IOPS COUNTRY PROFILE: NORTH MACEDONIA



DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (millions of	689,425
national currency)	
GDP per capita (USD)	6,022
Population (thousands)	2,076
Labour force (thousands)	964
Employment rate	47.4
Population over 65 (%)	14.48
Dependency ratio ¹	31.20

Data from 2019 or latest available year.

1. Ratio of over 65-year-olds the labour force.

Source: http://www.stat.gov.mk/KlucniIndikatori_en.aspx

NORTH MACEDONIA: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

•PAYG, contributing system

Private pensions: personal (mandatory)

- Privately managed DC scheme, managed by pension companies for privateand public-sector employees, civil servants and self-employed persons, based on individual accounts
- •Compulsory from 2003 for individuals born after 1 January 1967 (system started in 2005)
- •New enrolment rules: as of 1 January 2019 compalsory for all newly employed persons younger than 40 years of age

Private pensions: occupational/personal (voluntary)

- •Pension insurance scheme
- Occupational pension schemes (employer or association)
- •Individual DC accounts

Source: OECD Global Pension Statistic.

NORTH MACEDONIA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The contribution rate is 18.8% of gross earnings¹, covering old age, disability, survivors, and minimum pension benefits – for the members of mono-pillar pension system. For the members of two-pillar pension system 12.8% of gross earnings go to the PAYG system and 6% of gross earnings go to the mandatory fully funded pension insurance. The retirement age is 64 for men and 62 for women with minimum 15 years of pension service.

PERSONAL MANDATORY

Coverage

The amendments to the Law on Mandatory Fully Funded Pension Insurance ("Official Gazette of the Republic of Macedonia" No. 2545/2018 of 28 December 2018 and No. 180/2019 of 2 September 2019) provide for several substantial changes regarding the enrolment to mandatory fully funded pension insurance valid from 1.1.2019. Namely, there are two major categories of second pillar members:

• Mandatory members

- insured persons who have been employed, i.e. who have joined the mandatory pension and disability insurance, for the first time, after 1 January 2003 and were born after 1 January 1967;
- insured persons who have been employed, have become members of the mandatory pension and disability insurance, for the first time after January 1, 2019 and who are younger than 40 years on the date of membership

• Voluntary members

- insured persons who were first employed before 1 January 2003, who at their own choice, by concluding a membership agreement, entered into the mandatory fully funded pension insurance and were born after 1 January 1967:
- insured persons who were employed for the first time before 1 January 2003, who at their own choice by entering into a membership agreement joined the mandatory fully funded pension insurance, were born before 1 January 1967 and who signed a statement for extension of membership in the mandatory fully funded pension insurance.

The scheme covers private- and public-sector employees, civil servants and self-employed persons. Covered persons may join any open pension fund through entering into a membership contract with the pension company administering the fund, the choice of which is not influenced by their employer

Contributions

The payment of the contributions is made by the debtor for payment of the contribution, i.e. the employer, on behalf of the employee at the rate of 6% of payroll. The self-employed must make their own contributions at the same rate. Additional voluntary contributions are not permitted. Individuals choose their provider, not their employer.

Benefits

As this is DC scheme, benefits depend on asset accumulation in individual accounts. For members who are eligible for public pension funds, they are allowed to purchase life annuity and receive programmed withdrawal. For those members who are not eligible for public pensions, a life annuity or programmed withdrawal from

¹ The total contribution rate is 18.8% since 2020. Previous the total contribution rate was: 21.2% (2006-2008); 19% (2009); 18% (2010-2018); 18,4% (2019); 18,8% (2020 -onwards). The contribution rate for Pillar II is 6% of the gross wage since August 2012. Previous the contribution rate for Pillar II was: 7.42% (2006-2008); 6.65% (2009); 6.30% (1.1.2010-31.7.2012); 6% (1.8.2012 -onwards).

second pillar is the allowable benefit payment method if the value is at least 40% of the minimum pension of North Macedonia. If the accumulated asset is insufficient to buy such product, the members should receive a lump sum payment. This insurance provides one part of old age benefit (additionally to the old age benefit from the PAYG system). In case of a disability or death of the member, assets from the individual account are transferred to the PAYG public pension fund which provides full amount or disability or survivors' pension. In case the amount of assets on the member's account surpasses the amount for disability or survivors' pension, than the pension fund member or his/her family members can choose to receive a second pillar pension benefit instead of the disability or survivors' pension from the PAYG system. In case there are no users of survivors' pension, the assets from the individual account can be inherited by the inheritors.

