

Economic Transition Process and Kosovo Pension Reform System

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Abstract

This article aims to study the Kosovo economic transition process and its impact on the Pension system reform. The study will focus on; model of new economic building system (market liberalization, economic recovery, the concept of entrepreneurship development, system integration of economic trends in the global economy, privatization and transformation of property, social welfare, social justice), etc. During this study different theories on the transition process in the economy will be used, as well as theories on reforming the pension system in the world, which affirm the sustainability of the construction of the new economic and pension system. Methods used will serve to draw relevant conclusions as follow; heuristic, descriptive, historical, comparative, statistical. The hypothesis of this study is, "*Impact of the economic reform system in Kosovo and its results in the construction of the new sustainable pension system model.*" Through this study conceptual changes to the economic system will be put forward, dealing with socialist and liberal philosophy, as different concepts of economic development, the role of the state or the market as a regulator of the economic system. In particular, attention is paid to the new pension system in Kosovo; the causes for reform of the pension system, reforming the pension system, the basic goals of the reform of the pension system, the types of pensions systems in the world, the conceptual basis of the construction of the pension system in Kosovo, the principles of the reform of the pension system, the regulatory framework of the new pension system in Kosovo, advantages and challenges of multi pillar pension system model, the model used for Kosovo's pension system, pension schemes in Kosovo, the efficiency of the new pension system in Kosovo, comparing the new pension system in Kosovo with pension systems of other countries in the region.

Keywords: economic transition, economic freedom, property, market, state, reform the pension system, self sustainability.

The reform process and economic development transition in Kosovo

Kosovo was part of the Yugoslav federation until 1999. In 1999, Kosovo was liberated from the occupation of the Serbian government and thus began a new era for Kosovo and its citizens. After the glorious war of the KLA in 1999 and the intervention of the military forces of the North Atlantic Treaty Organization (NATO) against Serb forces, Kosovo was administered by the United Nations (UN) under Security Council Resolution 1244 UNMIK. The UNMIK administration as the authority of the government had all the sectors of the system; political, economic and social. Thus during the economic governance of Kosovo by UNMIK the reforms of Economic System and the Social system were including relevant socio-economic institutions (such as the proper alternative for economic development and social welfare), followed by the implementation of legal infrastructure and other mechanisms¹. So the fundamental concept of the existing economic system was abandoned and the concept of self-governing socialism was changed to one based on a free market economy. Reforming the economic system was focused on: 1) Implementation of the concept of market liberalization², 2) Development of the concept of entrepreneurship, 3) Privatization of public and social property, 4) Rule of Law, 5) Establishment of social justice, 6) integration in global economic trends, 7), etc.

¹ It began changing the configuration of the economic environment and regional and international economic relations.

² Kosovo was oriented to building new economic system according to the requirements for economic liberalization of the market (opening up the market to regional, European and the world), creating a suitable environment for the integration of the economy, stimulating economic cooperation and investment promotion shared with external partners.

As a result of the great transformation that occurred in Kosovo's economic system, the restructuring and deregulation of the economy, there developed a lot of problems which required urgent and sustained solutions.

The development process of the economic reform in Kosovo during the transition process was based on several objectives: 1) Construction of the new economic system, 2) economic recovery, 3) Development of the process of privatization and the transformation of social property and public ownership, 4) regional integration, 5) regulation of social system engineering, 6) Establishment of technical assistance, 7) Etc.

The new economic system

The concept of the new economic system was the definite abandonment of the socialist self-governing system and implementation of a free market economy¹ which had highlighted the need for more efficient adaptation of the economy, in view of freedom of operations in the market. The concept of the new economic system in Kosovo aimed to promote the functioning of the free market and political democracy. Market liberalization and regulatory factor was seen as the creator of opportunities to develop the concept of economic self sustainable, where economic operators can freely enter the market under conditions of free competition and be remunerated according to market rules. Democracy was seen as a useful mechanism for building a more convenient and efficient society, which defends the natural rights of man, namely the freedom of people and prevents abuses in politics, society and economy. Promoting economic and political freedom² was seen to promote and stimulate everyone's interest in the organization of economic life, creating social utility that results from the interaction of society in general, as well as correcting the behavior of persons with social responsibility. Construction of the new economic system passed through a transition in Kosovo, which began with the establishment of the basic principles for guaranteeing the freedoms and the development of democracy, starting from; the free development of private initiative, the transformation of the education process, the way the information, and activation of a number of governmental and non-governmental organisms, etc. Based on the development experience of the transition in the former socialist countries it shows that resistance to change was systemic inertia and posed a significant obstacle to qualitative changes. Kosovo was also faced with this inertia, which strongly impeded making the necessary changes. Obstacles to building the new economic system resulted from; routine created from the old system, the low level of economic development, economic cumbersome structure of ownership of socially owned enterprises, the structure of enterprises which were technically and technologically backward (economic infrastructure damage), low level of private initiative, weak business links with international markets, the tendency for renewing ties with traditional markets, increased social problems, etc. The restructuring process followed by the need for the deregulation of the economy³ which will suit the conditions of the free market, was faced with the need for state social assistance, because the unemployment rate was greater than 50%. Economic and social difficulties were demanding the acceleration of the transition process. So political priorities were oriented to support a household and reinforcing efforts to support SME- s from the private business community, as factors for growth, employment and social protection, which will influence the acceleration of the transition process, and the normalization of life in Kosovo. So, in terms of transition in Kosovo⁴ the role of the state it was focused on contemporary macro-economic regulation, in order to ensure socio-economic stability and building development perspective. Kosovo had an unfavorable economic structure, which was concentrated mainly in energy and basic industry, with little participation of small and medium enterprises, which were mainly part of light industry and agriculture⁵. As a result of stopping the cycle of investments in the economy, many enterprises during the period 1990-1999 were physically injured and were morally obsolete and technological backward. The reorientation of markets was changing the conjuncture of goods produced

¹ While freedom of action meant the possibility for anyone, to determine a solution without harming someone else, then at the same time it obliges everyone to respect each participant in society. This shows that democracy was understood as a form of liberal government by the people, by the people, for the people, so as to influence the organization of society, both directly or through representatives, while minimizing the risks that come from the strong hand of an individual or political group.

² Milton Friedman "Capitalism and Freedom" was first published here in 1962

³ Milton Friedman na mundeson të kuptojmë se "E vetmja mënyrë që është zbuluar deri më sot, për të pasur bashkepunim ne mes të njerëzve në mënyrë të vullnetshme, është përmes tregut të lirë". Ky është vendi ku realizohet maksimalisht liria e njeriut.

⁴ The stabilization of the national currency, foreign currency exchange, regulation of economic relations with the outside world, the construction of regional policy, construction of agricultural policy, that environmental and public finances.

⁵ Construction of integral market (market of goods and services, labor market and financial market) and the respective institutions).

Kosovo and changed the demands of the market. These factors have hindered the process of revival or restructuring of the existing economy.

Economic recovery or macro-economic regulation

The concept of economic recovery was directed towards the development of economic activities, which were aimed at promoting local production and market openness to external influences, the tendency that they will encourage foreign investment and technical and technological transfer, as valorization of the potential possibilities of domestic as well as international integration. The basic goals of macroeconomic regulation in Kosovo were: recovery of economic development, consolidation of the market in terms of transition, social protection, financial stability, budget consolidation, fiscal stability, trade balance, balance of payments, etc. Macro-economic regulation in Kosovo's economy was based on the strengthening of the institutions and a free market economy; competition, efficiency, reorganization of the customs service, the reorganization of the fiscal system, the reorganization of commercial operations associated infrastructure, etc. Instrument used for economic recovery and macroeconomic regulation system were; liberalization policies, monetary and credit policies, budgetary and fiscal policies, competition policies, policies on privatization and transformation of property and social policies.

