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Assessment of pension adequacy

North Macedonia

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European Social Policy Network (ESPN)

ESPN Thematic Report: Assessment of Pension Adequacy

North Macedonia

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Highlights

- Pensioners in North Macedonia have a low at-risk-of-poverty (AROP) rate, compared to persons aged 65 and over: in 2018, AROP among pensioners stood at 7.9%, while among persons aged 65 and over the figure was 14.5% (15% among men and 14.3% among women). This significant difference is a result of low female employment, participation in undeclared work, contributing family members in agricultural households not covered by pensions, etc.
- Older people's incomes are 12% higher than those of people aged below 65. The relatively high replacement rate of pensions is among the factors contributing to the higher median income of older people in North Macedonia. The current income-replacement capacity of the pension system, measured by the aggregate replacement ratio (ARR) amounts to two thirds of late-career work income in North Macedonia.
- Older women have lower pensions than men in North Macedonia, and also less access to the pension system. The gender gap in pension income among those aged 65-79 is 22.7%, while the coverage gap is 22.1%.
- Although recent pension reforms have striven to improve fiscal sustainability and the adequacy of the multi pillar pension scheme, more needs to be done in relation to future pension adequacy, particularly for people on non-standard contracts and the self-employed. A significant number of informally employed people need to be encouraged to contribute to earnings-related pensions, and there need to be more women-friendly pension incentives, such as care credits.

1 General description of the national pension system[1]

The pension system in North Macedonia consists of:

- A statutory pension scheme: mandatory insurance, based on generational solidarity, pay as you go (PAYG), providing earnings-related benefits based on the length of working service – defined benefit;
- A statutory funded pension scheme: mandatory, fully funded pension insurance scheme, run by private pension companies supervised by the state, providing benefits linked to accrued pension capital – defined contribution; and
- A supplementary pension scheme: voluntary, fully funded pension insurance, including both personal schemes (for people between 15 and 70 years of age) and occupational schemes.

The first of these – the statutory pension scheme – provides part of the old-age pension, disability and survivor pension benefits, and the minimum pension benefit. The statutory funded pension scheme pays out part of the old-age pension. The benefits paid out from the supplementary pension scheme are similar to those available from the statutory funded pension scheme, the only difference being that voluntary pension scheme members can choose to withdraw their accumulated assets from the third-pillar individual accounts as a lump sum, which is not allowed under the mandatory system.

The statutory pension scheme is mandatory for all economically active people, including all employees, self-employed persons and farmers. According to the Pension and Disability Insurance Fund (PDIF) of North Macedonia, in December 2018 there were 578,023 insured people, representing 77.8% of all employed people (20-64). In the same period, there were 315,780 pension beneficiaries, indicating that the ratio of employed people to pensioners is 1.8: i.e. there were approximately 1.8 working-age individuals (aged 20-64) for every person aged 65 and over.

The statutory funded pension scheme is mandatory for most people who started work on or after 1 January 2013. The exceptions are: farmers; those in a form of employment with increased service credits, such as contracted soldiers, junior officers, officers and civilians in the armed forces, employees of the Ministry of Interior and people working in penitentiary-correctional and educative-correctional institutions; and persons whose full-time (self-) employment is subsidised by the state through exemption from paying social security contributions (for the duration of the exemption). In addition, people who were already covered by mandatory pension and disability insurance before 1 January 2003 could join the statutory funded pension scheme on a voluntary basis. According to the Agency for Supervision of Fully Funded Pension Insurance (MAPAS), as of 31 December 2018, the total number of members and temporarily allocated members in the mandatory pension funds stood at 490,035. Thus, around 85% of those insured by the Pension and Disability Insurance Fund are members of the statutory pension scheme and/or the statutory funded pension scheme. Of the total number in the statutory funded pension scheme, 14% are voluntary members, while 86% are mandatory members (MAPAS, 2019 pp. 29-30).

In 2018, the number of members of the supplementary pension scheme increased by 2.5% over the previous year to reach 24,388, of whom 61% were participants in occupational schemes and had occupational accounts. Members of the voluntary supplementary pension scheme are, on average, older than people in the statutory funded pension scheme (an average age of 46 for men and 45 for women among those with occupational accounts).

