

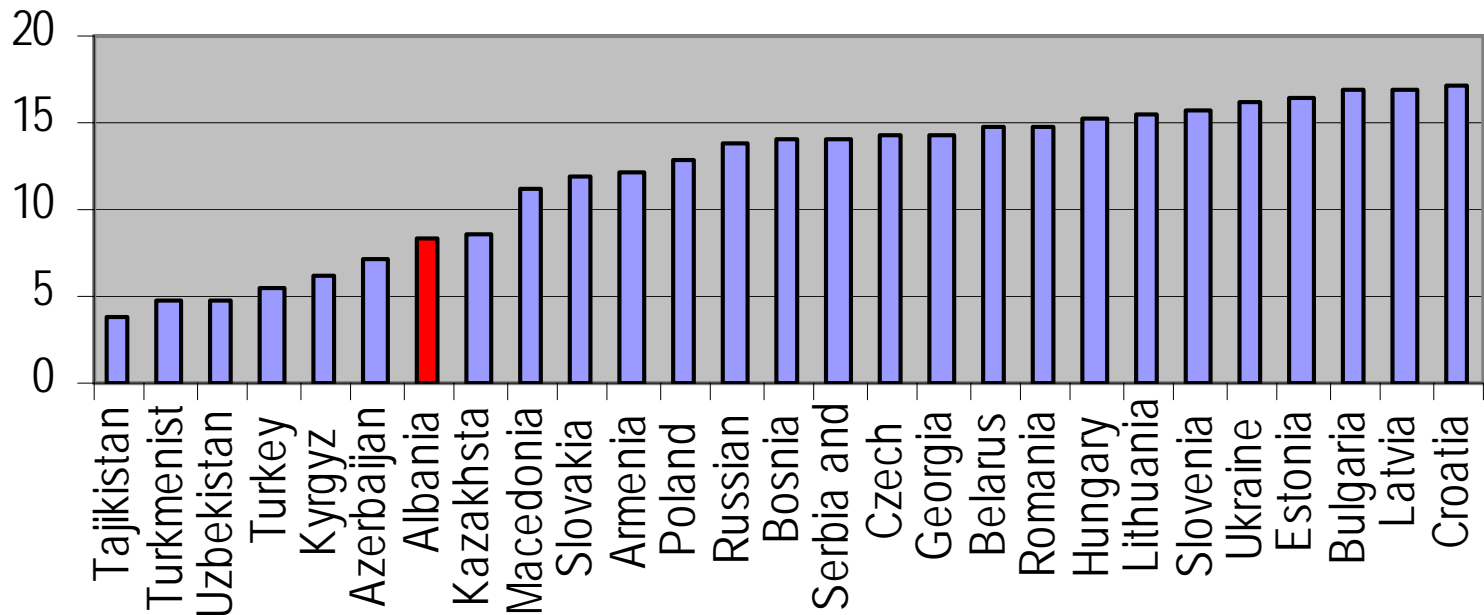


Albanian Pension System

Anita M. Schwarz
Lead Economist
Europe and Central Asia Region
Human Development Department
World Bank

