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PROSPECTS OF PENSION SYSTEMS AS A CHALLENGE OF SOCIAL STABILITY AND LIVING STANDARDS

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Abstract: Future challenges for survival and development of a socio-economic system, largely depends on the results of the insurance business, and funds that are available as own sources of financing of the national economy. Billions of euros, annually, insurance companies turned into income through insurance premiums but also through other forms of investments, millions of employees in insurance business in the world, are indicators of the importance of insurance for each national economy.

The stability of living standards largely depends on the insurance business, especially pension insurance regardless of whether it is mandatory or voluntary character. Pension policy is part of the economic policies of each country. The pension system of intergenerational solidarity for decades operates in all European countries, regardless of their political and economic structure and level of development.

In the country of Serbia, for years, the number of deaths exceeds the number of births, the progress of medical science extends the life of the people, higher rates of unemployment, the extension of working life to earn the right to pension and other less significant factors influenced the disproportion between the number of employees in relation to the number of pensioners. This resulted in a very poor state pension system and caused the question of its future functioning.

Keywords: *pension system, stability, development, standard, challenge insurance.*

INTRODUCTION

Every man has tendency to support themselves in later years of their lives, when reduced ability to work due to the greater possibility of illness shorten capacity to provide a life for himself and his family. This can be achieved either through certain types of accumulation of resources and their preservation in real terms through various forms of investment.

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There are a number of institutions dealing with this problem. All these institutions within the state system consist of a social system that has the role of ensuring economic security of citizens. The so-called social security comprises pension, health and unemployment insurance. The aim of the social security system is to cover the risks of old age, disability, illness and death. This provides a certain economic and social security of all citizens who have the legal benefits and to their family members.

PENSION INSURANCE SYSTEM

Pension insurance may be mandatory, required by law, or voluntary, depending on the free will of the citizens for this type of social protection. States in order to protect the interests of its citizens can set insurance as a legal obligation to insure against certain risks. The most common forms of mandatory protection of citizens related to vehicle insurance, healthcare and pension protection.

In practice, pension protection is increasingly the case of combination of mandatory and voluntary care. To be sure to protect citizens to provide benefits in the event of survival years provided for retirement, while voluntary protection ensures personal security and a better life.

The need for a combination of mandatory and voluntary pension insurance was born out of the necessity for survival of the system and the continuation of current funding, due to a variety of adverse factors with the aim of adverse possession of pension system that should meet the following conditions:

- Adequacy, to provide pensions that will cover the everyday existential needs of pensioners and prevent the spread of poverty in this group of citizens,
- Resistant pension system should remain resistant to all demographic and economic changes,
- Bearable, for the working system should not be burdensome on their income,
- Sustainable, thus designed to fulfill the objectives, should be financially strong and long-term stable,
- Encouraging, for the individuals who stands out from their income despite their needs and preferences, sufficiently motivating to save responsibly for the future,
- Independent, from the influence of the state and spending, and also sustainable without additional funding from the budget.

Reforms are attempts to overcome problems faced by individual pension systems. Stronger links between contributions and pensions, strengthening the long-term savings and the creation of funds that are the largest institutional investors, creates a climate of economic growth and development of the national economy.

Reform of the pension system can be implemented in three ways: parametric, systemic and functional. Parametric reform involves raising the age of retirement, tightening the conditions for retirement, early or disability, reducing the amount of pension benefits, increase contributions to the pension system, and increasing the efficiency of the relevant institutions and

administrators. The aim of this reform is to improve the financial situation of current financing.

Systemic reform is an attempt to focus on creating incentives for faster overall economic growth and development, rapid development of financial markets and capitalized finance system.

Functional reform aims stronger linking of contributions and pensions, reduce unnecessary outflow of pensions, increase productivity and efficiency and reducing the informal labor market and the gray areas.

For the implementation of reform in any tangible way there must be macroeconomic stability, low inflation and long-term financial stability. It is necessary to share the strong financial institutions, bank and insurance, strong legislation and a very strict control by the state. All this while respecting the principles of economic and financial expert rules and without interference of other factors, can make a positive result.