Market liberalization policy

The policy of liberalization of the market, resulting in price liberalization, wage freedom, differences in benefits, had a direct influence on living standards and social status. Market liberalization policies created competition amongst operators in the market of goods and services and the competitiveness of employees in the labor market through market factors.

Monetary and credit policy

Monetary and credit policies constitute the backbone for the creation of macroeconomic stability in the economy. The aim of the monetary policy was the strengthening of monetary aggregates, through which monetary stability (keeping the balance in the money market)¹, was a conditioning factor for the consolidation of the balance of trade, balance of payments and servicing of external debt, regulating performance, prices and inflation. Credit policies were in view of the liberalization of credit conditions by commercial banks or financial intermediaries, which were aimed to support economic operators. Thus, monetary and credit policies were conditional incentives and the development of a market economy for all economic actors.

Budgetary and fiscal policies

Budgetary policies harmonized fiscal policies, to create user-friendly preconditions for economic development and maintaining social stability. During the preparation of budgetary policies, particular attention was devoted to eliminating the factors which have inflationary effects (financing the budget deficit) and meeting the requirements, strategic needs of the economy, population and state institutions.

Competition policy and the new economic environment

Creation of internal competition and new economic environment are determinant factors for the promotion of economic development. Based on the existing structure of the economy of Kosovo and the consequences which could bear it, as a result of the development of the competitiveness of domestic and foreign in the Kosovo market, competition policy are

¹ Kosovo during the transition period initially had used the currency of Deutschmark (DM), and since 2000 had adopted the euro as currency, instead of the German mark. Kosovo during the transition period applies the policy of keeping real currency exchange Euro in foreign exchange reserves and use, with the aim of maintaining the convertibility of currencies.

drawn¹ which had an impact on economic development, market efficiency, market protection from impact monopolist competition², consumer protection, etc.

Policies on privatization³ and transformation of property

The privatization process was a major challenge for economic recovery, because it was a process that followed with much difficulty. It aimed to regulate; the status of public and social property, to govern the property before privatization, the privatization model, the way the development process proceeded, privatization procedures, protection trends, rulers concerning embezzlement and misappropriation of property in the process of privatization (the privilege of customer by bureaucratic structures), corruption, etc.

Social policy

Social and economic reforms in Kosovo received unwanted direction because they lacked social development of the program at the national level. Therefore, it was necessary to draft social policies which had great significance for maintaining macroeconomic stability in terms of the transition, including the protection of the entire population; a population which remained out of jobs, new contingent of the active population that is constantly added without contingent employees and the poor, etc. Social policy was intended to provide preconditions for new employment, social protection, retraining the unemployed, supporting small individual businesses (material support for institutional and social reform, which attempted to provide displacement of the social function of companies, NGOs and state institutions.

History of development of the Pension System in Kosovo

Seen from the historical perspective, Kosovo remained part of the Yugoslav territory since 1912 (without the will of the Albanian people), which was annexed into Yugoslav federation after World War II, which was administered as a separate unit of the SFRY⁴. The Pension Insurance System in Kosovo had begun to be organized from 1945, when it issued the first legal acts, regulating the social sphere⁵. After this other normative acts were issued, which is the legal framework for insurance extended to various social categories. With Constitutional amendments in SFR Yugoslavia changed the concept of pension and health insurance. In 1965 it adopted the "Law on Pension Insurance" and the amendment of the "Law on Health Insurance." Under the legislation it defined ways of forming the Joint Pension Fund, governed by state authorities, which provided all citizens with basic health care. This fund was be financed from the financial resources of the state budget and complemented by pension contributions, which were paid by personal income employees (PIE). Between 1966 and 1974 the Kosovo Pension System was an integral part of the Pension System of the Socialist Federal Republic of Yugoslavia (such as the Kosovo Pension Office), this system was based on the principle PAYG (Pay-As- You-Go or generation to generation pays).

When the 1974 Constitution was changed the organization became the Pension System of Yugoslavia. Through the reorganization of the pension system in Yugoslavia, the Pension Funds of the Republics and Autonomous Provinces of Yugoslavia were decentralized. Since 1974 the Socialist Autonomous Province of Kosovo had its Pension Fund⁶, which was organized by Self-Interest Association for Health, Social Protection and Pension SAP Kosovo (BVI SHMSSP), which was responsible for;

- Ensuring pension or retirement pension regulations and

¹ Competition in the domestic market of Kosovo promoted through regulation; natural monopolies, public property, the phenomenon of bankruptcy, financial and budgetary constraints, etc.

² Importance are policies that affect normalization, the possibility of intervention without lawful to economic agents in the market, through monopoly, cartel, dumping or other forms of intervention in the market.

³ The privatization of socially-owned enterprises- the State must start from the fact, verified in Western economies, that state revenues are the largest tax-paying enterprises privatized, than the profit that derives from state-owned enterprises (Robert Devlin - 1996).

⁴ Socialist Federal Republic of Yugoslavia (SFRY).

⁵ The Law on the Regulation of Social Security Courts / In May 1945

⁶ Basic Law of the SFRY for the regulation of the Pension and Disability System

- Security disability or disability pension regulation.

In the former pension system SAP Kosovo, contributors paid pension contributions to the Pension Fund (BVI SPI), which had not been held in the accounts of defined individual (portfolio individually), but these contributions were anonymous, while their distribution was made a criteria regulated by law (the amount of personal income, professional qualification and experience), which served to escalate pension benefit. The pension system of Yugoslavia in 1987 resulted in the number of recipients being greater than the number of contributors, so that the amount of pension benefits was four times higher than the amount of revenues to the Pension Fund by way of pension contributions (the proportion in between financial revenues from contributors, compared with expenditures financial intended for the payment of pension benefits, was 1 to 3 and had a tendency to relapses further 1 to 4), so this system started to operate a financial deficit, which was covered from the state budget, but then began to appear as one of the causes of the economic crisis in Yugoslavia. In 1990 all the Albanian workers employed in Kosovo, were forced out work (violence perpetrated by the Serbian authorities against Albanians in Kosovo). Their contracts were terminated and thus so was the opportunity to contribute to the Pension Fund of Kosovo. So, in 1990 Kosovo was detached from the operation system. Unfortunately as a result of the decision of the Serbian Parliament and all Albanian workers being thrown out of work, they stopped work experience (as condition for the fulfillment of the right to pension benefits), so a large number of pension contributors were denied their pension entitlement. With the application of "temporary administrative measures in community self-interest of the Kosovo Pension Insurance" in 1992 (06.01.1992) by the RS Assembly of Serbia it abolished BVI- autonomy of Kosovo Pension Insurance and the Kosovo Pension Fund was forcibly integrated into the Serbian Pension Fund¹, so that the funds belonging to the Pension Fund of Kosovo were transferred to the Pension Fund of Serbia. The Pension Fund of Kosovo was moved to Belgrade by the Serbian government authorities, and the authorities of Kosovo SAP did not have access to this fund. So during the period 1990- 1999, the Albanian population of Kosovo, through various repressions experienced from the Serbian state authorities, were discriminated against through deprivation of the right to health insurance and other insurance (who were denied the basic right to care and social life). As a result of these "administrative measures" that had applied the Assembly of Serbia in the BVI's RS SPK (from 1990 until 1999) institutions and enterprises of SAP Kosovo, a small number of participants retrieved their pension benefit. So, about 100,000 recipients of pensions until 1989 were Kosovo pensioners, who had benefited during the existence of the state pension of Yugoslavia. But since the Kosovo Pension Fund was forcibly appropriated by the governing authorities of Yugoslavia, and later by the Serbian government authorities, these pension beneficiaries were left without social support.