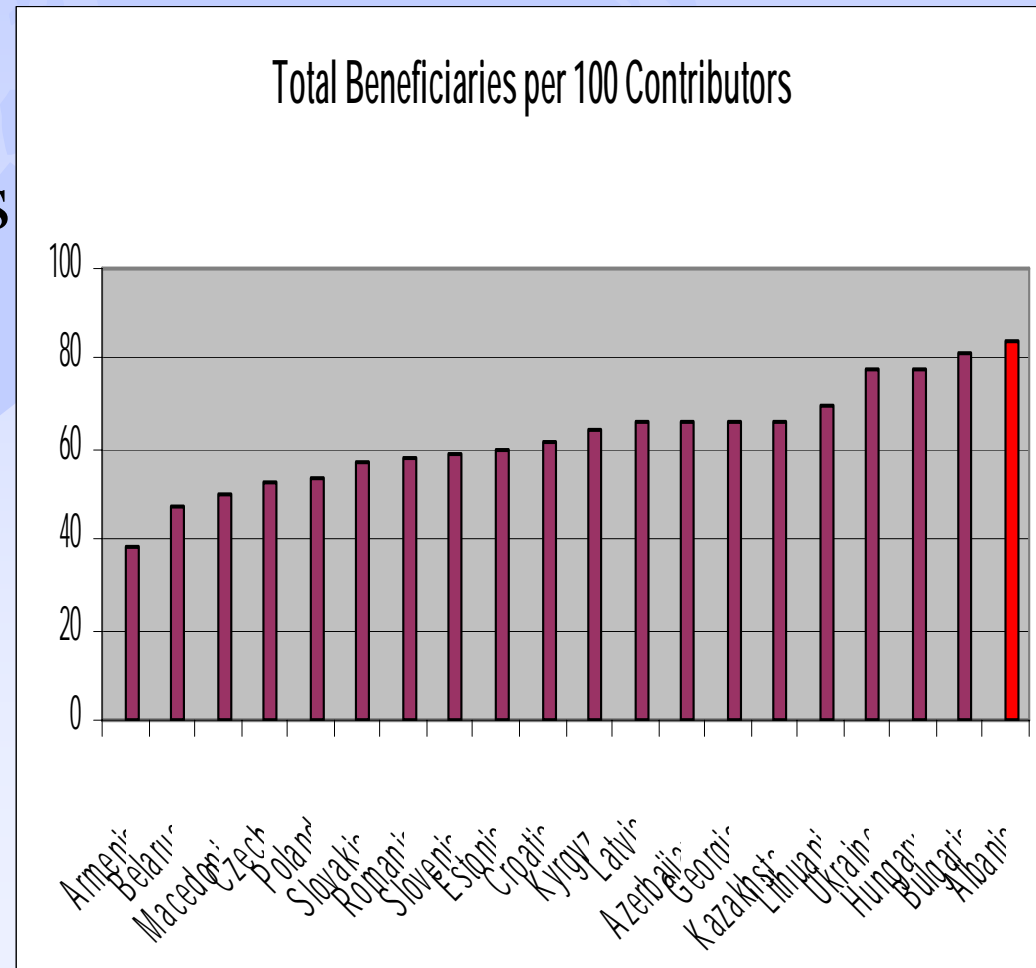
Albanian Population is Young

Percentage of the Population Over the Age of 65
in ECA Countries



But System Dependency Rates are Enormously High

- ◆ Decline in formal sector contributors
- ◆ Extremely large number of old age beneficiaries – higher than population

