



On-going debates about pension legislation changes in Montenegro

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The Montenegrin government aims to change the Law on Pension and Disability Insurance, to discourage early retirement and labour market exit, and improve the financial sustainability of the pension system. The proposed changes should introduce a new pensionable age, new qualifying conditions as well as a new pension formula.

Description

In June 2018, the Montenegrin government initiated the changes to the Law on Pension and Disability Insurance adopted in 2003. These changes aim to resolve the issues of early retirement and early labour market exit, and support the financial sustainability of the pension system.

The main changes and social debates are related to the right to an old-age pension. Under the present law, an insured person is entitled to an old-age pension when he/she reaches 67 years of age and has a contributory period of at least 15 years, or when he/she reaches a contributory period of 40 years, regardless of age. People who spent at least 20 years in a hazardous or arduous job are eligible for an old-age pension after 30 years of contributions. In addition, an "early retirement" pension, which is lower than the old-age pension, may be received at the age of 62, with 15 years of contributions. The Government proposed a gradual phasing-out of the "early retirement" pension by the end of 2020. Moreover, the proposal sets a new "double" condition for the old-age pension: pensionable age at 65 years and 40 years of contribution.

The trade unions immediately reacted to the proposed changes and put forward their own requests, announcing a general strike and calling for a referendum if the Government changes are adopted. During the negotiation

procedure, the Government revised its proposal. The current agreement between the Government and the biggest trade unions still requires 40 years of contributions as a condition for receiving the old-age pension, but the additional age condition is 61 and no longer 65. If the insured person does not fulfil the 40 years of contributions criterion, the age requirement is 66 years for men and 64 for women, with a contributory period of at least 15 years. Regarding the "early retirement" pension, it was agreed that by 2025 the age limit would be increased to 63 for both women and men. In addition, the Government agreed that the calculation of the pension would not take into account the entire contribution period (as is the case under the current law): the 10 years with the lowest wage would be excluded from the calculation (until 2030).

However, there are still some issues on which consensus was not achieved (such as the request that the minimum pension should not be below 80% of the minimum wage while under the current law it is fixed at €45). It is expected that the Social Council, a tripartite body consisting of the representatives of social partners, will meet at the end of the year and will reach an agreement that should make it possible to submit the agreed changes to the Parliament.

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Outlook & commentary

The current pension system in Montenegro is a pay-as-you-go (PAYG) system, i.e. current workers' contributions are used to pay for current pensions (contrary to funded systems where contributions are set aside in a fund and used after workers retire). This system faces continuous funding challenges due to the low activity rate (56.2% in the second quarter of 2018), high rate of unemployment (14.4% in the second quarter of 2018), undeclared work and slow overall growth of the economy in recent years (around 3%). Moreover, negative demographic trends, i.e. falling fertility rates and an ageing population, present additional threats for the long-term sustainability of the pension system (MONSTAT, 2014). Approximately 30% of pension expenditure has been financed from the central budget during recent years. Early retirement options have allowed 70% of pensioners to retire earlier than the pensionable age since 2010. In addition, according to the 2016 Pension Fund data, 5,000 out of 60,000 old-age pensions were "early retirement" while an additional 6,000 were other "special case" pensions (mainly pensions related to hazardous and arduous jobs).

All these facts call for detailed analysis of the system and its future development. There are no official Government projections of pension spending, or at least they are not available to the public. However, according to International Monetary Fund (IMF) projections, in the absence of reforms, pension spending is projected to decrease from 10.7% of GDP in 2015 to 7.4% by 2050 and further down to 4.5% of GDP in 2100, while the pension deficit will become a surplus by 2040. Although the projections are not particularly negative, they may affect the living standard of pensioners in the long run, so the IMF has recommended a set of measures, mainly those that were recently proposed by the Government.

The latest agreement with the trade unions makes the Government's intention to fully implement IMF and World Bank recommendations less of a realistic option. The most likely situation is that, if agreement among the social partners becomes official, further changes will be made to the law.

Further reading

Fund for Pension and Disability Insurance (2018): <http://www.fondpio.me/statistika/bkpo/bkpo2016.html>

IMF (2017), Montenegro Selected Issues, IMF Country report No. 17/277: <https://www.imf.org/~media/Files/Publications/CR/2017/cr17277.ashx>

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USS (2018) Press Release, 02.11.2018: <http://usscg.me/2018/11/02/usscg-odgovara-na-pitanja-u-vezi-sa-izmjename-i-dopunama-zakona-pio/>

World Bank Group, (2017), Options for Reforming Early Retirement System for Special and Hazardous Occupations in Montenegro, Washington: World Bank: <http://hdl.handle.net/10986/28319>

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