New Pension System in Kosovo

With the abolishing² of Kosovo's political autonomy, made by the Assembly of the Socialist Republic of Serbia on 23 March 1989, all political powers of SAP Kosovo³ were forcibly taken into Serbia RS. On the basis of the decisions taken by the Assembly of RS Serbia concerning powers over SAP Kosovo, denying the attributes of political autonomy of SAP Kosovo (as an integral subject of SFRY), all these powers had concentrated and centralized in Serbia RS institutions. The Albanian population in Kosovo SAP had opposed the abolishment of political autonomy of SAP Kosovo (the Kosovo Albanian population did not accept this discriminatory state) and had undertaken various political activities to change this situation. So from 1989 when political autonomy of Kosovo was abolished, and from 1990 when Albanian workers were subject to violence (146,000 Albanian workers were deprived of work), they were denied basic rights to work in enterprises, public institutions and organizations and to contribute to the Pension Fund of Kosovo⁴. In 1992, Kosovo's pension system⁵ was integrated by force into the pension system of RS Serbia (Self-governing Community of Interest for Pension and Disability Insurance of the Republic of Serbia) This time employed Albanians were left without pension protection, among them were 76,000 pensioners⁶ who had been beneficiaries of pensions until then, recipients of old-age pension, disability pensioners and family pensioners. Between 1998 until 2002, elderly Kosovars did not receive pensions, and employees did not contribute to any pension system, because the functioning of the Pension System of Yugoslavia was blocked by

¹ Interest self-governing community of Kosovo Pension Insurance (BVI SPK).

² Abrogation- denial of the right of the Socialist Autonomous Province of Kosovo as a constituent unit of SFRY limiting all its political powers into federation.

³ Socialist Autonomous Province of Kosovo (SAP Kosovo)

⁴ Union Independent Trade of Kosova (BSPK) cornerstone of democratic trade unionism in Kosovo, Prishtina 2006 f.52.

⁵ The Pension Fund of Kosovo in 1992 was about DM 240,000,000.00, which were transferred to the Pension Fund violent in Serbia.

⁶ Fazli Kajtazi- intersections between Kosovo pensioners the right to pension benefit is indisputable, Prishtina, 2010, p. 17.

Serbia RS. It also terminated the possibility of retirement for older workers, so there was a need for the creation of a new pension system in Kosovo, as a key priority for the UNMIK administration. In 2001 there was a need to reform the pension system by the UNMIK mission, as temporary administrator of Kosovo, with the aim of achieving its sustainability. There for in 2001 the respective authorities of UNMIK g issued the Regulation on pensions (Regulation 2001/35), and the proposed new model of the Pension System and the secession of the former Old Pension System of Yugoslavia (pension system PAYG as volatile financial scheme that offered very low coverage of the population with pension, so that only 1/3 of the population was able to qualify for a pension benefit). UNMIK took the decision to reform of the Kosovo Pension System, and provide sustainable pensions for the future (to satisfy the needs of pensioners)and to avoid the Old Pension System (PYGO) and the create a new Pension System in Kosovo¹. The new system promises a comprehensive solution with a pension system which is sustainable in the long term and faces the demographic changes and promotes development of the market economy. The new Pension system began to be implemented in 2002 and aimed to cover all the residents of Kosovo who reached the age of 65, while it was planned that they benefit initially from 28 Euro per month². The new pension system is intended to function as a socio-economic stabilizer that promotes economic development, provides for the establishment of Pension Funds and the management of pension savings contributions. The Fund invests pension funds (to realize a return on investment), promotes the development of the market labor and financial capital markets, which will be able to withstand sudden changes by the impact of economic and demographic variables, as well as to withstand the turbulence in the political environment and external financial impacts.

2.1.1.Reasons for the Reform of the Pension System

The reasons which influenced the reform of the Kosovo Pension System may be listed follows:

First- cause of Pension System reform was the political context, which resulted in the forced integration of the Pension System of the Socialist Autonomous Province of Kosovo within the Pension System of the Socialist Republic of Serbia.

The Second- cause of the political system was the separation of Kosovo from Serbia RS, together with the secession of Kosovo Pension System of Serbia RS Pension System, to eventually avoid the practice of the former Yugoslavia Pension System or Pension System PAGO, which was developed on the principle "-generation contributes to generation."

The third- cause was the design of the new Reform Pension System in Kosovo, according to the most advanced practices in the different countries of the world, based on the recommendations and opinions of the authorities of the World Bank (World Bank Institute experts- "Pension Reform second generation") and the OECD.

Fourth- reason is the research of new solutions perspective for further improvement of the pension system.

The five- cause of standardization of Kosovo Pension System pension systems of the countries of the European Union, as well as participation in the developed capital markets financial.

Analyzing the causes of the study aims to enlighten factors that have conditioned the annulment of the old pension system and the factors that influence the sustainability of the new pension system, which is based on the principle of social and economic stability and respect for fundamental universal human rights.

Reform of the Pension System in Kosovo

After 1999, Kosovo was placed under the UN Mission by 'Security Council resolution1244", called UNMIK as interim administration which had the duty, inter alia, to organize Kosovo's economic system within the concept of a free market economy. Thus the competent authorities of UNMIK undertook activities necessary to organize the pension system in Kosovo. Therefore the Pension system in Kosovo is built on a philosophy of providing sustainability to the pension system in Latin America, particularly in Chile (1981), Switzerland and the UK³. The essence of this philosophy is the construction of a Pension System which is an independent financial entity, not for profit, and established to regulate the collection of

¹ Regulation 2001/35, UNMIK

² Kosovo expert group had given a proposal to the height of pension cover the minimum consumer basket which in 2002 was DM 1.85 per person for one day (30x 1.85 = 55.50 DM)

³ Estella James (World Bank) & Sarah Brooks (Duke University); The political Economy of Structural Pension Reform

contributions to savings in a mandatory and voluntary manner, administered as individual defined pension contributions, pension contributions stored value, in order to govern carefully, credible and professional, managed with care and high professional responsibility until the time of retirement to provide benefit to the owners of portfolios as recipients. In charge of the design of the new pension system in Kosovo was USAID, which hired as consultants its own professionals (Barents Group), also in this process were included representatives (experts) of UNMIK, the EU, IMF, World Bank DFID and ILO¹. Before deciding how to organize the Pension system there was extensive consultation, debate about the model, the reform of the organization of the Pension System, in Kosovo, so that after reviewing the many variants about modeling the new pension system it was concluded that:

- *Firstly*, it is necessary to come away from the total financial system of the old Kosovo Pension system, which in 2001 resulted in idle state (zero) for the Fund which had been transferred to Serbian Pension Found (PISG of from Kosovo to Serbia), while the condition of transfer of funds to the Pension Fund of Kosovo was unknown to the authorities of UNMIK and the PISG of Kosovo. So Serbia had blocked the funds, did not respond and did not cooperate with UNMIK to return this fund to Kosovo. Therefore, this issue was left to the next variant to negotiate Kosovo's political authorities with the relevant authorities of Serbia, in order to recover those funds for Kosovo and use the pension contribution payments for the benefit of of the recipients who deserved them.

- *Secondly* the starting point for implementation of the new pension system in Kosovo was 2002 with zero, but that will be supported initially by USAID to cover the basic cost of building the capacities of the new Pension Funds in Kosovo.