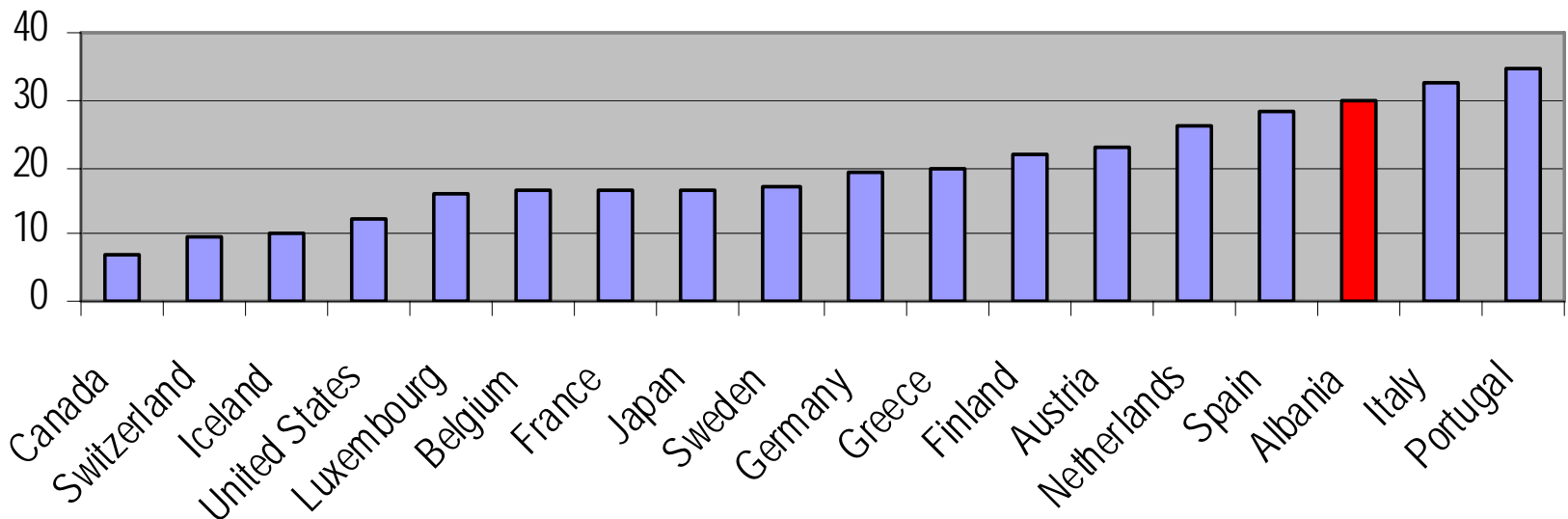


Issues in Pension System Design

- ◆ High contribution rates
- ◆ Limited connection between what is contributed and what is received
 - Compression of benefits
 - Treatment of rural sector
- ◆ Low future coverage of elderly since working age population is not contributing
- ◆ Extremely low future benefits if inflation indexed, as in legislation
- ◆ Fiscal deficits if benefits wage-indexed, as in practice

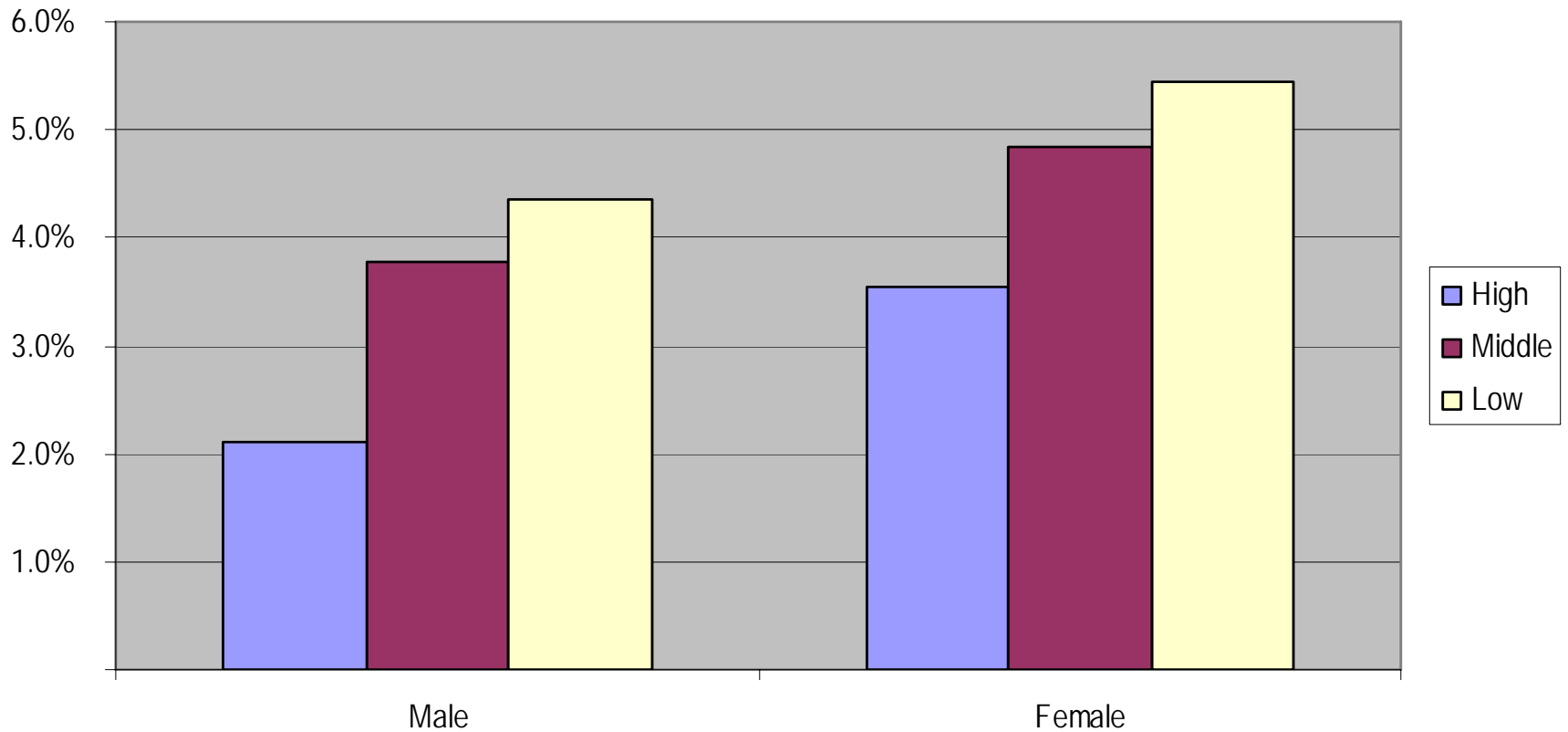
Contribution Rates are High Relative to OECD Countries Which are Much Older

