

# The Federation of Bosnia and Herzegovina is extending and increasing pension benefits for war veterans

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*The Federation of Bosnia and Herzegovina, one of the two entities within the State of Bosnia and Herzegovina, changed its Law on pensions and disability insurance on two occasions recently. In addition to some general improvements, the changes have further extended and increased war veterans' benefits. These changes, which are to be financed from the entity's budget, will also allow for an extraordinary increase in ordinary pensions.*



## Description

In autumn 2021, the Federation of Bosnia and Herzegovina (FBiH) parliament tabled two proposals to change its Law on pensions and disability insurance. (Bosnia and Herzegovina consists of two Entities, FBiH and the Republic Srpska.) The first proposal was initiated by two members of the FBiH Parliament belonging to two main ethnic political parties. It suggested an increase in personal pension points from 0.5 to 1 point for war years spent in one of the armies involved in the 1992-1995 war (primarily the "Army of Bosnia and Herzegovina" and the "Croatian Defence Council"), counted as double years of insurance; and abolished penalisation for early retirement based on these twice counted war years. In addition, the changes included a proposal for early retirement: the possibility for war veterans with 40 years of pension insurance to retire earlier for each year spent in the armies during the war (with each year counted as double), with no penalisation but not before the age of 58. These changes were adopted in September 2021.

In September 2021, alongside these changes, the FBiH government sent to the FBiH Parliament, under the urgent procedure, changes and additions to the FBiH Law on pension and disability insurance. The urgency was justified by the need to harmonise the Law with two decisions of the FBiH Constitutional Court. The first ruling (AP-4077/16, dated 11 October 2018) equated unmarried couples with married couples concerning the right to a survivor's pension, thereby instructing the FBiH government to harmonise the pension law with family law. By the second ruling (U-36/18, dated 12 November

2019), old-age pensioners with 40 years of insurance and aged at least 65 were given the right to work full time and receive a full old-age pension.

The initial government proposal also contained a set of measures for war veterans. However, as these changes had also been proposed by the two members of the parliament and adopted in the meantime, the final version of the government's proposal contained only additions concerning work injuries; injuries suffered by war veterans during the most recent conflict will be treated as injuries at work. This means that any death of a war veteran during the 1992-1995 war (these veterans were never insured by the pension fund) will be treated as a death at work, and that his/her family members will have the right to a survivor's pension.

In addition, the most notable changes proposed by the government included the abolition of the penalisation (approx. 0.33%) for every month of early retirement – early retirement has been possible with 40 years of pension insurance (including war years, counted as double) for those aged at least 62. The changes also proposed an extraordinary indexation of pensions; this will be possible once a year if the increase in nominal GDP in the previous year is higher than 3%, and if the FBiH budget in the previous year did not accumulate a deficit. The increase will be capped at the percentage of nominal GDP increase in the previous year, and will not be applied to the highest pensions if the amount of the minimum pension is less than 1/5 of the highest pension (set at KM2,174.48 or €1,115).

Despite the political impasse in the FBiH, which has thus far prevented the appointment of a new government for the FBiH entity and stalled the implementation

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of reforms, the changes to the Law on pensions and disability insurance were adopted without any opposition at the end of February 2022 and published in the Official Gazette of the FBiH in March. Although the Association of FBiH pensioners has expressed their discontent with the extension of war veteran rights, their support, in the end, was ensured with provisions stipulating extraordinary indexation of pensions.

## Outlook and commentary

Although changes to the pensions law include several positive changes that will improve the pension rights of persons who have earned their pensions based on contribution payments, they will primarily increase the pension rights of war veteran groups. These changes form part of the FBiH Government package of increased and extended war veteran benefits (FBiH Government, 17.02.2022), adopted in a year when general elections should take place in the autumn.

In January 2022, the FBiH Pension Fund covered 430,635 pensioners, which is almost 25% of the estimated total population in the entity, and 81% of the registered number of employees, recorded in December 2021. Moreover, new provisions for war veterans will propel a further increase in the number of pensioners below the pensionable age of 65. At the same time, the FBiH does not have any policy concerning a considerable number of old age people who are not eligible for a pension because they do not fulfil conditions regarding the number of years in insurance.

Changes affecting the war veteran beneficiaries will lead to a considerable increase in pension expenditure. The first set of changes, increasing the pension point value for the war years counted as double, has already produced that effect. For instance, if we consider a person who spent four years in one of the armies during the 1992-1995 war (so did not pay insurance contributions), these years are counted as eight years of insurance. Before the changes to the Law, one year of special war year insurance was worth approximately KM7.5 (€4) (which corresponded to 50% of KM15.61 (€8)), the value of a pension point before April 2022 [in April 2022, the point was increased to KM16.35 (€8.4)], thereby contributing KM60 (€30.8) to the person's pension base. With changes to the Law, this amount has been doubled. Therefore, the change has led to an increase in all pensions that include the special war years, which are above the minimum pension in payment. Although there is no publicly available information about the number of these beneficiaries, it is estimated that more than 90% of them are men. Based on the FBiH Pension Fund audit report for 2020, the cost of financing the special war years amounted to KM 151 million (€77.4 million), which was 14.5% of all pension expenditure for that year (FBiH Audit Office, 2021, p.28). By law, financing of special war years is the responsibility of the FBiH government (i.e. should be covered from the general taxes). However, the financial audit report for 2020, reporting on the first year of the FBiH Pension Fund operating within the FBiH Treasury system, warns that the responsible ministry did not keep adequate revenue and expenditure records, which is required for proper implementation

of the Law. The FBiH Treasury has not kept the revenue from contributions separate from the revenue to be provided by the FBiH government. If the FBiH government continues with that practice, the increase in expenditure for war veteran pensions, which should be by law covered from general taxation, will most likely be financed mainly from the contributions. This will leave less funds available to finance pensions earned on the basis of employment and contribution payments.

In April, the FBiH government decided on a 3.5% extraordinary increase of pensions (FBiH Government 21.04.2022). This is in addition to the already announced 7.3% annual increase. These increases will apply to all pensions, except the highest.

### Further reading

FBiH Audit Office (2021). Report on the financial audit of the FBiH Institute for pensions and disability insurance [[Izveštaj o finansijskoj reviziji Federalnog zavoda za penzijsko i invalidsko osiguranje](#)]

FBiH Government (17.02.2022). 303rd session of the FBiH Government [[303. sjednica Vlade FBiH](#)]

FBiH Government (21.04.2022). Pensions in the FBiH are increased by 11% [[Penzijske u Federaciji BiH povećavaju se za 11 posto](#)]

Law on changes to the Law on pension and disability insurance [[Zakon o izmjenama Zakona o penzijskom i invalidskom osiguranju](#)]. Official Gazette of FBiH, 90/2021.

Law on changes and additions to the Law on pension and disability insurance [[Zakon o izmjenama Zakona o penzijskom i invalidskom osiguranju](#)]. Official Gazette of FBiH, 19/2022.

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