

# Montenegrin Parliament adopts new pension legislation

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*On 16 July, after two years of negotiations with the social partners, the Montenegrin Government adopted a draft law amending the Law on Pension and Disability Insurance. The Montenegrin Parliament endorsed this law on 30 July. The main changes relate to the pensionable age, the basis for pension calculation and the pension formula.*



## Description

On 16 July, after two years of negotiations, the government and representatives of the Union of Free Trade Unions (USS) and the Federation of Trade Unions (SSCG) have finally reached an agreement on the draft law amending the 2003 Law on Pension and Disability Insurance. Negotiations on this draft law had been ongoing since 2018, when the Government proposed changes aimed at discouraging early retirement and labour market exit. The draft law was adopted by the Parliament on 30 July.

The main changes introduced by the new law are related to the pensionable age, the basis for pension calculation and the pension formula.

Under the previous law, pensionable age was to be gradually increased to 67 by 2040 (current pensionable age is 66 for men and 61 and 9 months for women); this increase will now be capped at 66 for men, and 64 for women (which will be reached in 2028). An insured person will be entitled to an old-age pension when he/she reaches the pensionable age and has a contributory period of at least 15 years, or when he/she reaches the age of 61 and a contributory period of 40 years. In addition, it will be possible to receive an "early retirement" pension, which is lower than the old-age pension, at the age of 62 instead of 63 previously, with 15 years of contributions. The new law also foresees a gradual phasing out of the "special case" pensions (mainly pensions related to hazardous and arduous jobs) until the end of 2021.

The pension will no longer be calculated on the basis of the entire contribution period (as was previously the case), and one quarter of the years with the lowest wage will be excluded from the calculation. The indexation formula will also be changed. Instead of the previous formula, according to which pensions were indexed to 75% of the consumer price change and 25% of the wage change, a new "rotating formula" will be introduced: pensions will be indexed to 75% of the parameter with the highest rate of change and 25% of the parameter with the lowest rate of change. However, if application of this formula results in a reduction of the pension, it will not be applied.

The new law also foresees a 13% increase in the minimum pension (from €128.82 to €145.77), retroactively as of 1 January 2020.

Changes will be applied retroactively from 1 January 2020, which will make it possible for everyone who has acquired the right to a pension since then to ask for their pension to be recalculated in accordance with the new law.

The draft law adopted by the Government proposed to abolish (by the end of 2021) the right of parents of children with disabilities to retire after 20 years of contributions – a right which existed under the previous law (Parliament of Montenegro, 2020). This proposal was rejected by the Parliament after strong advocacy from parents' associations and some opposition parties.

Trade unions are very satisfied with the adopted changes, which are mostly in line with those they proposed during the

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negotiations. They state that the changes will improve the position of future pensioners and especially of current pensioners receiving the minimum pension. They see this movement as the result of constructive social dialogue between the Montenegrin Government and the trade unions, which will usher in greater fairness and adequacy of pensions (USS, 2020). According to Prime Minister Marković, this stems from a moral obligation to enable the oldest members of the population to enjoy the results of their work, and to mitigate the effects of the COVID 19 crisis, but it will also contribute to the financial sustainability of the pension system.

## Outlook and commentary

The pension system in Montenegro is a pay-as-you-go system, i.e. the contributions made by current workers are used to pay for current pensions (contrary to funded systems, where contributions are set aside in a fund and used after workers retire). The system has been characterised by a relatively high (1.66 in 2019) “dependency ratio” (which expresses the number of working age people (20-64) relative to the number of people of retirement age (65+)) and modest pension levels, two elements which have contributed to the pension system’s financial sustainability. However, pension adequacy was at risk of erosion in the long run (World Bank, 2020). In addition, although its projections of financial sustainability of the system were not particularly negative, the International Monetary Fund had recommended a set of reform

measures, mainly those that were initially proposed by the Government, in order to ensure pensioners’ living standards in the long run (IMF, 2017).

Although the changes adopted are more in line with the requests of the Unions than with the Government initiatives from 2018 (which, for example, initially proposed a “double” condition for the old-age pension: pensionable age at 65 years and 40 years of contributions), they will still reduce special retirement options - one of the main Government goals.

The reforms introduced go against the trend of increasing pensionable ages due to population ageing, but they will improve the adequacy of pensions and contribute to improving pensioners’ living standards, especially for those on minimum pensions. According to the preliminary 2018 EU Statistics on Income and Living Conditions (EU-SILC) data (MONSTAT, 2019), the at-risk-of-poverty rate before social transfers decreases by 13.8 percentage points when pensions are included in the original income. Also, according to the 2017 EU-SILC data (MONSTAT, 2018; this information is not yet available for 2018), disposable income from work increased by 14.8% between 2013 and 2017, while for the same period income from pensions increased only by 1.1%. The new rotating indexation of pensions should improve their real value.

The consequences of the reforms on the financial sustainability of the system are not known, as there is no detailed assessment, except for information that implementation of the law would require an additional €2.4 million in 2020. The expectation is that lowering the pensionable age will not contribute

to financial stability, while abolishing the special early retirement conditions will. In addition, retroactive application of the law may enable possible lawsuits to be brought by current pensioners so that they too can benefit from more favourable retirement conditions.

It is good that some of the most vulnerable categories, such as parents of children with disabilities, are recognised as deserving special retirement conditions, despite the overall goal to limit special pension cases.

### Further reading

International Monetary Fund (2017), [Montenegro Selected Issues](#), Montenegro Selected Issues, IMF Country report No. 17/277

MONSTAT (2018), [Statistics on Income and Living Conditions 2013-2017](#)

MONSTAT (2019), [Survey on Income and Living Conditions \(EU-SILC\) 2018](#)

Parliament of Montenegro (2020), [The Draft Law on the Law on Pension and Disability Insurance](#)

Union of Free Trade Unions-USS (2020), Press Release from 15.07.2020

World Bank (2020), [Montenegro Pension Policy Challenges in 2020](#)

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