- *Third*, reform of the pension system was based on best practices applied in different countries of the world.

Pursuant to Regulation 2001/35, UNMIK authorities had took the decision to develop the Pension System in Kosovo, as a system reformed and adapted to the principles of free market economy.

The reform of the pension system in Kosovo² began in 2001 with the application of Regulation No 2001/35 on Pensions by UNMIK This was defined as the Pension System to be composed of three pillars (the changes were made necessary)³. The Pension System model that has changed with the pension reform in Kosovo, it has redefined the age of eligibility for retirement, which is 65 years. The pension system in Kosovo consists of the following components or pillars;

a) 2 Financial Funds; a. Saving mandatory fund and b. Fund or additional voluntary savings.

b) 1 budget line or non financial fund which provides; a. basic pensions, b. Supplementary pensions by work experience (at least 15 years experience of working).

The Pension system reform in Kosovo consists of three pillars:

1. The first pillar, includes pensions Base

2. The second pillar includes the mandatory savings pension contributions

3. The third pillar, the savings included voluntary pension contributions.

1) *First Pillar*- is funded by the Kosovo budget and covers all the residents of Kosovo who reach the age of 65 years, the basic pension benefit, regardless of sex, religion, nationality, or political views.

2) *Second Pillar*- savings financed by mandatory pension contributions to the Pension Fund Trust Kosovo Pension Savings (PF KPST) - these savings are required and are individually defined contributions.

¹ John Gubbels, David Snelbecker, Lena Zezulin: The Kosovo Pension Reform- Achievements and Lessons, April 2007, p.7

³ Change of UNMIK Regulation Nr. 2001/35 on Pensions in Kosovo Regulation on pensions Nr. 2005/20.

3) *The Third Pillar*- funded pension contributions from savings on Supplementary Pension Savings Fund - these savings are voluntary pension contributions and savings contributions are defined by individual employers and employees.

2.1.3. The basic goals of the reform of the Pension System in Kosovo

The basic goals of the Pension System Reform in Kosovo are:

- *Avoiding the old system PYGO*
- *Creating New Pension System, which covers the entire elderly population of Kosovo when they reach 65 years of age.*
- *Addressing the needs of all groups of the population.*
- *The total solution makes the pension system sustainable in the long term (facing the demographic changes and stimulates the development of a market economy).*
- *Addressing the concerns of ethnic communities (they are allowed to participate in the new pension system which is open to all residents of Kosovo on equal terms, regardless of ethnicity).*
- *Promoting economic development (promotion of investment of pension contributions to savings, promote the development of the labor market, promote the development of capital markets, financial).*
- *Preventing fall suddenly household incomes after retirement, in the former Old Pension System SAP Kosovo.*
- *Preventing a sudden fall in household incomes and their continued impoverishment, after reaching age 65*
- *Etc.*

2.1.4. Types of pension systems in Kosovo

There are two main types of pension systems:

- a) *Pension systems based on transfers and*
- b) *Funded pension systems.*

2.1.4.1. Pension systems based on transfer

PYGO- model of the Pension System is based on transfers, which it covers employees who pay contributions today, so that older people who have reached pension benefit years, acquire further pension today. Model System PAYG (Pay-As-You-Go) is a model of the pension system which is a developed state program, funded by pension contributions collected from employees, which flow into a joint pension fund (CPV) and the state budget which are intended to cover the deficit of the Pension Fund. The pension system is based on transfers, money collected in advance of spending, while pension payments made by the current tools that are available (FPF and in the state budget), based on the criteria on the distribution of pensions. They transferred to the population which is considered to benefit from well-deserved retirement.

2.1.4.2. Funded pension systems

The System Model Pension Fund covers employees who pay pension contributions, which are transferred into individual accounts of participants. Pension contributions are part of the individual contributor portfolios that throughout the period of contribution administered, saved and invested in financial asset-based classes until the end of the period of contribution or reaching the age of retirement. Money collected in individual portfolios, which have accumulated over a lifetime of work and contribution and return on investments (owned by the contributor or beneficiary of the pension). This model is very transparent Pension System, as it clearly regulates the respect of property rights on contributions and accumulations.

Contributors, when they retire, deserve retirement benefit which depend on;

- Contributions paid into an individual account,
- Capitalization of investment and
- The respective costs.

Models of funded pension systems are classified in two groups ;

1) *Model of Latin American Pension System or the OECD Model-* It covers workers who decide how their contributions will be invested in their pension savings. According to the OECD model workers or unions decide the mode of representation and control of strategic investments in any entity or financial funds.

2) *English Pension System Model-* is based on the accounts of imaginary employers' contributory, based on real accounts of funds from savings and investments. A Contribution Plan is a plan imagined as credited to individual employee, which contains savings contributions plus interest¹.

2.1.5. The conceptual basis of the construction of the Pension System in Kosovo

The conceptual basis of the construction of the Pension System in Kosovo, based on;

- *Respect for fundamental universal human rights,*
- *Respect the right of pensioners*
- *Alleviating poverty and reducing expenses associated with social support in Kosovo*
- *Economic Pension System (revenues from individual defined contributions and cost effective, the costs and benefits distributed, equally investment and qualitative waste for payment of pensions)*
- *Macroeconomic stability (socio-economic)*
- *Practices evolution of pension schemes in the World²(Pension System with many pension pillar model, which itself is financed and avoid unnecessary risks of financial and socio-political risks).*

Designing or modeling the structure of the pension system in Kosovo has become the conceptual basis which itself contains the attributes of the model, how to regulate the legal and normative framework of other acts, which make this system functional, stable and safe.

2.1. 6. Principles of Pension System Reform

Based on the nature, scale and Pension System Reform in Kosovo there are compiled principles that enable the modeling of new pension system to be;

- *The abandonment of the old pension system PAYG- (SFRY pension system)*
- *Construction of the new pension system with a multi role*
- *Functionality Standardized new pension system with the most advanced models in the OECD countries,*
- *The independence of the pension funds as an integral part of the New Pension System,*

¹ "Funded" programmed is one in which money collected from pension contributions remain out of use for the payment of pension accounts during present time and is invested in capital financial markets They are capitalized and used for the payment of pensions deserved in future periods of time when the contributor reaches the age of legal retirement

² Chlon- Dominczak. "Funded Pensions in Transition Economies in Europe and Central Asia: Design and Experience." International Federation of Pension Funds Association (FIAP) and World Bank, 2003.