The most common reforms are implemented in the three pillars of pension insurance, combining both compulsory and voluntary insurance. The first step is the introduction of voluntary pension pillar, in which state transfer the sustainability of financial security from itself to the individual and the employer. To introduce the private accounts of individuals in the system, thus the basis for retirement and the amount of pension is formed according to the motives of the individual. So this is the risk with very shaky state, i.e. the compulsory system, shifting partly to private, i.e. to the voluntary pension system. Serbia tried to implement such reform but the results failed.

The second pillar is planned to be introduced after the third, a combination of mandatory and voluntary pension system and it is supposed to act as an alternative to very unstable existing state system and insufficiently formed private pension insurance. It is an attempt of reforms implemented by the pension fund in Serbia.

All reforms are welcome if the current situation does not lead anywhere, just it did not raise the question of how to implement these reforms, i.e. that the goal should be met and whether it is possible to implement these reforms in the current economic and financial system.

FUNCTIONING OF SERBIAN PENSION SYSTEM

Pension insurance covers all citizens' who have right for the legal benefits, on the basis of what has been recorded and contributed and thus entitled to receive pension. These are all employed or self-employed persons and farmers. According to the current regulation the compulsory social insurance include:

- Pension and Disability Insurance,
- Health insurance and
- Unemployment insurance.

The rights resulting from this insurance are:

1. The right to an old age pension, in case of survival age,
2. The right to a disability pension in case of disability,
3. The right to a family pension, in the event of death,

4. The right to reimbursement of funeral expenses,
5. The right to compensation for physical compensation in case of injury at work or professional morbidity.

Through mandatory contributions on earnings, assets accumulate in funds managed by the State or the supervisory authority through their institutions. These institutions are divided into: state and private pension funds. In the case of control and supervision usually the state appears through the Central Bank or Supervisory Agency. In Serbia, control and supervision over the work of private pension funds state achieved through the National Bank.

In most countries, pension systems were functioning according to the current financing system, which means PAYG (pay as you go) and grants from the state. Private pension funds were formed through the accumulation of capital.

There are three ways of exercising the right to pension benefits, the three pillars of the pension insurance. The first pillar is the mandatory social character. The second pillar is formed as a compulsory supplementary insurance of pension insurance, the principle of personal accounts. The third pillar is the result of voluntary citizens, created under strict legal regulations for its functioning and under strict control and supervision by the state.

The first pillar is the result of current financing, intergenerational cohesion and solidarity. Equivalence of deposits and withdrawals, i.e. contributions and pensions is monitored annually and it's functioning more according to the system of proportion, not equalization. Contributions are usually a percentage of the salary of working age and the amount of the pension depends on the length and amount of investments. This can be determined based on the level of earnings and allocation of contributions in a shorter or longer period of time.

In any case, in order to make this mechanism survive for a longer period, and to be continuous, it is necessary to satisfy certain operational principles:

- Binding allocating contributions,
- Non-transferability of pension rights,
- Solidarity participation of all active,
- Equalization of investments and pension income,
- Generational cohesion and solidarity,
- Resistance to various demographic and economic disruption,
- Maturity risks and commitments.

According to the principle of functioning of this system based on proportion, not equality, obviously there are possible fluctuations in the sufficiency of financial reserves to cover liabilities. Therefore, given the subsidy option by the state.

This is the common principle of pension insurance in the developed economies, with a large number of working age beneficiaries and small number of retirees, i.e. with a younger age structure of the population and higher fertility community.

The principle of capital accumulation is usually of voluntary character and the result is funding the employer or individuals, motivated by savings. How much this system is interesting for European countries from the moment of the formation of the Euro as a common currency I could not find relevant data to support it in this paper. The fact is that the common currency experienced decline in value relative to other currencies of developed countries, and therefore express doubts about the possibility of making a profit and these funds can cover foreign exchange loss.

The main objectives of investing in these funds are safety, liquidity and expected income. The investment activity of pension funds is strictly regulated investment policy and law, in order to protect the members of the fund.

According to international practice and the method of determining the pension we have two types of capitalized funds and these are:

1. Funds with defined contribution plans,
2. Funds with defined benefit plans.

In Serbia, the Law on voluntary pension funds enabled contracting pension plans with defined contributions. The principles of operation of these funds are:

- voluntary membership,
- investment risk distribution,
- equality of membership,
- transparency and
- accumulation of funds.

The management of funds is entrusted to the Fund Management Company. All contributions and receipts on various grounds are kept in the custodian bankaccounts. Thus funds formed assets are legally separate from the cost of having a fund management company.

