

Debate on the early retirement scheme in Serbia

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Description

In April 2017 trade unions proposed amendments to the application of penalties for early retirement. The relevant ministry set up a working group to assess the impacts of the proposal, but the trade unions' representative was dissatisfied with the working group's work and left it. The outlook is uncertain, as there has been no response from the Ministry of Finance concerning the financial feasibility of the proposal.

Since 2005, pension insurance reforms have restricted the eligibility conditions for the full old-age pension. The general conditions for benefitting from this scheme are as follows: i) a minimum of 15 years of service; and ii) 65 years of age for men and 60 for women (gradually increased to 65 years by 2032). For workers in arduous and/or hazardous jobs, these conditions are less strict.

Up until 2014, there were two possibilities for people to retire prior to the statutory pensionable age. The first possibility was to have 40 years of service for men (38 for women) and be at least 58 years old (for both men and women). The second possibility was to have 45 years of service (without any age condition). For both possibilities, there were no penalties, i.e. the formula for calculating the level of the pension was the same as that used for the full old-age pension: number of years of service multiplied by pension formula.

In 2014, a Law on Pensions and Disability Insurance was adopted. This Law has maintained the general eligibility conditions for the full old-age pension (see above) but has introduced penalties for pensioners who retire prior to the statutory pensionable scheme. It has also changed the eligibility conditions for early retirement. For men, these conditions have become: 40 years of service and 55 years of age (transition to 60 years by 2024); and for women: 36.4 years of service and 54.4

years of age (moving to 40 years of service and 60 years of age by 2024). The penalties were introduced in response to the high deficit of the Pension Fund and the practice prior to 2011, when around 70% of men and 50% of women retired before the statutory pensionable age. Under the current early retirement scheme, pensions are permanently decreased by 0.34% for every month before the statutory pensionable age.

So, in the current situation the full old-age pension is calculated by multiplying the number of years of service by the pension formula, whereas the early retirement pension is calculated as the full old-age pension minus a 0.34% monthly penalty; once the early retiree has reached the statutory pensionable age the reduced pension is maintained – i.e. it is received for the rest of the pensioner's life.

In April 2017 the Socio-economic Council discussed a proposal for amending the Law on Pensions and Disability Insurance; the amendments concern the penalties for early retirement under the old-age retirement scheme. The proposal was presented by the representative of the trade unions, and supported by the Association of Employers and the Pensioners' Association. The proposal is that the pensions of early-retirees should not be reduced permanently, but should be recalculated on the basis of the old-age scheme once the pensioner reaches the

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statutory pensionable age. Put differently, early retirees would get a reduced pension until they reach the statutory pensionable age (the reduction would be calculated in line with the current formula, i.e. a 0.34% deduction for every month before the statutory pensionable age), but once they reach this age they would get a full pension (calculated according to the full pension formula, i.e. the pension would not be permanently reduced).

The reason for this proposal is that a number of workers, close to the statutory pensionable age, have been made redundant due to the restructuring of the public companies. Most of them face problems in finding a new job; in June 2017, almost one third (30.3%) of the registered unemployed were 50 years or older (National Employment Service Bulletin).

The Ministry of Labour, Employment, Veterans and Social Policy decided that this proposal will be reviewed by a working group, which was established in May 2017 with the task of preparing the amendments to the current law. The trade unions' representative withdrew from this working group in June 2017 because the amendments proposed by trade unions were not included on the agenda of the group's meeting but were postponed to a later date.

Outlook & commentary

The successive pension reforms since 2005 have introduced more rigorous conditions, and older unemployed workers have difficulties adapting to the new rules. The 2016 Labour Force Survey shows that most of the people affected are older, less qualified workers who have been laid off due to restructuring of the public companies. It also shows that 16% of the unemployed have low education and 63% have medium educational attainment. Serbia's National Employment Service provides programmes designed to increase the employability of redundant workers. However, their coverage has been negligible; in 2015 the coverage of all the programmes was no more than 10%. There are no research papers on the subject and trade unions did not provide an analysis or impact assessment for their proposal.

There are early retirement schemes in almost all EU countries and most of them have reductions in payments that are similar to those in Serbia. The aim of early retirement penalties is to prolong the working life and secure sustainability of the Pension Fund. If the trade unions' proposal is accepted the situation might return to that before 2014, with high uptake of the early retirement

scheme; this would then affect the fragile sustainability of the Pension Fund.

The Pension Fund will face more challenges in the future, due to the negative demographic trends, so more restrictive retirement rules might be expected. It is necessary to plan ahead and to include all stakeholders in a dialogue about the impacts of future amendments to the pension law.

Further reading

Trade unions left the working group:

<http://rs.n1info.com/a273219/Vesti/Vesti/Sindikato-umanjenje-za-privremenu-penziju.html>

Socio-economic Council, 8 May 2017 meeting:

http://www.socijalnoekonomskisavet.rs/eng/pocetna_eng.html

Missoc comparative tables (1 January 2017):

<http://www.missoc.org/MISSOC/INFORMATIONBASE/COMPARATIVE/ABLES/MISSOCDATABASE/comparativeTableSearch.jsp>

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