- *Sustainable Pension System - creation of sustainable and long-term pension system, taking into consideration the demographic and financial changes.*
- *Financial, security and sufficient financial liquidity*
- *Financial stability, financial capacity of the Pension System to support themselves and to support economic development and stability of the country.*
- *Accuracy and coordination of the necessary financial operations, reporting, pension schemes, businesses, state institutions, organizations, financial Operators', the Tax Administration and the Central Bank of Kosovo.*
- *Administration of pension savings contributions, individual pension accounts for all pension recipients deserved.*
- *Contribution savings identified in individual portfolio contributors.*
- *The efficiency of the administration and management of individual accounts including operating costs and management of the Pension System, in order to keep low administrative costs.*
- *High Reliability of the public pension system, expressed through continued growth of savings, pension contributions, as well as the careful approach of Pension Funds in the investment of their causes of the liquidity risk to be low.*
- *Professional representation in governance and protection of the interests of contributors to reducing systemic risk to individual accounts of pension contributors, as a guarantee for the safety and security of pension savings contributions.*
- *Provision of pension fund assets, with the aim of increasing the security level of pension savings, as a necessary measure to maintain public confidence in the safety of pension savings contributions.*
- *Fiduciary responsibility of the governing bodies of the Pension Fund is focused on the accountability of the governing authorities and management, in connection with the execution of the policy and decisions necessary for the development of pension schemes and the strengthening of financial stability.*
- *Dedication of the governing bodies in Kosovo Pension System reflects sound conditions and demonstrates the intention to realize its primary objectives, which is to maintain financial stability of the Pension Funds.*
- *Equal coverage for all the residents of Kosovo, addresses meeting the needs of all groups of the population, including all ethnic groups in Kosovo.*
- *Equal access for all the residents of Kosovo who reach 65 years old, who are allowed to receive pensions from all pension schemes, if they do make contributions to their pension funds.*
- *Involvement of the population and the mandatory and voluntary contributors, who benefit pensions by-component private and public pension schemes, through Pension Funds policy and budgetary obligations.*
- *Macroeconomic impact system requires a comprehensive solution, which can withstand demographic changes and long-term financial periods.*
- *Promoting economic development by a Pension System which reflects; the amount of pension savings contributions, investment of pension fund assets, the extent of employees, movements in the labor market, the financial potential of accumulated pension funds, opportunities for economic development, etc.*
- *Promoting the development of financial capital markets.*
- *Impact of the market economy policy development of the pension system will be based on the analysis of macroeconomic indicators, which will enable an assessment of possible effects on: economic growth, economic trends, inflation, the cost of the consumer basket individual, national income per capita, average wages in the country, etc.*

- *Promotion of an economic development vision which must be stimulated by the development of a new pension system, which should be aimed at increasing savings, pension contributions, their investments and returns as supporting the development of financial capital markets .*
- *The transparency of policy-making authorities face operating procedures in Kosovo on the pension system contributors to the various institutions both private and public. Through published information there is real and effective communication, reliable and mutually between contributors, institutions, enterprises, financial markets and pensioners.*
- *Protection from the risks of internal and external, related to the political and economic crises, which could hurt the financial integrity of the Pension System and the economy in general, as potential risks, which may come from reduced economic growth, support limited financial system, culture of insufficient risk management in financial institutions and other economic agents, particularly the risk of exchange rate and liquidity, as well as opportunities limited public authorities to apply financial measures anti-crisis similar instead.*
- *Preparation of financial infrastructure, financial institution regulation and supervision (Central Bank of Kosovo) intensively should offer infrastructure as the most suitable for the operation of financial institutions in the country, in the context of Kosovo's pension system, reviewing the need for proper functioning efficient cooperation and to make supervision "ex-ante" and interventions "ex-post".*
- *Completion of the legal framework, financial institutions should be subject to a regulatory framework to meet the requirements of appropriate operations with financial capital and liquidity, to maintain the target balance condition, and relations that regulate governance and management Pension system.*
- *Pension System Supervision by the Central Bank of Kosovo, shall be permanent and must I review the need for the provision of necessary recommendations on the implementation of regulations.*
- *Continuous improvement of the functioning of the Pension System.*
- *Reassessment of the development objectives and forms of financial activity of the Pension System in the future, in order to ensure the preservation of the qualitative value of pension assets, and that the capitalization is continuous and sustainable.*

2.2. Pension schemes in Kosovo

The Pension fund operations dealing with; the method of processing data on discharge of pension contributions to the pension fund, the collection of contributions to pension savings in pension fund, reconciliation of data between partners on the collection and processing of data (Tax Administration of Kosovo Central Bank of Kosovo pension Fund)¹, preservation of pension funds, investment of pension assets, the cost of operations management, etc.

Collection of contributions to the financing of pensions, individual savings made on the basis of the Law on Pensions, which has regulated the manner of obligatory payment of contributions, employers who contribute to individual accounts of employees as well as employees who contribute their personal accounts. Means of contributions collected in Pension Funds saved and invested until the payment of pension annuities (or withdrawals of pension annuities).

2.2.1. Model multi pillar of Kosovo Pension System

Reform of the Pension System in Kosovo, resulted in a pillar model, which contains two separate pension funds and a budget line, as follows:

1. *Financial Funds*; a) Mandatory pension savings fund² and b) Voluntary pension savings fund or supplementary,

¹ Law Nr. 04 / L-101 on Kosovo Pension Funds

² Anusic, Zoran. "Administrative Charges of Private Mandatory Pension Funds." Presentation for ILO Tripartite Conference on "Recent Developments on Pension Restructuring in Central and Eastern Europe." Budapest, December 2004. Some information in this

2. *Non financial funds or budget line*¹ a) Basic age pensions, b) The pension contributions of age, c) Disability Pensions, d) Early Pensions, e) Family pensions and f) Disability pensions work².

The design and structure of the pension system is based on the stock of pension schemes, which have proven to be self-sustaining, such as the type of pension schemes used in Latin America, mainly in Chile³, which served as a model of rational economic- social.

Promises under the new model of the Pension System in Kosovo, is based on;

- Stability of pension schemes,
- Socio-economic stability,
- Defining the legal status of individual portfolios of individual properties,
- Benefit pension deserved
- The sustainability of the pension system,
- Etc.

2.2.2. The first pillar of the Basic Pension Scheme The Rules on Pensions. 2001/35 arranged the structure of the provisions that regulate the functioning of the Basic Pension Scheme in Kosovo, including: a) Benefit level, b) Age at which a citizen of Kosovo benefits from the Basic Pension, c) Date of commencement of payment of basic pensions, d) The conditions of termination of the Pension Benefit Base, e) Etc.

This pension scheme initially covered only persons resident of Kosovo who had reached the old age of 65 years.

The Law Nr. 04 / L-131 on pension schemes financed by the State dated May 6, 2014, has become the fulfillment of pension schemes, which are financed by budget lines as follows: 1) basic age pensions, 2) the pension contributions of age, 3) Disability Pensions, 4) Early Pensions., 5) Family pensions and, 6) Disability work pensions⁴.

The Basic Pension Scheme in Kosovo is funded from general revenues of the Kosovo Budget. To cover the scheme financially there is not added any kind of tax on wages but the basic pension is financed by a broad spectrum of taxes in Kosovo. The financial amount which finances the basic pensions is, allocated in the State Budget, based on the current capacity of the state budget, which depends on the budget revenues, to make coverage of the beneficiaries pension up to the basket of individual consumption. The Pension amount is directly related to the degree of economic development (since the raise the level of economic development, budget revenues will increase and will increase the pension rate). The Kosovo Assembly decide on the amount of basic pension payments for all groups and for all ages as Basic Pension beneficiaries.

2.2.2.1. Basic Pension Scheme age

This scheme started on 01.07.2002 based on UNMIK Regulation 2001/35, supplemented by Regulation No.2005 / 20, regulated by Law no. Basic Pension 2002/1 for the Aged and the Law Nr. 04 / L-101 on Pension Funds of Kosovo, Law No. 04 / L-131 on pension schemes financed by the State and Amendment of Law Nr. 04 / L-168. This pension scheme covered

presentation comes from Anton Dobronogov and Mamta Murthi, "Administrative Fees and Costs of Mandatory Private Pensions in Transition Economies," JPEF, March 2005.

¹ Carmichael, Jeffrey and Palacios, Robert. "A Framework for Public Pension Fund Management." Paper presented to 2nd Public Pension Fund Management Conference. World Bank, Washington, DC, May 5-7, 2003.

