management company capital is calculated by subtracting liabilities from assets in the balance of society management. When the value of assets in pension funds administered by the company exceeds the value 31,250,000 managing

money, managing the company must raise capital in order to add capital to be at least equal to 0.02% of assets in the fund pension that it administers. However, no capital required to pass 625 million values.

Develop pension should strengthen the flexibility of the labor market, gender equality, transparency and adaptability. Individuals who are able to increase their income after retirement, except to contribute to private pension schemes, will have fiscal ease, in different forms. Supervision of funds focused on protecting the interests of pension fund members; improve governance, accountability and transparency of the fund, focusing on issues that pose the highest risk. Movement towards compulsory pension fund increases the rate of domestic savings, thus increasing investment increase output. Currently a number of elements should be reformed in the current system of compulsory

contributions. Among them mention the pension formula, contribution rate, the policy of indexing, tax, or problems that arise due to geographical distribution in urban and rural areas. Contributions paid to supplementary pension insurance with the periodicity can be paid monthly, quarterly and annual six-month, which is determined by the insured in the contract. Also, it is possible that the contribution be paid in a lump-off (lump-sum) during the period of insurance.

Any pension fund reflects its advantages by introducing its products as a necessity to better meet the needs and to ensure economic level as acceptable. Determination of development strategy and its consolidation creates a positive impact not only socially but also beyond using these funds in the financial system, the whole economy to increase competitiveness in various fields of investments, bonds, deposit bonds, etc..

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