Funding of pension funds are recorded as annuities and since we have a period of accumulation and the repayment period, there are two annuities. The funds are kept in individual accounts, which enables tracking of each payment and investment effects. During the accumulation, contracting of pension annuities is not included.

Payment of the retirement annuity works under general principles of insurance, which means taking a risk by the insurer. Usually insurance companies take both risks, the investment risk and the risk of death. After retirement funds from personal accounts will be transferred to the life insurance company to set the amount of the annuity. Otherwise, if the fund takes the risk themselves, the funds remains on personal account and through various formulas amount of pension will be calculated and withdrawals are possible up to the amount of funds on the account.

In Serbia, the pension fund has no legal entity status but is established as a special purpose fund. Permission to use the fund is issued by the National Bank. Control and supervision over the work of the fund is very strictly enforced the National Bank of Serbia and the institution is entrusted to the issuance of a resolution fund management. Management companies assets and

fund assets are strictly separated. The Fund's assets may not be subject to levy, lien or mortgage, cannot enter into bankruptcy or liquidation of the company, the custodian bank or fund member will serve to settle the obligation of any of the listed persons to the third parties.

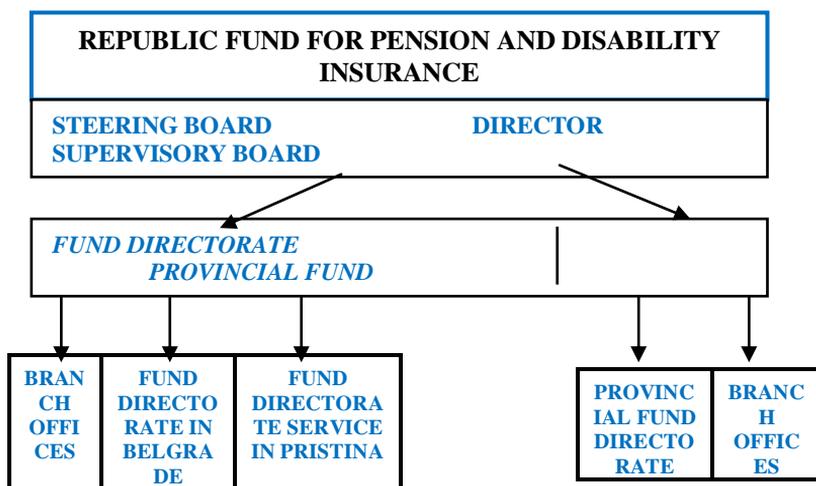
From the perspective of this conference and the future of pension funds, it is significant to touch the possibilities of investing into these funds. First of all it is necessary to point out that there are limitations relating to:

- up to 10% of assets may be invested in securities by a single issuer, or more if they are related entities, except HV issued by the Republic or the National Bank,

- Up to 5% of assets in pension HV organizer of the voluntary fund, which joined the fund.

It is prohibited to invest in HV issuing management company, custodian bank, brokers or dealers working for the fund, shareholders of the Company's management or other related parties of all listed entities.

Figure 1. Organization of the state pension fund, PIO (pension and disability insurance)



State pension fund is aimed at the rational and successful performance of tasks, as well as easier access to exercising their right to retire, according to functional and territorial principle organized by the Directorate Fund, Regional Fund in Novi Sad, Department of the Directorate of Prishtina, 35 branches, 13 service branches and 121 branch offices.

The bodies of the Fund are:

- Board of Directors,
- Supervisory Board and
- Director of the Fund.

The Steering Board (StB) has 7 members, representatives of the insured, employer and beneficiaries of the rights. It is elected every four years.

President and Deputy are elected by the Board with the consent of the Government of the Republic of Serbia, for two years.

Board of Director is selected by the directors of the fund for four years, with the consent of the Government of RS.

The Supervisory Board is elected for four years by the representatives of the insured and beneficiaries. President and Deputy are elected by the Supervisory Board. The role of the Board is to oversee the financial operations of the fund, reviewing the implementation of laws and regulations related to financial operations, control the implementation of Board decisions and shall report to the Government of the Republic of Serbia at least annually, and every three months the Fund Board.

