

IOPS COUNTRY PROFILE: ALBANIA



This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (EUR) ²	4,473
Total Population (000s) ¹	2,845.96
Life Expectancy at Birth (years) for Men ³	77.4
Life Expectancy at Birth (years) for Women	80.5
Labour Force (000s)	1,218
Percentage 65 or older	10.6
Youth Dependency Ratio ⁴	24.6%
Statutory Pensionable Age - Men	65
Statutory Pensionable Age - Women	60

Data from 2018 or latest available year

1. Total population as of 1 January 2020

2. GDP per capita in 2018

3. Life Expectancy in 2018

4. Dependency Ratio as of 1 January 2019

Population aged 14 or younger plus population aged over 65 or older, divided by population aged 15-64.

Source: Bank of Albania, INSTAT

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Compulsory Social Insurance System, covering both employees in public and private sectors as well as self-employees

Private pensions: occupational (voluntary)

- Voluntary occupational DC plans, established by the employers through an occupational pension fund contract with a licensed management company
- Only open pension funds exist.

Private pensions: personal (voluntary)

- Voluntary DC individual (unit-holders) pension account with pension funds operated by licensed management companies.

PUBLIC PENSION

The compulsory social insurance system operates on pay-as-you-go basis and is financed through direct employees and employers' contributions, transfers from the state budget, incomes earned from investment of the reserve fund and other sources.

The system covers both employed and self-employed workers, including those in agriculture.

For the pension (old-age, disability and survivors) parts, employees are contributing 8.8 percent of covered monthly earnings, whereas the employers contribute 12.8 percent of covered monthly payroll. The self-employed contribute 21.6 percent of the monthly minimum wage.

At the end of 2018, the minimum earnings used to calculate contributions are the monthly minimum wage (24,000 ALL).

The maximum earnings used to calculate contributions are 105,850 ALL¹.

The Government contributes on behalf of unemployed persons, for persons in compulsory military services and also for certain categories of persons, entitled to receive special state pensions (e.g.: persons with constitutional functions and civil servants of the central budgetary institutions).

Full retirement benefits are paid on reaching the legal retirement age 65 for men (gradually rising by one month a year from 2033 until reaching age 67 in 2056) and 60 and eight months for women (gradually rising by two months a year until reaching age 67 in 2056) with at least 15 years of contributions and at age of 55 with at least 30 years of contributions for a mother with six or more children older than age 8.

Early pension is paid up to three years before the normal retirement age with at least 36 years and 4 months (gradually rising by four months a year until reaching 40 years in 2029) of contributions². In case of early retirement, the amount of pension is reduced by 0.6% for each month paid before reaching the normal retirement age.

The pension may be deferred. There is no age limit.

Old-age social pension (social assistance, income tested) is paid to persons of age 70, being a resident of Albania for at least the last five years and ineligible for any social insurance pension.

The flat-rate pensions are adjusted annually by the Council of Ministers according to average paid contributions.

Disability and survivors pensions are also paid.

Social insurance system was reformed in 1993, but is subject to further reforms and improvements.

¹ ISSA, ISSA Social Security profile of Albania, <https://ww1.issa.int/node/195543?country=786>

² Idem, ISSA, <https://ww1.issa.int/node/195543?country=786>

PRIVATE OCCUPATIONAL/PERSONAL VOLUNTARY

Overview:

The Law on voluntary pension funds (2009) provides for creation of both voluntary occupational pension schemes by employers for their employees and voluntary personal pension schemes by any individual willing to contribute for supplementary old age pension, disability and death benefits.

In case of occupational voluntary pension arrangements, open pension funds exist.

Employers on behalf of their employees or individuals (unit-holders) can open a pension account with an approved voluntary pension fund by means of establishing a pension fund contract with a licensed management company. In case of occupational pension plans, the pre-approved, standard contract with the management company should include description of plans' main parameters (including types of contributions, benefits, fees payment, etc.) Occupational pension plans need to be approved by the Albanian Financial Supervisory Authority.

In December 2019, 28.3 thousand people were members of voluntary pension funds, which are managed by three management companies.

1. Coverage

All individuals can participate in voluntary pension schemes. To become a unit-holder in a pension fund, an individual (or an employer on behalf of employees) should establish a pension fund contract with the management company.

2. Contributions

The employers making contributions on behalf of their employees or individuals contributing to the individual pension accounts decide on the amount of their contributions. In an individual pension plan, a unit-holder can decide at any time to increase, reduce or terminate his/her contributions to a pension fund. The contributions transferred to the pension fund are converted into units by the management company.

In case of occupational pension plans, the level of contributions paid by the employer is set in the occupational pension fund contract. Employers' contributions to the occupational pension plan on behalf of his/her employees should cover fees to the management company (which would otherwise be paid by the unit-holders).

3. Benefits

Type of benefits delivered and method of payment of retirement benefits are defined under the terms of the pension fund contract.

A pension fund unit-holder, upon his/her choice, shall have the right to receive immediate payout of the net value of assets accumulated in his/ her account, as a lump sum or in the form of periodical payments (pension). The pension benefits are paid under the following conditions:

- When a unit-holder reaches the retirement age prescribed by the law for the mandatory public pension system;
- 5 years before the unit-holder reaches the retirement age;
- In case of the unit holder's permanent disability, as certified in accordance with the applicable law,

preventing him or her to work.

Early withdrawal shall incur penalties that are calculated proportionate to a unit-holder's contribution period.

Procedures for transferring/withdrawal of assets/benefits are defined in the pension fund contract.

In case of occupation pension plans, the employees vested rights are defined in the contract signed between the employer and the management company, but should not exceed the period of two years.

Survivor benefits are paid in accordance with the inheritance legislation in force.

Albanian Financial Supervisory Authority is expected to issue enabling regulations on the methods, conditions and procedures for pension payments.

4. Fees

All fees/remuneration/benefits paid to the management companies, selected depositary and other service providers should defined in the pension fund contract and in the prospectus.

The management companies should inform unit-holders of any increases in fees twelve months before the increase takes effect.

5. Taxation

Taxation of members' contributions:

The contributions made by a unit-holder to a pension fund are deducted from the taxable personal income base.

Contributions made by an employer on behalf of the unit-holder are not considered as personal income of the unit-holder for the taxation purposes.

Employer contributions to the occupational pension schemes are tax deductible up to a certain level.

Legislation sets upper limits for preferential tax treatment (differenced depending the age of the unit-holders) depending on the level of annual contributions and the percentage it represents of the unit-holder annual income.

Taxation of investment income: Returns on investment, including capital gains from the investment, are tax exempt.

Taxation of benefits:

Pension payments are subject to personal income tax rules.

Early withdrawals are taxed similarly as the regular pension payments.

REFERENCE INFORMATION

- **Key Legislation**

2009: Law 10 197 "On voluntary pension funds", provides regulations for establishment and operation of occupational and personal pension funds, management companies, depositories and other related service providers.

- Key Regulatory and Supervisory Authorities:

Albanian Financial Supervisory Authority (<http://www.amf.gov.al>)

Ministry of Ministry of Finance (<http://www.minfin.gov.al>)

Social Insurance Institute (<http://www.isshe.gov.al>).