

REDUCING THE DEFICIT OF THE PENSION AND DISABILITY INSURANCE FUND – ALTERNATIVES AND OPPORTUNITIES

Before proceeding with changing the retirement age and increasing the contribution rate to the Pension and Disability Insurance Fund (FPIOM), all other options should be exhausted.

In December 2024, the Fiscal Council of the Republic of Macedonia came up with a proposal to increase the retirement age to 67 years, with the main goal of reducing the deficit of the FPIOM, i.e., to ensure sustainability.

On December 13, 2024, the World Bank launched the report: " Boosting Resilience and Ensuring Stability" . "The report also addresses the issue of raising the retirement age, with a focus on the sustainability of the fiscal policy of the Republic of Macedonia". In the last decade, Macedonia has recorded higher fiscal deficits compared to the Western Balkans and EU countries and, at over 57 percent of GDP, Macedonia's public debt in 2024 was 7.7 percentage points higher than the debt before the pandemic (2019). Hence, restoring fiscal sustainability is an urgent priority.

The World Bank proposes a number of measures to improve fiscal sustainability in the Republic of Macedonia, both on the revenue side and the expenditure side of the budget. On the revenue side, some of the proposed measures are indeed positive.

For example, the World Bank is proposing changes related to the excise tax on cigarettes, as well as **an increased tax on products that contain a large amount of sugar**. Interesting suggestions that we will address in the future analysis .

However, economists from the World Bank also propose some unpopular measures to improve fiscal sustainability. Namely, Macedonia's pension system faces significant challenges, the biggest challenge being the large deficit. According to their projection, the sustainability of the pension system is worrying, as it is predicted that the number of pensioners will exceed the number of insured people by 2053.

The World Bank proposes three measures regarding the sustainability of the pension system:

- Returning to a recently introduced a formula for indexing pensions with salaries (the so-called Swiss model) to the previous indexation with the cost of living;
- Gradual increase and equalization of the retirement age for men and women ;
- Gradual increase in contribution rates.

According to the World Bank, in the Republic of Macedonia The retirement age is among the lowest in the Balkans and beyond. The following table shows the retirement age in 15 European countries.

Table 1: Legal retirement age, by gender

Country	Retirement age for men	Retirement age for women
Greece	67	67
German	66.5	66.5
Spain	65.7	65.7
Montenegro	66	64
Serbia	65	63.67
Poland	65	60
Croatia	65	63.5
Slovenia	65	63.5
Bosnia	65	63
Bulgaria	65	63
Albania	65	60
Macedonia	64	62
Estonia	63.75	63.75
Czech Republic	63.4	58.8 - 62.8
Slovakia	62	62

Source: World Bank.

According to the table, only Estonia, the Czech Republic and Slovakia have a lower retirement age than Macedonia, while for women, the age limit is lower in Albania and the Czech Republic.

According to the OECD report “Pensions at a glance [1]” , the retirement age will increase in three-fifths of OECD countries over the next three years. However, only a few countries, Colombia, Costa Rica, Hungary, Israel, Poland and Turkey, will still maintain a gender gap in the retirement age. The average retirement age will increase from 64.4 years for men who retire now to 66.3 years for those who start their careers now.

Such a comparative analysis suggests that there may be room for raising the retirement age in the Republic of Macedonia as well. However, it is wrong to make the change in age solely based on the sustainability of the FPIOM and the comparative table. **Namely, before moving on to raising the age limit, it is good to consider other alternatives and possibilities.**

First of all, in the Republic of Macedonia there are numerous categories of citizens in Macedonia who are entitled to early retirement benefits. This right is regulated by the Law on Pension and Disability Insurance, which sets out the conditions and criteria for acquiring this right.

[1] https://www.oecd.org/en/publications/2023/12/pensions-at-a-glance-2023_4757bf20.html

According to Article 19 of the Law on Pension and Disability Insurance, for insured persons whose insurance period is considered to be of increased duration, the age limit for acquiring the right to an old-age pension is reduced depending on the degree of increase in the length of service. This means that for each period spent in a job with increased (benefited) length of service, the retirement age is reduced proportionally.