Pension Contribution Rates in Albania Relative to OECD Countries



Compressed Benefit Formula

Internal Rate of Return to Individuals with Different Incomes

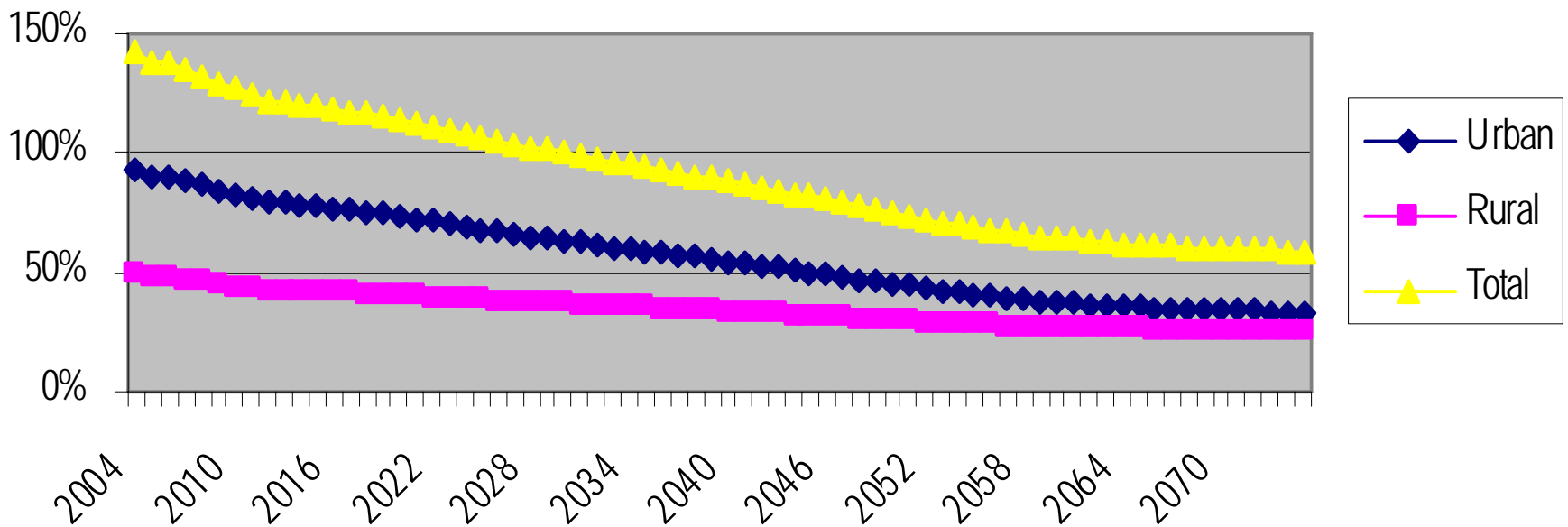


Treatment of Rural Beneficiaries

- ◆ 85% of contribution comes from Government
- ◆ Policy of raising benefits to same level as in urban sector
- ◆ Essentially a social assistance program masquerading as social insurance