[1] Given that the structure of the pension system has not changed since the description provided in the 2018 report 'ESPN Thematic Report: Assessment of Pension Adequacy in the former Yugoslav Republic of Macedonia', this section draws heavily on that report.

The retirement conditions are the same for everyone in the statutory pension schemes – a retirement age of 64 for men and 62 for women, subject to a minimum insurance record of 15 years, except in the case of disability or family (survivor) pensions. A member of the fully funded pension fund is entitled to an old-age pension if he/she meets the conditions for an old-age pension under the PAYG scheme (MISSCEO, 2016). Retirement can be deferred up to the age of 67 (men) and 65 (women).

The option for early retirement is quite restricted under legislation, though early retirement because of risks associated with hazardous or arduous work is available for a significant number of professions.[2] There are around 2,000 occupations from which insured individuals are eligible to retire early with an extended service period (ESP). According to a World Bank assessment, 4.5% of insured individuals are eligible for an ESP: 2.7% are in the military or the police, and 1.8% are in other occupations (World Bank, 2020, p. 10).

The old-age pension is suspended if someone receives earnings from employment or self-employment; the only exception to this is earnings from temporary service contracts. People (including the self-employed) can continue to work after they meet the conditions for an old-age pension, but they are not entitled to a pension while they are working. An increased period of employment may result in an larger pension, which takes into account periods of insurance after retirement and the reference earnings.

The pension contribution rate from gross wages was reduced from 21.2% in 2008 to 18% in 2010; it remained at that level until 2018. In 2019 and 2020, there was a slight increase in the pension contribution rate (discussed in the following section).

Pension and disability contributions are paid as one contribution by all employers. No direct contribution is required from employees. The self-employed pay a contribution rate of 18.4% of the lump-sum net income that is subject to personal tax.

The maximum contribution basis cannot be greater than 16 times the national average wage, while the minimum contribution basis cannot be less than 50% of the national average wage, announced each January.

There are no official data (and no representative research) on coverage gaps among the self-employed and non-standard workers (including platform workers). According to an ongoing World Bank project, some of the issues related to gaps in coverage result from the fragmented, inconsistent and inefficient governance of social insurance registration. The Agency for Employment is tasked with registering all salaried workers centrally, and sharing that information with other social insurance agencies. The self-employed, farmers, clerics and temporary employees, however, register individually with other agencies, as required. Furthermore, the Agency for Employment does not maintain a registry of contributions paid, which is essential to determine eligibility and benefits in all social insurance agencies. As a consequence, benefits and services across all the institutions are decided upon and delivered using imperfect or out-of-date data (World Bank, 2020).

2 Reform trends

A number of reform initiatives to secure the fiscal sustainability and adequacy of the multi pillar pension scheme were addressed by the amendments and additions to the Law on Pension and Disability Insurance, adopted in February and December 2018 (Official Gazette, No. 21/2018 from 2.2.2018, Official Gazette, No. 245/2018 from 28.12.2018). These included: consumer price indexation of pension benefits; an increase in and the harmonisation of accrual rates; a modest contribution rate increase; and the switching of statutory funded pension scheme members over 50 back to the statutory PAYG scheme.

Pension indexation reform, which began in early 2019, shifted indexation over to consumer price indexation, and away from a method whereby half of the indexation followed wage

[2] Discussed in more detail in Gerovska Mitev (2016).

growth and half price growth. The reform helps stabilise financial flows in the pension fund, and after one year of implementation, the deficit in the pension fund had decreased by 3.7 billion Macedonian denar (MKD) (€60.162 million) and revenues had increased by 10% (Ministry of Finance, 2020).

The accrual rates for members of the statutory funded pension scheme were increased, and the accrual rates for PAYG-only members were harmonised by reducing the PAYG-only accruals for post-2018 service.

To improve the solvency of the pension fund, contribution rates were increased slightly. The increase included 0.4 percentage points (p.p.) for the PAYG scheme, both in 2019 and 2020, totalling a 0.8 p.p. increase. Hence the pension contribution rate in 2020 is 18.8% of the gross wage.