RESULTS OF SERBIAN PENSION FUNDS

The rate for the determination of contributions for pension and disability insurance is 26%. For insured persons in regular employment based on their personal income up to a maximum of 3,685,560.00 RSD annually.

Right at the beginning of pension payments from the state fund shall be acquired on the basis of fulfillment of the so called full pension when you experience the legally prescribed age and years of service.

Reforms to the Law on Pension and Disability Insurance have gone in the direction of raising the age limit and years of service, so as to be entitled each year completed for four months old up to 2023 years.

In the period 2007-2013 the amount of pension in Serbia increased by 6745.00 RSD, which is not little as a percentage and compared to the minimum contribution and counting there are 1.7 million pensioners represents a big impact on the Fund and therefore the budget.

For those self-pay contributions lowest base is 35% of the average republican earnings in the previous quarter, and the highest is five times of average. Base is adjusted every three months, according to the movement of earnings and there is a 13th base which cannot be changed and for the first quarter of 2015 amounted to:³

Table 1 Review of contributions basis for independent insureds,

INSURANCE BASE	RELATIONSHIP BETWEEN BASE AGAINST AVERAGE EARNINGS IN THE COUNTRY %	CONTRIBUTION (MONTH) DINAR
22.357,00	35	5.812,82
25.551,00	40	6.643,26
34.494,00	54	8.968,44
41.521,00	65	10.795,46
51.102,00	80	13.286,52
55.574,00	87	14.449,24
73.460,00	115	19.099,60

³ www.pio.rs

81.125,00	127	21.092,50
99.011,00	155	25.742,86
127.756,00	200	33.216,56
191.634,00	300	49.824,84
255.512,00	400	66.433,12
319390,00	500	83.041,40

The problem is not only Serbian zoom pensions but also an increasing number of users in relation to the number of insured. The number of new pensioners has increased by 153. 454 and on average day almost 60 new pensioners checkout at Pension and Invalid Fund. The number of people who meet retirement would be of course even higher because the figure of 60 per day, is a distinction between those who went into retirement and those who have died.

In 2007, on the list of the Pension Fund was 1.569.048 pensioners, and at the end of last year 1.722.649. To make things even more difficult or worse, with increasing numbers of pensioners the number of employees also decreased. According to the Pension Fund report, published in the Statistical Bulletin, the ratio of pensioners and employees was 1,5 in 2007, and at the end of last year it was 1 to 1,1, respectively, so there is every employee who had its pensioner. At the end of last year there were 1.722.649 pensioners and 1.875.964 of insured-employees. The staff counted by this figures are not only workers, but also independents or artisans, farmers and military personnel. But when you take only the ratio of pensioners who have come to retirement from employment and employees then the ratio is even lower: 1 to 1. Data shows that 1.438.016 of former employees and current pensioners "was supported" by 1.494.132 of employed.⁴

How rapidly retired workers come, in order to implement privatization, and that the country was not afraid to send everyone to the counters of the pension fund is best illustrated by the fact that the Independent still preserve an extremely high ratio between pensioners and their employees. In fact, at the end of last year there were 72.036 self-employed pensioners, and for them is allocated, even contribute of 221.031 artisans. Therefore, there is the relationship between pensioners and employed in 1 to 3.1 ratio. The "ideal" relationship that lacks the entire Serbia, is sustainable pension system recorded only with craftsmen, but since few years ago they share the fate of the entire pension system, since their Fund was merged into single pension fund of Serbia, that doesn't mean anything, as announced reduction of pensions applies to them.⁵

The best ratio in the structure of the pension fund have agricultural pensioners. For each pension farmers less than one contribution is to be paid into the fund, namely 1: 0,8 and that is the reason of very small agricultural pension, where the average fail to reach 10.000 per month.

⁴ www.b92.net

⁵ isto

In addition to these indicators and the situation in the pension system, it was necessary to seek amendments that followed the Law on Pension and Disability Insurance dated from 01.01.2011. The retirement age is 65 years and minimum 15 years of service or up to 45 years of service for men. This is the right to a full old-age pension. For women, the condition was 60 years of age with a minimum of 15 years of service. The condition of 60 years was changed in the period 2014-2020 to each year added 6 months so that the condition in 2020 is 63 years. Unconditionally been working less than 45 years to go to the full old-age pension.