² Law Nr. 04 / L-131 on pension schemes financed by state

³ Pension Systems in Latin America: Concepts and Measurements of Coverage by Rafael Rofman and Leonardo Lucchetti, November 2006 (online only)

⁴ Disability pensions work (when contributors are hurt at work or occupational disease receive.)

all resident Kosovo citizens who have reached the age of 65 years, without any other conditions. The aim of this scheme is to maintain social and economic stability in the country, participated in the coverage of living expenses related to Individual consumer basket. The Pensions Department (ED), within its own activity, implements and operates policies of the Ministry of Labour and Social Welfare (MPMS), the area of the Pension System of Pillar of the Pension System of Kosovo, dealing with; management, planning, coordination, pension schemes financed by the state and managed by the Pension and Disability Insurance under international conventions.

2.2.2.2. Base contributory pension scheme

This scheme is based on the Government Decision no. 13/277 and U.A. 11/2007 and Administrative Direction No. 15/2009, that the Basic Pension beneficiaries who have paid contributions for pension and disability insurance under the law of the former SFRY system for more than 15 years (until to 31.12.1998), will have a surcharge of € 65 linear. This scheme is implemented from 01.01.2008.

2.2.2.3. Invalidity Pension Scheme and other Pillar Pension Schemes

User rights for the benefit of Invalidity Pension Invalidity Pension Scheme, persons who have lost the ability to work as a result of any injury or illness, which was restricting the right to work. This pension scheme is regulated by Law no. 04 / I-131 on Pension Schemes Financed by the State, sponsored by the Ministry of Labour and Social Welfare. This law establishes the criteria for pension benefit and the exercise of this right to citizens of the Republic of Kosovo, but also for foreign nationals under bilateral agreements of social insurance between Kosovo and relevant country.

Based on the low living standard of pensioners in Kosovo, efforts have been made through this law to mitigate social problems and poverty, or the eradication of extreme poverty. Financial income in this Pension System is created by various financial sources (fiscal). So, in the first pillar basic pension and the former contributions, financial revenues arising from general revenue budget. The policy for the financing of these types of pensions is made by Kosovo government bodies.

The number of pension recipients of the First Pillar of the budget is 164 200 pensioners. There are estimated to have been over;

- 113,000 pensioners who receive 75 Euros a month for the Basic Pension,
- Input transducer 35. 638 pensioners who receive benefit of 112 Euro per month,
- 17 450 pensioners, people with disabilities who benefit from EUR 60 per month,
- 8 780 pensioners, invalids of war, who have received disability pension,
- 4 065 pensioners Trepca miners, who receive 200 Euro per month,
- 531 pensioners, who receive early retirement KPC
- 237 pensioners, members of the KSF.

2.2.3. Second Pillar– Kosovo Pension Savings Trust (Pension Fund)

The Pension Fund of Pension Savings of Kosovo was established as the second New Pension System in Kosovo. The Pension Fund is a financial institution, established in December 2001 under Regulation 2001/35, and started to operate as a Pension Fund from 1 August 2002, administered and managed through mandatory pension contributions (and voluntary) by employees in Kosovo. PF KPST is an institution created by the model of individual defined pension contributions, which means that each contributor for pension has a personal savings account. The Pension Fund held in the pension contribution savings accounts are individually defined, which are intangible or non alienated from others. The management of these individual accounts is a legal responsibility of KPST Pension Fund. Savings accumulated in individual accounts or portfolios, are the property of the owner of the account, but the mandate of these savings is specific, they can be used for the payments of pension only when the employee retires (at age 65). His pension will depend on the amount accumulated in his individual account during the whole history of his employment. Powers of KPST Pension Fund are initially defined in Regulation

2001/35 and later by Law no. 04 / L-101 on Pension Funds in Kosovo. Particular rights relate to the Pension Fund, including its obligations to contributors and to third parties. The Government Pension Fund KPST made by members of the Board of KPST, govern it with; prudence, fiduciary responsibility and high professional standards, while the management is undertaken by the staff who possess high professional capacity and responsibility at work. FP is the primary responsibility of the KPST, to ensure that the financial resources of the Pension Fund are invested safely and to generate adequate returns for participating contributors. This scheme Pension System is configured in such a way that it can be managed at very low cost, high transparency, very high precision and long-term sustainability and stability. The financing the Pension Fund is regulated by Regulation 2001/35 and later by Law no. 04 / L-101 on Pension Funds in Kosovo by mandatory monthly contributions, where employees contribute 5% of salary or financial remuneration and their employers are forced to accompany this payment of contributions to the payment of other contributions in the amount of 5% of pay or reimburse the employee's individual account.

The KPST Pension Fund is an independent institution of the Assembly, its overall activity is supervised by the Central Bank of Kosovo (CBK). Therefore the KPST Pension Fund is completely independent from the government and its assets are completely separate and independent from the Kosovo Budget finances. Tax Administration is responsible for the collection, processing and reporting of pension contributions, making deductible contributions% from the base of taxation, as a mechanism of registration easier and for easier reporting. The Tax Administration collects and processes these data t, monitors performance, equates payments, and sends this information to KPST FP. Employers make payments of pension contributions for all their employees every month through a network of commercial banks in Kosovo and also of FP KPST report regarding payment.

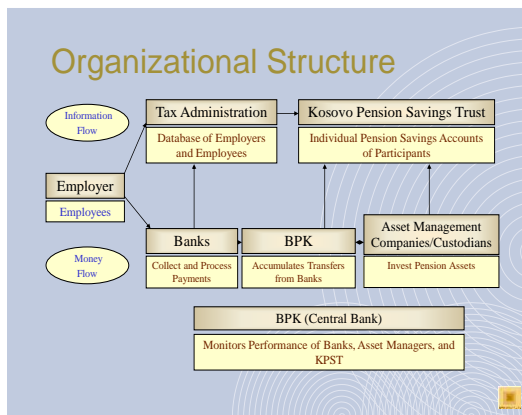


Fig. No.1. Operating scheme of KPST Pension Fund

Once payment is made, the commercial bank sends the money to the account of the Pension Fund CBK (Central Bank of Kosovo), so all collected contributions are transferred from the account at CBK into account FP KPST as management tools, which has responsibility to; manage, save, and invest these funds. The majority of assets managed by the pension system - "Trust Kosovo Pension Savings Trust (KPST)." Assets under management of KPST, at the end of the third quarter of 2014 exceeded the figure of € 1.038 billion, while the increase of assets under management was influenced more by new contributions (€ 33 million) and the rest from the return of investments (€ 14 million). On the other hand the KPST Pension Fund has an amount of pensions amounting to € 3.04 million, the management fee was € 1.36 million and € 0.12 million Refunds were made, so assets under management are about € 4.53 million¹. FP tools KPST asset managers invested the capital in the financial market, which is expected to be capitalized and distributed proportionally and returns from investments in individual accounts of contributors, after deduction of administrative expenses². The New Pension System of Kosovo is more transparent than the former SFRY pension system, because it allows all stakeholders to be

¹ See www.kpst.org/English/Documentet/ for Annual Reports

² Tax expenses that management is 0.60%, this fee approved by the Assembly of Kosovo (1 January 2012)

clearly informed regarding the administration and amount of pension contributions. The Kosovo Assembly approves the amount of the tax fee operational (operational expenditure)¹, which is used for the administration of Individual Accounts by KPST Pension Fund. While management costs include costs related to the investment of pension funds, transfer charges, asset management fees and performance fees from the funds of participants, etc. PF KPST periodically inform contributors (owners of individual accounts), turning to allocate individual statements of accounts, so that they can monitor their contributions, administrative expenses, and investment capitalization. Pensions Regulation obliges the Governing Board of KPST FP to make securing funds, including providing Fiduciary; FP tools to KPST, Insurance Governing Board members, with insurance companies licensed in Kosovo or in the member states of the Organization for Economic Cooperation and Development (OECD). The fund owns a Pension System Advanced Information Technology and processing the data relating to individual accounts rigorously, so that each participant can control their own individual account at any time.