The retirement age is 64 for men and 62 for women with minimum 15 years of pension service. Pension withdrawal before retirement age is not allowed, except in case of disability or death. In case sum of PAYG and fully funded pension benefit are lower than minimum pension, the PAYG fund pays additional amount up to minimum pension.

Taxation

Tax regime is EET. Pension contribution and investment income are tax exempted and payment of pension benefits is taxed.

OCCUPATIONAL / PERSONAL VOLUNTARY

Voluntary

Coverage

The scheme covers domestic and foreign citizens between age 15 to 70, regardless of the employment status, on a voluntary basis. This means that a person, who is already a member of the mandatory pension insurance, can also be a member of voluntary pension insurance. Also a person who is not covered by mandatory pension insurance can be a member of voluntary pension insurance. Additionally, a person can be a member of an Occupation Pension Scheme financed by its employer or association. This way a person might have one voluntary individual account and one occupational account.

Contributions

Contributions are made by the person, by third party or the sponsor of occupational pension scheme (employer or association). Amount and period of contributions payment are done by a free choice of the contribution payer.

Benefits

As this is DC scheme, benefits depend on asset accumulation in individual accounts. Benefits can be withdrawn as lump-sum, payments in several instalments, life annuity, programmed withdrawal or combination in case of old age, disability or death. Pension benefits can be withdrawn no earlier than 10 year before legal retirement age for the PAYG system, except in case of disability or death.

Taxation

Tax regime is EET. Pension contribution and investment income are tax exempted and payment of pension benefits is taxed.

MARKET INFORMATION - MANDATORY

In the Republic of North Macedonia, there are three pension companies that manage one mandatory and one voluntary pension fund each. In 2005, on an international public tender, the MAPAS granted two licenses for establishment of pension companies thereby in 2009 to those same pension companies which were established as mandatory pension companies, the MAPAS granted licenses and approvals for management of voluntary pension funds in addition to the existing mandatory pension funds. In 2017, and the first half of 2018, 100% of

the shares of the Drustvo za upravuvanje so zadolzitelni I dobrovolni penziski fondovi "NLB NOV PENZISKI FOND" Skopje were acquired by Pozavarovalnica Sava DD Ljubljana, Slovenia. In 2019, a third pension company was founded. By the end of March 2019, the MAPAS granted the license for establishment of a company for management of mandatory and voluntary pension funds of Zavararovalnica Triglav DD Ljubljana, the Republic of Slovenia and authorization for management of a mandatory pension fund and approval for management of voluntary pension fund. The three pension companies are:

1.Drustvo za upravuvanje so zadolzitelni I dobrovolni penziski fondovi Sava penzisko drustvo a.d. Skopje, which manages

- •Otvoren zadolzitelen penziski fond Sava penziski fond and
- Otvoren dobrovolen penziski fond Sava penzija plus

Shareholder: Pozavarovalnica Sava d.d, the Republic of Slovenia, which represents 100% of the Pension Company equity.

2. KB Prvo drustvo za upravuvanje so zadolzitelni i dobrovolni penziski fondovi AD Skopje, which manages

- KB Prv otvoren zadolzitelen penziski fond Skopje and
- KB PRV otvoren dobrovolen penziski fond Skopje

Shareholders: Skupina Prva zavarovalniski holding DD, Ljubljana, the Republic of Slovenia, which represents 51% of the Pension Company equity and Komercijalna Banka AD, Skopje, the Republic of North Macedonia, which represents 49% of the Pension Company equity.

3. Drustvo za upravuvanje so zadolzitelni i dobrovolni penziski fondovi TRIGLAV PENZISKO DRUSTVO AD Skopje, which manages

- Triglav otvoren zadolzitelen penziski fond Skopje and
- Triglav otvoren dobrovolen penziski fond Skopje

Shareholder: Zavarovalnica Triglav DD Ljubljana, the Republic of Slovenia, which represents 100% of the Pension Company equity.

Pension assets must be managed in-house, although foreign assets may be outsourced to qualified foreign asset managers. Asset investment is subject to strict asset restriction, e.g. maximum 80% invested in bonds, 30% in bank deposits, 30% in shares and 50% in foreign assets (EU and OECD), etc. Assets must be kept by a custodian. In the first few years of operation the custodian of the mandatory pension funds' assets was the National Bank of the Republic of North Macedonia. From the end of 2009 the custodian for pension funds are commercial banks that fulfil the legal requirements and having a contract with the pension company.