Also, all insured individuals below the age of 40 who join the compulsory pension and disability insurance after 1 January 2019 are mandatorily members of the statutory funded pension scheme; meanwhile, members of the statutory funded pension scheme born before 1 January 1967 will be transferred to the statutory pension scheme. Also, membership of the statutory funded pension scheme ceased as of 1 January 2019 for those individual farmers or retailers in green markets who, until the amendments came in force, had insured status, or who during the insurance period had insurance for increased career duration. The pension company has transferred the entire amount to the pension and disability insurance fund, and these people are now insured only under PAYG insurance, based on generational solidarity (Government of North Macedonia, 2019).

Additionally, the Law on Social Security for the Elderly, which came into force in May 2019, aimed to increase the effectiveness of cash benefits for this category of citizens and to reduce poverty among the elderly aged 65 and over who do not qualify for pension benefits. The Law introduced a so-called 'social pension', in the form of a means-tested benefit for people aged 65+ who do not receive a pension or guaranteed minimum assistance. In addition, these people acquire the right to an energy subsidy of MKD 950 per month (€15). According to the government's assessment, around 4,000 people aged 65 and over are eligible for this – 1.39% of the population aged 65 and above. The amount of the 'social pension' is MKD 6,000 (€98) a month; as of November 2020, there were 2,631 beneficiaries acquired this right, or 0.91% of the population aged 65 and over.

Further legislative changes from December 2019 envisage the possibility of systematically raising pensions by 5% in those years when the minimum wage rises more than 15% and the average salary increases by 5%.

According to the government's 'Revised Employment and Social Reform Programme – 2022', in the next period the plans to improve the administration of social insurance and efficiency in the exercise of pension and disability insurance rights will include the following: the introduction of a single system for the registration of insured individuals and the updating of their data; simplification of the registration of individuals in the social insurance system; improvement of the legal framework governing matters relating to persons with disabilities and occupations with an extended service period, by simplifying the process of determining disability, so that claimants can fully exercise their disability rights; and a review of those occupations with an extended service period. These measures will be implemented through a loan from the World Bank, within the framework of the Social Insurance Administration Project (World Bank, 2020 p. 107).

3 Assessment of adequacy

3.1 Current adequacy

Pensions represent the most effective social transfer in North Macedonia, as they reduce the risk of poverty by 15.1 p.p. (other social transfers reduce it further by only 4.4 p.p.).[3] Also, pensioners have low AROP rate – just 7.9% in 2018. At just 2.1%, the rate is even lower among female pensioners (see Statistical Annex). While these figures confirm the adequacy of pension income, measured by its ability to prevent and mitigate the risk of poverty among pensioners, not all those people of pensionable age share the same living standards: around 14.5% of those aged 65 and over were at risk of poverty in 2018 – 15.0% of men and 14.3% of women. These rates decreased steadily from 2010 to 2018, with a total fall of 3.9 p.p. Some of the factors contributing to the significant difference between the AROP rate of pensioners and that of people aged 65+ include low female employment, especially in certain ethnic groups (Albanian, Turkish), participation in undeclared work, the presence of contributing family members in agricultural households that are not covered by pensions, etc.

As can be seen from Figure 1 (Statistical Annex), in North Macedonia the AROP rate (which is relative and depends greatly on the country's overall median income and the composition of the household) is lower than the rate of those at risk of poverty and social exclusion (AROPE) and material deprivation. The markedly high material and social deprivation rate among older individuals suggests that their incomes do not provide for dignified living conditions.

The poverty risk gap for people aged 65 and over was 26.3% in 2018, indicating that the median income of those elderly people who were income poor amounted to 73.7% of the respective national AROP threshold (Statistical Annex).

The current income-replacement capacity of the pension system, measured by the aggregate replacement ratio (ARR), which compares the pension incomes of people aged 65-74 and the earnings of people aged 50-59, amounts to 68% (Statistical Annex). This indicator captures the income difference between late career and the early years of retirement, which in North Macedonia currently amounts to two thirds of late-career work income.

The relatively high replacement rate of pensions is among those factors that contribute to the higher median income of older people in North Macedonia. People aged 65 and above have 12% higher median income than those aged 18-64. However, in 2018 the median income among older women was 8 p.p. lower than for men. This indicates that not only do women have lower incomes during their working lives, but they also have lower income in retirement, which contributes to gender inequalities in old-age income. In addition, women have lower pensions than men in North Macedonia. As indicated in Figure 2 (Statistical Annex), despite a steady decline throughout 2010-2018, the gender gap in pension income among those aged 65-79 is 22.7%. The coverage gap of 22.1% shows that women aged 65-79 in North Macedonia also have less access to the pension system than do men.