2.2.4. The third pillar of Supplementary Pension Funds Scheme

The third pillar of the Kosovo Pension System is a voluntary pension scheme, which is regulated by Regulation 2001/35, Regulation 2005/20 and Law No. 04 / L-101. Kosovo Pension Funds, which has regulated the functioning of the Supplementary Employer Pension Funds and Supplementary Individual Pension Funds.

With these rules and laws the liberalization of pension market in Kosovo has allowed the development of competition, improving services and has enabled every citizen or contributor to decide to contribute if they want to do so and take advantage for his old age pension. The Law on Kosovo Pension Funds provides that supplementary pension funds are well organized and are safe, adequately funded and transparent.

Supplementary Pension Funds supported by the state through tax incentives enable employers and employees to save in this scheme. Voluntary pension schemes are an alternative choice for businesses and various financial institutions, financed by voluntary contributions of employers and individuals. Pension funds that operate under the third pillar scheme, make supplementary pension insurance, facilitating other types of pension and transferring responsibilities to ensure adequate pension on employers and employees. Licensing and monitoring of voluntary schemes is the responsibility of the Pensions Department of the CBK. Thus the Slovenian-Kosovo Pension Fund². was licensed and has operated in Kosovo since 2006, initially as a member of "Prva Group" Slovenia, licensed by the Central Bank of Kosovo to manage the Supplementary Pension Fund, which is currently bidding voluntary pension only in Kosovo. The Slovenian-Kosovo Pension Fund has over 4000 clients who save for their retirement, more than 100 companies that pay their workers as part of a package of benefits for them and each month pays pensions to its customers, where pension their salary is above average in Kosovo³The Slovenian-Kosovo Pension Fund is managed thanks to the seriousness management tools of contributors, dedication and efficiency at work, despite the negative movements and developments in the global market last year, provide positive returns for his clients for 2011 with a positive return of 3.93%, which means that its performance has exceeded all pension funds in the region. The Slovenian-Kosovo Pension Fund aims to be an important factor in the financial system, the pension market as well as for further development of financial capital market in Kosovo. So as to contribute further in improving the economic situation in the country, the Slovenian-Kosovo Pension Fund supports the opening of the market of securities in Kosovo and will continue to purchase them in the future, thus giving its contribution in the development and expansion of the capital market. The Slovenian-Kosovo Pension Fund began to invest in the securities of the Republic of Kosovo. In the next auction of May, 2012, the Fund is one of the buyers of three-month bills issued by the Republic of Kosovo. The Voluntary pension savings scheme is a liberal scheme which does not limit the scale of contributions to the Supplementary Pension Fund. Payment of pension contributions made on account of employees, 10% of the gross salary

¹ Operational fee (for 2015) is 0.085%, for managing individual accounts FP KPST. Such fees are assessed in advance, and during the year following the calculation of the unit price.

² The Slovenian-Kosovo Pension Fund is a member of Prva Group, Grouping Slovenia is known as one of the biggest companies of Eastern Europe as mandatory pension insurance as well as voluntary.

³ The Slovenian-Kosovo Pension Fund is a member of Prva Group, Grouping Slovenia is known as one of the biggest companies of Eastern Europe as mandatory pension insurance as well as voluntary. Prva Group extends its activities in many countries of Eastern Europe and operates in three of them in the second pillar (mandatory). Prva Group today provide about 321.864 EUR 372.4 million and has assets under management of EUR 33.05 million capital.

of the employee and +10% on the gross salary of the employee, paid by the employer, who may declare the amount of pension contributions paid to the Pension Fund as much accredited tax. Pension contributions paid to supplementary pension schemes are exempt from all forms of taxation, including tax on corporate income. Supplementary Pension Funds also are exempt from taxes on income derived from the investment of assets and capital gains. These tax incentives provide the highest realization of the investment income from these assets for all contributors to beneficiaries of supplementary pension fund. All funds collected on account of the contributor's individual pension savings, are due to be insured, regardless that a contribution or contributions are paid entirely by the employer.

Pension plans managed (administered) by the supplementary pension funds, institutions or specialized pension companies. Supplementary pension insurance will be the responsibility of the employers and their workers.

Pension insurance can be integrated into the bonus of the employer and may be an element of motivation for workers, as an addition to salary. For all its clients, the Slovenian-Kosovo Pension Fund enables connection to individual accounts where each person can convey its assets invested and to be informed at all times the value of the shares, thus providing continuous commitment to transparency and accountability. Bearing in mind that pension funds in developed countries are the main investor in the capital markets, the Slovenian-Kosovo Pension Fund will continue to play its role in further development of this market, thus increasing consistently investments in securities issued by the Republic of Kosovo.

2.3. The effectiveness of the new Pension System in Kosovo

The effectiveness¹ of the new Pension System expresses its impact on stability and socio-economic stability, or achieving the objectives on the relationship between actual operating results and expected results.

The Pension System model limits the ability to select appropriate achievements and the objectives and means for achieving the goals set, sustainable and quality².

The selection of appropriate targets and their realization with mechanisms combined with appropriate methods and in assessing the functioning of the Kosovo Pension System relates;

- Demographic (Population growth, the population of working age, employment)
- Governance of pension schemes (policy)
- Financial income (wages, % of contributions, contributions)
- Pension funds (Pension Fund Assets, investments, return on investment)
- Pensions (payback pension annuities, pensions)

Therefore, the effectiveness of the Pension System in Kosovo will be analyzed further in-depth study of our subject in Chapter IV. This chapter examines the role of human potential in the pension system (eg the age of the employees plays an important role in the amount of contributions which is transferred to the individual portfolio and the amount of pension benefits)³, the governance of the pension system by members of the governing Board of the Pension Fund⁴, the quality of

¹ Effectiveness is the ability to select appropriate goals and means to achieve them. Effectiveness means to do the things you need in a timely manner and in an appropriate manner. Effective, adequate fulfillment of a goal, producing a target score.

² It is important to maintain the Pension Funds as low cost, to provide pension benefits payable from individual contributions (Brady 2009. Crane, Heller and Yakoboski 2008: FAKTUM 2009); Efficiency increases by way of inclusion of Governing Board members in decision-making (Hess and Impavido 2003; Choi, Laibson and Madryn 2006);

³ Age of employees determines promises pensions provided by employers to employees, something that changes the report promises to new contributors and to those older (Friedberg and Webb 2004; Lusardi and Mitchell 2007), which affects the height and type pension. Pension funds with younger members, would be strong on their investments, while pension funds with members older, will tend to be conservative, limiting the amount of returns on their investments (Charles, McGuinan and Kretlow 2006)

⁴ The corporate governance of the Funds reduces the Pension risk (Yang 2005).

corporate governance; professional training, experience, honesty, loyalty and transparency of policy¹, the role of the owner of the capital of the Pension Fund², the impact of the size of the Pension Fund in the financial efficiency through; realization of benefits from investments in financial and capital market costs (cost management and operational costs) associated with different respective operations³.

Operational efficiency is a measure of pension funds management operations, processes and technology in relation to costs, in order to realize the value added⁴ by the activities of the Pension Fund⁵.

