

Global Forum on Private Pensions 2019

Minister Denaj: The Albanian Government Committed to Push Forward Reforms in all Dimensions

The Minister of Finance and Economy, Ms. Anila Denaj participated at the opening of the **Global Forum on Private Pensions** “*Developing and Supervising Funded Pension Arrangements*” held for the first time in Albania hosted by the Albanian Financial Supervisory Authority (AFSA) in cooperation with the International Organization of Pension Supervisors (IOPS) and the Organization for Economic Co-operation and Development (OECD).

During the welcoming speech, the Minister Denaj said that this forum and the activities of this event obliges us to observe and analyze issues within the perspective of the country’s economic development.

“Financial services have experienced a 9% growth in the first quarter of 2019 and 13% growth in the second quarter. These figures make us optimistic as it serves as a good basis for further development and not only for traditional financial products but also new ones”.

In our country, the problems of social security and pensions have been broadly addressed by the Albanian government. They remain relevant pertinent to the focus of the pension provision to protect the third age (elderly) from the risk of poverty and the maintenance of an acceptable level of consumption at the end of their employment period.

“The social security expenditures which amount to about 25% of the state budget expenditure and contributors and beneficiaries of the pension scheme around 50% of the population, oblige us to monitor carefully this scheme and intervene in due time”, emphasized the Minister.

The Minister Denaj accentuated that the government estimates the voluntary pension funds are a strong support for the pension system generally speaking, in order to increase the coverage, but particularly the replacement coefficient. For this reason the funds have been supported by financial incentives.

“The legal framework has not been completed yet. Many analysis and studies are still required for an important decision making, which is not impossible. The functioning and development of private pension funds is welcomed to complete the compulsory social security scheme, already reformed, by providing a higher level of income for individuals. However, there still remains room for further improvement and timely implementation of this pillar and should be accompanied by the whole process of increased supervision role for this scheme in its complexity”, said the Minister of Finance and Economy, Ms. Denaj.

Full Speech by the Albanian Minister of Finance and Economy, Ms. Anila Denaj:

Dear participants,

Thank you for giving me the opportunity to make the opening remarks at this Global Conference on Private Pensions, which is taking place for the first time in Albania.

It is a great honor for us to host this forum but at the same time we have the obligation to observe and analyze issues from the perspective of the country's economic development.

The recent years have been auspicious for Albania considering the strengthening trend of the LEK currency, but also the positive economic growth and low inflation which are the results of some of the reforms undertaken during these years and mainly the presence of many domestic and foreign companies that have provided their contribution which are considered a key factor for the economic development in Albania, in terms of financial and economic indicators, as well as the know-how associated thereof.

Financial services have experienced a 9% growth in the first quarter of 2019 and 13% growth in the second quarter, and these figures make us optimistic for this year. This serves as a good basis for further development of not only the traditional final products but also the new ones.

In our country, the social security issues and especially those related to the pensions have been broadly addressed by the Albanian government. They remain relevant pertinent to the focus of the pension provision to protect the third age (elderly) from the risk of poverty and the maintenance of an acceptable level of consumption at the end of their employment period.

Social security expenditures, which amount at about 25% of state budget expenditures and the participation of about 50% of the population in the quality of contributors and beneficiaries of the pension scheme obliges us to monitor this scheme carefully and intervene in a timely manner.

The adoption of the pensions law in 2014, with the contribution of the best specialists in the field, from the Financial Supervisory Authority, academic staff, civil society and other was such an important step for a necessary update and effective implementation of the legislation in function of the people.

The materialization of the reform envisaged a number of improvements such as:

- Strict precise rules for indexation of the pension weight, providing only inflation indexing;
- Increase the contribution rate for rural areas by equating the contributions of self-employed in agriculture to that of self-employed in urban areas by 2018;
- Establishing elements for discouraging early retirement and urging late retirement;
- Guaranteeing a minimum level of protection for disabled persons with the condition that the disability pension cannot be lower than 75% of the net minimum wage;
- Eligibility for social pension for all individuals who do not meet the requirements for a statutory pension scheme, which are legally binding and will include certain categories of employees such as those in the mining industry, employees of other industries, such as oil, metallurgy and other. The aim of the schemes is to secure the income for individuals who retire earlier than the official retirement age.

They will be contributory, where the amount of contribution will be shared between employers and employees and will be established on the basis of collective agreements.

Starting from 1 January 2015, the positive effect of the pension reform implementation made feasible and tangible the main goal for which this reform was undertaken: the growth of the financial sustainability of the social security scheme.

More specifically some of the effects of the reform are presented as follows:

- In 2018 the number of contributors reached 778,144 persons, has increased by 216.975 persons, or 38.7% more as compared to 2013, while the number of contributors is higher.
- In the last 5 years, there has been a significant increase in the contribution income, mainly due to the increase in the number of contributors as a result of the reform.
- In 2018, direct income from contributions and other income increased by ALL 27.951 million, or 54.4%, as compared to 2013, while expenditures have increased by 32.8%, by developing in this way the self-management ability of the social security scheme and decreasing state budget subsidies.

Moreover, the government estimates that voluntary pension funds are a strong support for the pension system to increase coverage, but especially the replacement coefficient. For this reason the funds have been supported by financial incentives.

I invite more actors in this market because competition boosts quality and services. Currently we have three pension funds, with a total net asset of ALL 2 billion and 557 million with 2.747 members active.

With regards to the second pillar, various studies have been carried out in Albania by the World Bank and professionals in the field concerning the possibility of introducing this pillar in the whole current scheme (at present we have the first and third pillars and presently we are analyzing the second pillar).

The elements of the second pillar have been regulated by law with regard to the difficult occupations such as, miners and oilmen. The legal framework has not been completed yet. Many analyses and studies are still required for an important decision making, which is feasible. The functioning and development of private pension funds is welcomed to complete the already reformed compulsory social security scheme, by providing a higher level of income to individuals.

However, there still remains room for further improvement and timely implementation of this pillar and should be accompanied by the whole process of increased supervision role for this scheme in its complexity. Supervision has a key role to ensure that the whole scheme comprised of its pillars should be successful and sound in due time.

I confirm the government's contribution and its commitment to push forward reforms in all its dimensions.

Thank you for your attention and wish you many successes!