As pointed out by Eurofound (2017), the pension and tax systems are important in reducing income inequality among the elderly in the European Union. This also holds true for North Macedonia, as the older population appear more equal than the working-age population. The income distribution illustrated by the income quintile ratio (S80/S20) reveals that the income of the richest 20% is 4.72 times higher than that of the poorest 20% (Statistical Annex). Among those aged below 65, the S80/S20 indicator shows that the income of the richest 20% is 6.42 times greater than that of the poorest 20%.

Other elements that contribute to the living standards of older people and that also interact with pensions include housing costs and access to health care: 10.2% of people in North Macedonia aged 65 and above are overburdened with housing costs, i.e. their total housing

[3] Source: Eurostat, 2020 (ilc_li02; ilc_li09; ilc_li10; ilc_li02).

costs (net of housing allowances) absorb more than 40% of their total disposable household income. Around 3.4% of the population aged 65 and above have difficulty in affording health care. In this respect, women are slightly worse affected: 3.9% of them reported having an unmet need for a medical appointment, versus 2.7% of men.

People with physical and mental impairments, as well as elderly people or members of their family (who, under Family Law, are obliged to support them), contribute to the costs of accommodation in social protection institutions and foster families (cost of food, clothing, hygiene and other personal expenses). The amount of the contribution varies from case to case, and is determined on the basis of the income of the beneficiary and of the members of his/her family.

Accommodation in publicly funded social protection or some other institution is covered by the state if the beneficiary is placed there by decision of the social work centre, and if the total income per family member is below 25% of the previous year's average net wage.

In the case of long-term care services for the elderly that are provided in publicly funded social protection institutions (e.g. old-people's homes), the income from all sources available to the beneficiary and his/her family members is calculated and taken into consideration when defining the level of co-payment. The beneficiary and his family members are exempt from co-payment if the total income from all sources per family member is below 15% of the average net monthly wage in the previous year, and provided they do not own property that could be used for commercial purposes (MISSCEO, 2019).

Eligibility for long-term care cash benefits is not based on means testing.

3.2 Future adequacy

Future adequacy of the pension system in North Macedonia will depend on demographic and economic trends, and both emigration and the rate of employment will play a prominent role. The age-dependency ratio in 2019 (20.2%) indicates that the country still has a relatively young population, compared to the EU-27 average (31.4%). However, according to United Nations projections, the share of those aged 65 and above will show a steady rise, to peak around 2060, after which point it will slowly start to fall. According to a World Bank assessment, 'by 2080 North Macedonia's population [will] shrink by more than 10 percent, and the share of Macedonians past retirement age [will] more than double, from 15 to 31 percent' (World Bank, 2019, p. 100).

Given that the life expectancy at age 65 in North Macedonia is 15.7 years (Statistical Annex) – lower than the EU-27 average of 19.9 years – raising the retirement age is not so much of a priority. In order to maintain a sustainable ratio of contributions and pensions, an increase in the employment rate would be more pertinent.

3.3 Challenges for future adequacy

In North Macedonia, there is a significant degree of informal employment (15.7% in 2017), as well as low female employment (39.2% in 2017),[4] especially among women from certain ethnic communities (i.e. Albanian, Turkish). This represents one of the important challenges for the future adequacy of pensions, in terms of both contribution collection (fiscal sustainability) and pension coverage.

As indicated in the ESPN Thematic Report on Access to social protection of people working as self-employed or on non-standard contracts – FYR of Macedonia (Gerovska Mitev, 2017), people in non-standard work and the self-employed in North Macedonia have a higher AROP rate. In 2018, those in part-time work had an AROP rate of 28.6%, while the figure for the self-employed was 25.3%. In this respect, a specific challenge for pension adequacy for people on non-standard contracts and the self-employed is to ensure an

[4] State Statistical Office (2018). Labour Force Survey – 2017, http://www.stat.gov.mk/xls_publikacii/2018/2.4.18.03.xls

adequate level for the old-age safety net, while providing clear incentives to contribute to earnings-related pensions.

Additional challenges for the future adequacy of pensions include gender inequality in old-age income (given the significant gender gap in pension income among those aged 65-79) and the significant coverage gap, indicating that women have less access to the pension system than do men.