Article 109 stipulates that jobs with beneficial benefited service must meet the following conditions:

1. There are significant harmful effects on the health and working capacity of workers, despite the application of all protective measures.
2. Work should be carried out directly next to the sources of harmful impacts during the entire working hours.

According to the regulation for determining the jobs with beneficial insurance duration, prepared by the Ministry of Social Policy, Demography and Youth, there are **many professions** are granted beneficial insurance duration. Our proposal is to revise the list and determine whether some of the listed professions do not satisfy Article 109 of the Law on Pension and Disability Insurance. Attached are several examples of professions where there are possibilities for certain changes in this regard.

Bus drivers usually retire at the age of 59, but almost without exception, they immediately start working part-time for private bus operators (of course, those who are physically fit). The job of a bus driver is indeed difficult, and it may be logical for drivers to retire a little earlier, but improvements to the system are possible, such as special medical examinations to determine professional fitness (instead of a horizontal allocation of the benefit) and/or reducing the early retirement period from 5 to 3 years.

In the Customs Administration, according to the "Regulation on Determining the Positions for Which the Insurance Period is Considered as Extended Duration", 36 positions (positions) have a beneficial period of service, most of which, according to the 12/16 rule, i.e. 12 months worked are considered 16 months. However, customs officers do not retire early, i.e. they retire at 64/62 years of age. This requires an additional analysis of why a beneficial period of service is required for all these positions in accordance with Article 109 of the Law on Pension and Disability Insurance (perhaps some work with radioactive scanners), to determine the costs for the FPIOM, and to determine whether changes can be made in the direction of savings for the Fund.

The situation is similar in the Ministry of Internal Affairs. Early retired employees of the Ministry of Internal Affairs, after retirement, become owners of small businesses, work as taxi drivers, etc. We believe that a detailed analysis should be made of all categories of benefited service among employees of the Ministry of Internal Affairs and changes should be proposed in the direction of reducing benefits and increasing the age limit.

Additionally, it is mandatory to see the procedure for approving disability pensions and the like, where a commission decides whether the regulations and laws are being followed. According to data for October 2024, 25,835 pensioners or 7.6 percent of the total number of pensioners use disability pensions. Enhanced oversight is necessary in this area to prevent potential abuse.

In the case of family pensions, in the event of the death of the pensioner (spouse), the other spouse or his/her heirs, parents, etc. have the right to receive the pension of the deceased spouse in the amount of 70 percent if the spouse lives alone and 80 percent if there are more family members. An analysis of family pensions, as well as a comparison with other countries, may lead to the release of certain financial resources for the FPIOM. For example, the family pension may not exceed a certain amount, or for pensioners who have high pensions, the family pension may not be higher than two average pensions.

Currently, the retirement age is 64 years for men (62 years for women) with the possibility (if the employee wishes) to move the age limit to 67 years (65 for women). A possible alternative is to increase the age limit and **instead of 67 years, it should be higher** (of course, again with the employee's consent). Such a measure would contribute to reducing payments from the Pension and Disability Insurance Fund. The risk of such a proposal is of course that only low-quality workers in the public administration will use this opportunity.

Finally, according to many studies, **the informal economy** in Macedonia is still at a high level. According to the IMF (Article IV consultations) [2], the informal economy in Macedonia was 33.4 percent in 2018, while according to Finance Think [3] in 2022 it was 23.2 percent. Policies aimed at reducing the informal economy will certainly contribute to reducing the deficit of the FPIOM.

In line with the above, we believe that raising the retirement age, and/or possibly increasing the contribution rate for pension and disability insurance should be last resort policies, i.e. introduced after exhausting other alternatives. We also note that the danger of rushing to change the age limit/contribution level is high due to the relatively easy introduction of these measures, simply by changing the legislation.

[2] <https://www.imf.org/en/Publications/CR/Issues/2022/02/15/Republic-of-North-Macedonia-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-513195>

[3] <https://www.financethink.mk/wp-content/uploads/2024/03/Policy-Study-Nr.-50-1.pdf>