The total number of members in the three mandatory pension funds, as of 31 December 2020, is 529,983. The total assets of the mandatory pension funds as of 31 December 2020 amounted to about MKD 87.3 billion (SAVA mandatory MKD 40.5 billion, KBP mandatory MKD 45.6 billion and TRIGLAV mandatory MKD 1.1 billion). As of December 2019, the total assets of the mandatory pension funds were about 10.84% of the GDP of the Republic of North Macedonia.

The mandatory pension funds investment portfolio in 2020 consists of domestic investments that include bonds (59.75%), deposits and cash (9.99%), stocks (2.74%), investment fund shares (0.02%) and bills (0.03%), as well as investments abroad that include investment fund shares (22.53%) and stocks (4.75%). The annual return² of the mandatory pension funds, in the seven year period 2014-2020, for SAVA mandatory pension fund is 5.54% in nominal terms (4.84% in real terms) and for KBP mandatory pension fund is 5.76% in nominal terms (5.06%)

²Mandatory pension fund return is calculated on an annual basis for the previous 84 months. If the Pension Fund is operating less than 84 months, but longer than 12 months, The Pension Fund Return is calculated at the end of the quarter, for the period since the first June or December after the start of operation of pension fund to the end of the calculation quarter

in real terms) and in the period June 2019 – December 2020 for TRIGLAV mandatory pension fund is 0.97% in nominal terms (-0.49% in real terms).

MARKET INFORMATION - VOLUNTARY

The total number of members in the two³ voluntary pension funds, as of 31 December 2020, is 26,016. Of the total number of members in the third pillar - 11,018 or about 42% are members with a voluntary individual account, while 14,998 or about 58% are participants in a pension scheme with a professional account.

The total assets of the mandatory pension funds as of 31 December 2020 amounted to about MKD 2.3 billion (SAVA voluntary MKD 1.1 billion and KBP voluntary MKD 1.2 billion). As of December 2019, the total assets of the voluntary pension funds were about 0.29% of the GDP of the Republic of North Macedonia.

The voluntary pension funds investment portfolio in 2020 consists of domestic investments that include bonds (49.06%), deposits and cash (15.22%), stocks (8.11%) and investment fund shares (0.01%) as well as investments abroad that include investment fund shares (21.90%) and stocks (5.68%). The annual return of the voluntary pension funds, in the seven year period 2014-2020, for SAVA voluntary pension fund is 5.60% in nominal terms (4.90% in real terms) and for KBP voluntary pension fund is 5.53% in nominal terms (4.82% in real terms).

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³ As of reporting date there are no members in Triglav otvoren dobrovolen penziski fond - Skopje.

REFERENCE INFORMATION

KEY LEGISLATION

2000: Law on Modifications and Amendments to the Pension and Disability Insurance Law; establishes a base for a three-pillar pension system consisting of a publicly managed social security scheme (PAYG, DB), a mandatory fully funded pension insurance (DC), and voluntary fully funded pension insurance (DC)

2002: Law on Mandatory Fully Funded Pension Insurance (amendments in 2003, 2004, 2005, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2018 and 2019); regulates the establishment, operation and winding up of Mandatory Pension Companies and mandatory pension funds.

2008: Law on Voluntary Fully Funded Pension Insurance (amendments in 2010, 2011, and 2013); regulates the establishment, operation and winding up of Joint Pension Companies, Voluntary Pension Companies and voluntary pension funds.

2012: Law on payment of pensions and pension benefits from fully funded pension insurance (amendments in 2015, and 2016); regulates the method of payment of pensions from mandatory fully funded pension insurance (second pillar) and pension benefits from voluntary fully funded pension insurance (third pillar).

KEY REGULATORY AND SUPERVISORY AUTHORITIES

The Ministry of Labor and Social Policy, responsible for the overall design of policy for pension and disability insurance in the Republic of North Macedonia as well as supervision and control of the implementation of the policies. http://www.mtsp.gov.mk

The Agency for the Supervision of Fully Funded Pension Insurance (MAPAS), regulates and supervises mandatory and voluntary pension companies and their mandatory and/or voluntary pension funds, custodians and the operations of foreign asset managers in the Republic of North Macedonia.

http://mapas.mk/en/

The Pension and Disability Insurance Fund of North Macedonia, administers the publicly managed social security scheme and allocates the pension insurance contributions between the first and the second pillar and allocates the contributions and data on membership to the selected mandatory pension fund. Public Revenue Office undertakes centralized contribution collection and submits to the Pension and Disability Insurance Fund of North Macedonia total contributions for pension and disability insurance. http://www.piom.com.mk/