3.4 Solidarity mechanisms

The pension system in North Macedonia provides for a minimum pension for people with insurance records of less than 25 years (men) and less than 20 years (women). The minimum pension is guaranteed for people who have paid into either the statutory pension scheme or the statutory funded pension scheme. The minimum (basic) pension is not means tested. Its amount is MKD 9,354 (€151), which represents 76.9% of the minimum wage (MISSCEO, 2019). People aged 65 or over who are not eligible for an earnings-related pension can apply for a social pension. It is a means-tested benefit provided by the centres for social work and amounts to MKD 6,000 (€98).

Access to pensions benefit for workers in arduous or hazardous jobs requires a lower qualifying age, depending on the number of years spent in such jobs and the degree of service enhancement (i.e. extra years/months of service credited). Employers who engage employees in hazardous and dangerous occupations pay an additional contribution. The value of each year of work is increased for the purposes of determining entitlement to benefits and the amount. There are five categories, depending on how dangerous/arduous the occupation is. The pensionable age for people in arduous and hazardous jobs is reduced by the expedient of counting every 12 months of effective work as 14, 15, 16, 17 or 18 months of service (MISSCEO, 2019).

Non-contributory credited periods (that only count towards entitlement to a pension) include: periods of subsidised (self-) employment for young, elderly or other people who are exempt from paying social security contributions (for the duration of the exemption); periods of part-time work while nursing or looking after a child; and, for those aged 58 or over, the period until they meet the conditions for retirement.

Contributory credited periods (that count towards entitlement to a pension and that are also used when calculating the eventual pension amount) include: periods of receipt of sickness benefits and maternity benefits; periods of receipt of unemployment benefits; periods of part-time work while looking after a child with a disability for which the parent receives salary compensations (contributions are paid from the state budget); periods of occupational rehabilitation and periods spent by a disabled person to prepare for suitable employment; and periods during which the disabled person receives reimbursement for reduced working hours (MISSCEO 2019).

Family pension is another solidarity mechanism. Family members are entitled to this, provided the deceased insured person had:

- at least five years of insurance service or at least 10 years of pension record; and
- **either** met the requirements for old-age or invalidity pension, **or** had already been receiving old-age or invalidity pension.

In the event of death caused by a work-related injury or an occupational disease, the members of the family are entitled to a family pension, regardless of the length of the pension record of the insured.

The family pension is calculated as a percentage of the old-age or invalidity pension, according to the number of eligible survivors:

- one survivor: 70%
- two survivors: 80%
- three survivors: 90%
- four or more survivors: 100%

Under the statutory funded pension scheme, in case of the death of a private pension fund member, there are two situations:

- If the calculated phased withdrawal is less than the amount of the family pension, then the total assets accumulated on the deceased member's account will be transferred to the statutory pension scheme and will be calculated and paid as regular family pension.
- If the amount of the phased withdrawal is higher than or equal to the amount of family pension calculated under the statutory pension scheme, the beneficiary (survivor) may choose either to use the whole amount of the assets accumulated on the account as a pension paid through phased withdrawals or to have the assets transferred to the statutory pension scheme and be paid a regular family pension (MISSCEO, 2019).

In 2018, 24% of all pensions paid by the Pension Insurance Fund in North Macedonia were family pensions.

4 Recommendations

Long-term pension adequacy in North Macedonia faced the challenge of the overall socio-economic and demographic trends, including intensified emigration, low employment rates (particularly among women) and significant informal employment. In this respect, an improvement in future pension adequacy (among other things) should be sought through:

- the improved accessibility of the contributory pension scheme, to include workers with seasonal income (self-employed, temporary workers, etc.);
- intensified provision of financial incentives for workers in informal employment to attract them into the obligatory pension system, i.e. flexibility of contribution payments, etc.;
- increased pension coverage among women, by making occupational and individual supplementary pensions women-friendly, with provisions supporting the introduction of care credits, as well as derived pension benefits;
- significant revision of the right to risk-related retirement.