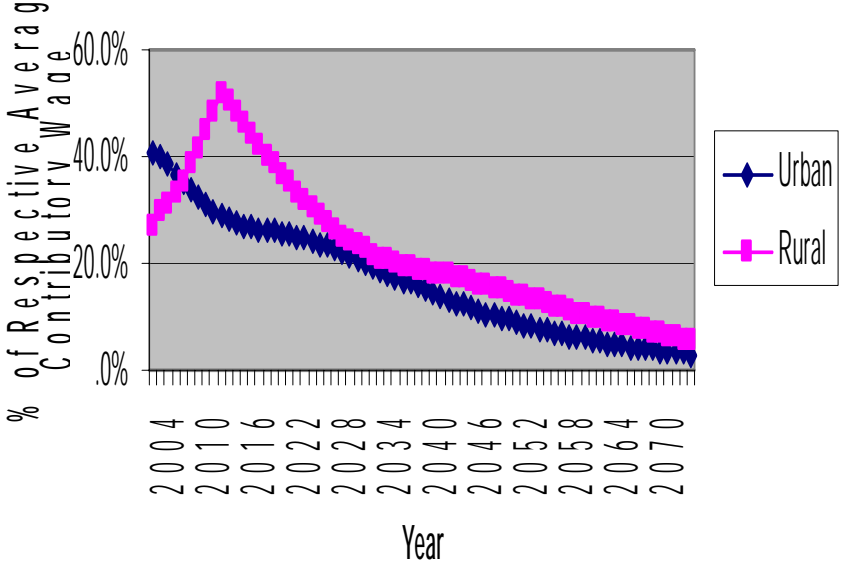
Future Coverage of Elderly Population

Projected Percentage of Those Above Retirement Age Receiving Pensions in Albania

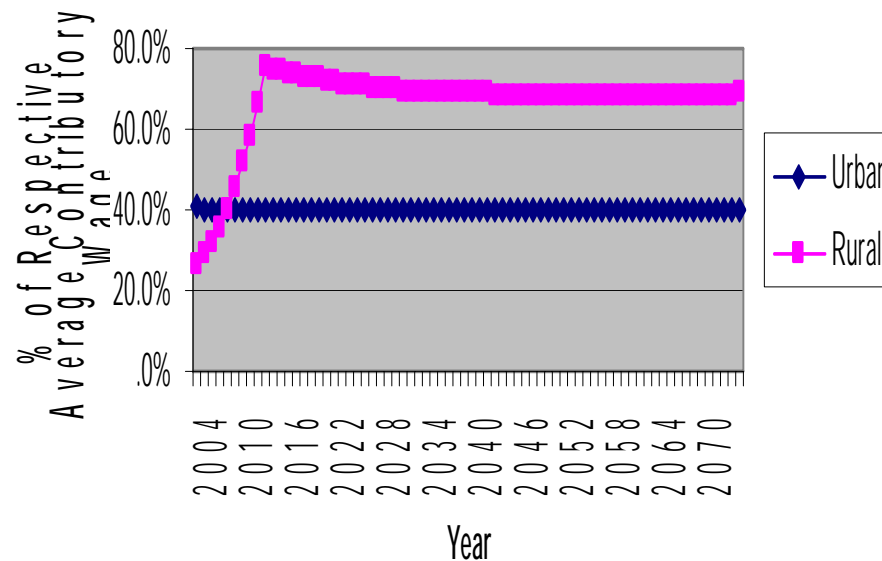


Future Benefits, Under Price and Wage Indexation

Projected Benefits to Old Age Pensioners Compared to Average Wage

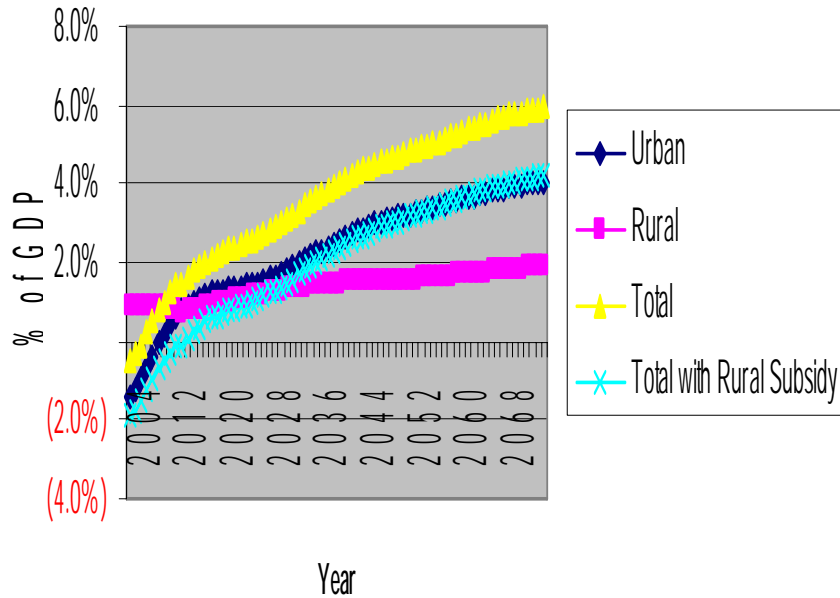


Projected Benefits to Old Age Pensioners If All Benefit Levels are Wage Indexed



Fiscal Costs, Under Price and Wage Indexation

Projected Fiscal Balance of the Pension System



Projected Fiscal Balance of the Pension System if Benefits are Wage-Indexed