2.4. Comparison of New Pension System in Kosovo with the pension systems of the countries in the region

Kosovo Pension System in itself contains pension funds with defined contributions, as well as pension funds that are in the region of Macedonia, Croatia, Bulgaria and Romania

Country	First Pillar			Second Pillar			Total
	System	Key Finance	Rate contribution	System	Key Finance	Rate contribution	
Kosovo	PAYG	budget state	-	invested	contributions pension	5%	5%
Bulgaria	PAYG	contributions pension	14%	invested	contributions pension	5%	19%
Croatia	PAYG	contributions pension	15%	invested	contributions pension	5%	20%
Macedonia	PAYG	contributions pension	12.4%	invested	contributions pension	6.7%	19%

Fig. No.2. Contribution rates of employees in the region was attributable to gross salary. (* Source: <http://www.mapas.gov.mk> and <http://www.coe.int>)

The three-pillar pension system of pension contributions in Kosovo is similar to the region.

¹ Transparency is very important in decision-making and communication to the members respective contribution (Nyce, 2005; Clark and Mitchell 2005);

² The owner of the Pension Fund's capital in private ownership, has an impact on the majority of the members is transferred to the status of the expert board (Yang 2005);

³ The relation between the size of the pension funds and the efficiency theorists see two views; positive and negative. a) The positive view is that the right is seen in relation to influencing variables, reported in Gallagher and Martin (2005). b) the negative view of the size of the funds between financial performance and is seen by Cicotello and Grant (1996), Droms and Walker (2001) and Grinblatt and Titman (1994). Therefore, the experiences of pension funds show that greater pension funds can achieve multiple benefits from economies of scale (Cheong 2007; Mahon and Donohoe 2006; Chon, Hong Huang and cubic 2004), similarly with these theorist also reported Bikker and Dreu (2009) and Ardon (2006).

⁴ Investment risk depends on the members of the Governing Board of the Pension Fund, so that their members undertake all possible measures to avoid loss and to increase the rate of return (Brady 2009);

⁵ Financial efficiency is conceived as financial efficiency, resulting from the balance between the costs and benefits of the operation (Cinca et al 2002.; Barros and Garcia 2006; Serrano and mar Molinero 2001). Provided that, to achieve financial efficiency, organizations must have effective operations (Harris, 2006).

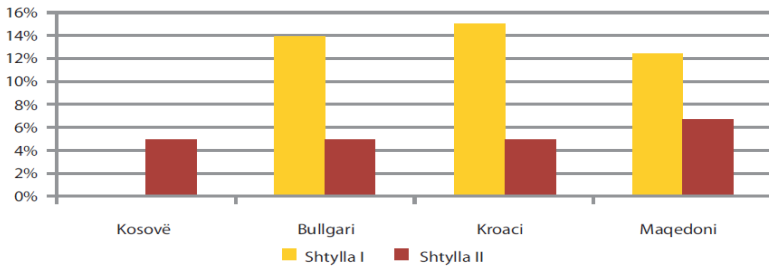


Fig. No.3. Chart contributions to pillar first and second places in the region

Hungary has had this model of pension system since 1998, but she had made a return to the previous system in 2011, in order to cover the budget deficit by nationalized so about 14 billion dollars collected from pension savings of about 3 million Pension contributors System Pay As You Go.

Country	Assets under Management	contributors	Started	The rate of contribution employees
Kosovë	€ 739,753,940	418 064	2002	5%
Bullgari	€ 2,916,762,823	3 239 401	2001	22,30%
Kroaci	€ 6,737,773,203	1 652 802	2002	20%
Maqedoni	€ 179,848,960	323 480	2005	21,20%
Rumani	2,197,215,747	5 772 514	2007	16%

Fig. Nr.4.Data defined for funds and mandatory in the region in 2012¹. (* Sources: <http://www.mapas.gov.mk> and <http://www.coe.int>

2.4.1. Distribution of employee contributions

The Pension contribution rate charged to the income of Employees (TAP) in Kosovo in 2012 was the lowest in the region.

In Kosovo pension system, current employees do not contribute any of their pension contributions to fund current retirees².

Country	Pillar I	Pillar II	Total
Kosovo	-	5%	5%
Croatia	15%	5%	20%
Rumania	5,5%	10,5%	16%
Macedonia	13,78%	7,42%	21,20%
Bulgaria	17,30%	5,00%	22,30%

Fig. No.5. Nr. Employee contribution rates in Kosovo and region³.

2.4.2. Management fees in the region

² www.mapas.gov.mk, www.regos.hr, www.hanfa.hr, www.fsc.bg, www.csspp.ro

³ Since 1999, no pension schemes in Kosovo which provides benefits of current pensioners, but primarily funding basic scheme pension is made from the Kosovo Budget

Pension Funds have an important amount of pension contributions, and are charged any personal income according to the definition of the Law on Pensions in Kosovo.

The top level of pension contributions affects the balance of individual accounts of participants when they retire.

Asset management fees of pension funds are defined by the Law on Pensions, while their height is determined by pension funds, and their approval by the Assembly of Kosovo.

Besides the management fee in the region, they are present in the contribution fees and to leave the Pension Fund.

example; FP KPST does not charge tax contributors other than the management fee, and this makes KPST Pension Fund to have taxes lower overall.

Country	Tax on contributions	Management fee	Exit tax	Total
Kosovo	-	0,60%	-	3,90 Euro
Croatia	0,50-0,80%	0,45%	0,80%	12,74 Euro
Rumania	2,50%	0,60%	5,00%	23,35 Euro
Macedonia	4,00%	0.60 %	15 Euro	57,23 Euro
Bulgaria	5,00%	1,00%	10 Euro	66, 18 Euro

Fig. Nr.6.Tax contribution and management fee in Kosovo and region¹

2.4.3. The investment performance of pension funds in the region

FP 2012 KPST had a net investment return of 7.96%, compared with the regional countries that investment performance was better than average investment performance of the pension funds in the region.

Investment rate of return of pension funds Pensions in 2012 was as follows; Kosovo was 7.96%, Romania was of 6.71%, in Bulgaria was 7:39%, in Macedonia 8:43 and 12:34% in Croatia%.

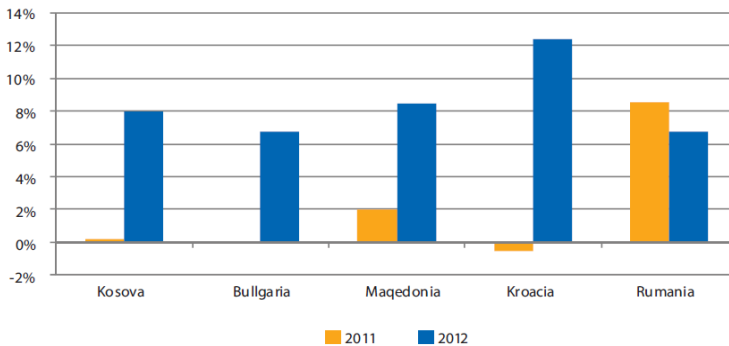


Fig. Nr. 7. Graph of the investment performance of KPST and pension funds in the region

The graph shows that the Kosovo Pension System has high performance, compared to other countries in the region.

Conclusion

Reform of the Pension System in Kosovo resulted in the construction of non- solidarity pension system completely against; (a) poor, (b) those who have experience working in the PAYG system, and (c) unable to work.

¹ www.mapas.gov.mk, www.fsc.bg, www.ijf.hr, www.csspp.ro

Reforming the pension system in Kosovo has established many advantages: (a) it has enabled to cope with the aging potential of the population, (b) offers better rates of return on pension contributions, (c) removes some of the distortions in the labor market, (d) reduces the politicization of the pension system and (e) removes fiscal uncertainty whilst increasing the number of pensioners versus the number of contributors.

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