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Statistical annex

Table A.1 Relative income

	2018			Change 2012-2018		
	Total	Men	Women	Total	Men	Women
Relative median income ratio, 65+ over 18-64 (%)	112	116	108	10.8	7.40	11.3
Income quintile share ratio (S80/S20), 65+	4.72	4.95	4.52	-1.18	-1.5	-0.93
Income quintile share ratio (S80/S20), 65+ - 0-64	-1.7	-1.39	-2.03	-	-	-
Aggregate replacement ratio (ARR) %	68	67	68	23.6	19.6	30.7
Pension ratio high / low earner	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Table A.2 Poverty and material deprivation

	2018			Change 2010-2018		
	Total	Men	Women	Total	Men	Women
At-risk-of-poverty or social exclusion (AROPE), 65+ (%)	35,8	34,2	33,8	-5,1	-5,1	-5,1
At-risk-of-poverty rate (AROP), 65+ (%)	14,6	15,0	14,3	-3,9	-4,7	-3,2
At-risk-of-poverty rate (AROP) for pensioners	7,9	11,5	2,1	-6,2	-7,9	-2,9
Severe material deprivation (SMD), 65+ (%)	29,3	26,6	31,5	-5,5	-6,7	-4,6
At-risk-of-poverty or social exclusion (AROPE), 75+ (%)	38,3	37,4	38,9	-4,1	-5,2	-3,5
At-risk-of-poverty rate (AROP), 75+ (%)	15,5	17,6	13,9	-3,1	-4,5	-2,2
Severe material deprivation (SMD), 75+ (%)	30,9	28,5	32,7	-5,3	-4,9	-5,5
Relative poverty gap, 65+ (%) (% - change 2012)	26,3	22,8	30,4	-0,6	-1,5	3,7
At-risk-of-poverty rate (AROP), 65+: 50 % threshold (%)	9,8	9,5	9,9	-2,2	-3,6	-1,1
At-risk-of-poverty rate (AROP), 65+: 70 % threshold (%)	23,0	23,2	22,8	-3,4	-4,2	-2,7
Material and social deprivation, age 65+ (% - change 2014)	38.9	36.4	40.9	-9.5	-8.9	-10.1

Table A.3 Gender difference

	2018	Change 2010-2018
Gender gap in pension income (65-79) (%)	22.7	-1.8
Gender gap in non-coverage rate (W-M in p.p.) (65-79)	22.1	-7.5

Table A.4 Housing and health situation

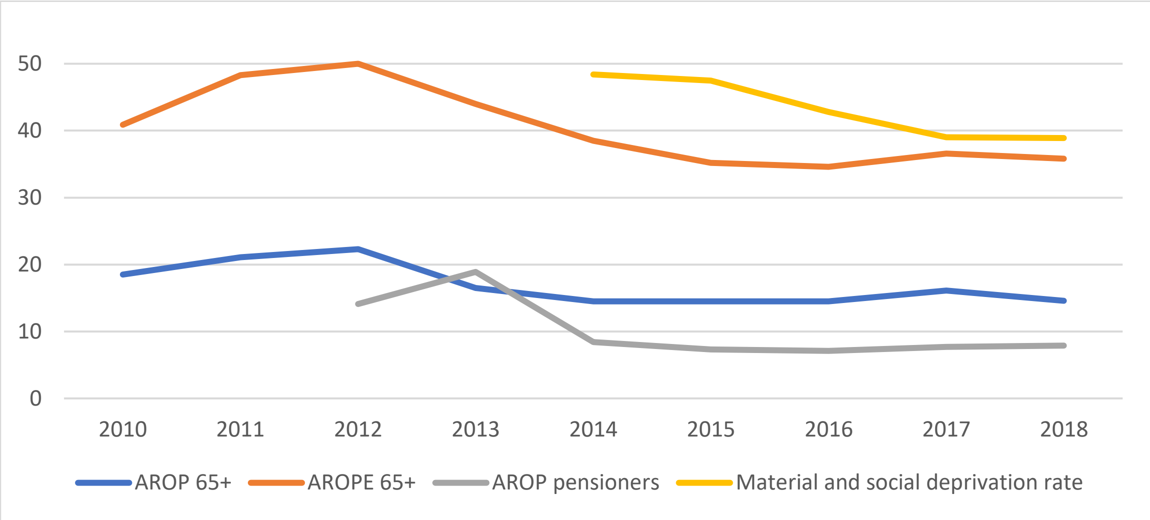
	2018			Change 2010-2018		
	Total	Men	Women	Total	Men	Women
Housing cost overburden rate, 65+ (%)	10.2	10.0	10.4	-9.3	-9.4	-9.2
Self-reported unmet need for medical exam 65+ (%)	3.4	2.7	3.9	-14.5	-12.6	-16.2
Healthy life years at age 65 (years)	n.a	n.a	n.a	n.a	n.a	n.a
Life expectancy at age 65	15.7	14.6	16.6	0.7	0.7	0.8

Table A.5 Sustainability and context

	2018			Change 2010-2018		
	Total	Men	Women	Total	Men	Women
Employment rate, age group 55-64 (%)	42.7	56.8	28.8	8.5	10,1	6,4
Gross public pensions as % of GDP (ESSPROS) (% change 2015-10§7)	7.4			0.3		
Eurostat and AWG projections	**2019**			**2059**		
Old-age dependency ratio (15-64) (%)	20.2	n.a.	n.a.	n.a		
Retirement duration (AWG) (years)	n.a	n.a.	n.a.	n.a		
Benefit ratio (%)	55.9	n.a.	n.a,	n.a.		
Coverage ratio (% of population aged 65+)	n.a.	n.a.	n.a.	n.a.		

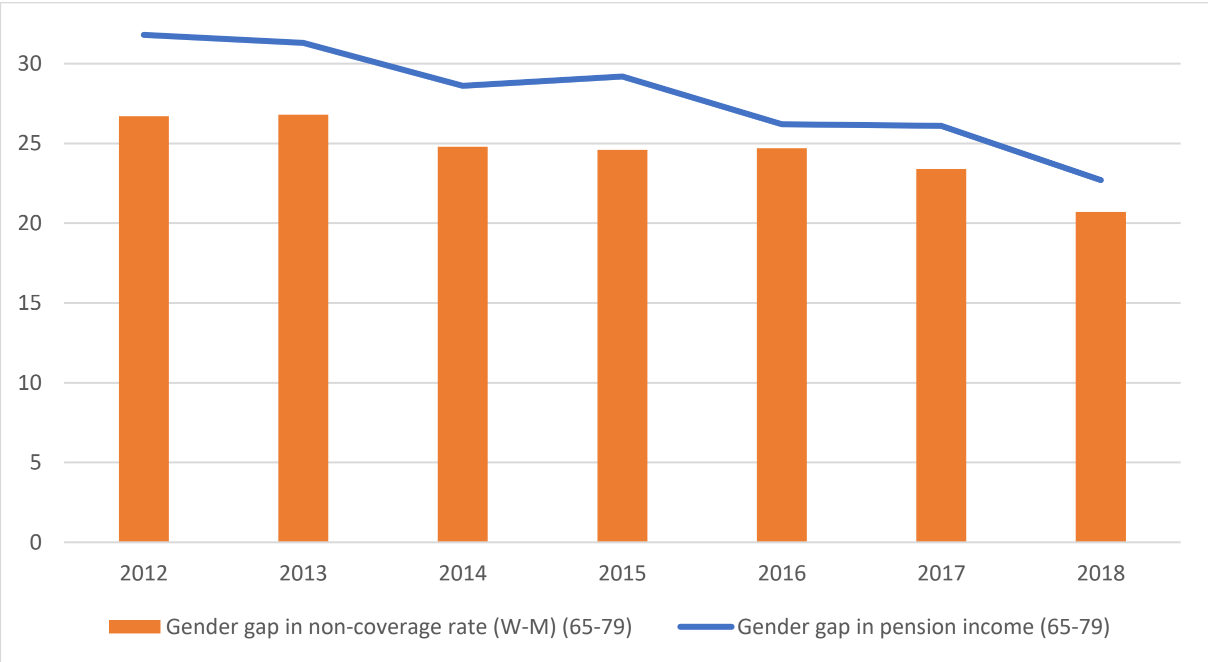
Source: Eurostat, 2020; Economic Policy Committee's Working Group on Ageing Populations and Sustainability (AWG); Pension and Disability Insurance Fund of North Macedonia (2019).

Figure 1: Poverty and material deprivation among people aged 65+, %



Source: Eurostat, 2020 (ilc_peps01, ilc_li02, tespn100, ilc_mdsd07).

Figure 2: Gender difference in pension and non-coverage among older people



Source: Eurostat, 2020 (ilc_pnp13, ilc_pnp14).

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