In early retirement pension age requirement for men is from 55 to 60 increased with length of service of 40 years, and for women from 54 to 60 years of age and with an increase of service from 38 to 40 years in 2015. Provision for early retirement can be to a maximum of 20,4%, while the monthly deduction for unfinished age for retirement under the law of 0,34% for each month.

An addition to the disturbing facts of the pension system in Serbia, an additional problem is the number of births compared to the number of deaths, annually dropped by about 30.000 of the total population which is slightly greater than seven million. Representatives of the pension fund should be taken into account and a steady outflow of the working age of population that contribute to the potential of the pension system.

Some of the reforms that were implemented refer again to overload to the very burden of the economy. Reform law of 2004 it envisaged that all injuries at work are charged to the employer and not the fund. This even went to the extent that the Assembly vote on the proposal, that passed, so the time from home to work and back is a place of work, and any violation in that space and time went on the employers behalf, not the fund. This implies that in case of violation of the employer for the duration of sick leave workers' pay contributions and salary of employee, not the injured from the State Fund.

This procedure still has a legal basis and legal framework that businessmen had to respect. What is negative and did not have a legal framework, and where the Fund for health insurance lost all disputes from through the courts, is the effort of the Fund to transfer the treatment of occupational injuries also at the expenses of employers. Emphasis was on the invoice for the treatment that medical centers forward to a fund and fund further to legal entities where majority of the invoices were made with single description: preparing the patient for further treatment.

CONCLUSION

Perspective and future of pension system of Serbia, of all the current and future pensioners insured could be briefly described as mission impossible. Previous operations of pension and social system as a whole can be considered luck or skill, at the expense of the budget, loading the external debt, when resources are decreasing and that the contributions paid by workers are fewer and fewer, as compared to pensioners and salaries as a base are extremely small.

Besides ungrateful financial situation the major problem is demographic trends, age structure of the population and a high percentage of unemployment and a good portion of undocumented workers.

Large demographic changes where many young people, who had just finished school and are in search for work and for a better tomorrow are seeking its existence in other countries. In this way, citizens able to go out of the country will leave and the real reasons are lack of jobs, low incomes and general safety. So far, the case was that mainly younger people left but it is no longer the case. We have a case of the city with 130 000 inhabitants, from which more than 20 citizens emigrate weekly in the last two years.

Serbia becomes a country with an extremely high age structure of the population. Due to migration, and is known that older and retired do not decide to take that step, and with preliminary data, it is clear why we age. This has a negative impact on the revenues of the pension system.

Taking into account the number of unemployed and still a large number of undocumented workers, it is clear that there was a certain potential of pension system but systemic reforms in the society are necessary, which is at the moment very difficult to perform.

It is a necessary parameter, functional system, and any other reform of the pension system in Serbia. The formerly taken measures were just the beginning of some changes in the functioning of the system. The introduction of the third pillar of the pension system did not fully return with no results because system cannot work in economic circumstances of Serbia.

The introduction of the second pillar is completely necessary from the experience of all countries in transition. PAYG is the problem and the system of capitalization of possible alternatives as well. It is impossible to make changes if it doesn't improve the standard of living but also it should take care of the financial stability and balance. Already throughout history of economic system Desai completely impairment of all funds, and Nardo was suspicious of all aspects of such capital accumulation.

The decision follows with circle of problems which is hard to see. The saving that arises from the EU, through tax increases and other measures can yield results in terms of low living standards, high rate and a large number of the tax base, with a very large number of workers in administration as is the case in Serbia, and question for all of us who live and work for the future of the state of Serbia.

PERSPEKTIVE PENZIONOG SISTEMA KAO IZAZOV STABILNOSTI DRUŠTVENOG I ŽIVOTNOG STANDARDA

Prof. dr Željko Vojinović, dr Blaženka Piuković Babičković

Apstrakt: Budućnost, izazovi opstanka i razvoja jednog društveno ekonomskog sistema, u velikoj mjeri zavisi od rezultata osiguravajuće delatnosti, fondovima koji stoje na raspolaganju kao sopstveni izvori finansiranja nacionalne ekonomije. Milijarde eura koje godišnje oprihoduju osiguravajuća preduzeća kroz premiju osiguranja ali i kroz druge vidove ulaganja, milioni zaposlenih u osiguranju u svetu, jesu pokazatelji značaja osiguranja za svaku nacionalnu ekonomiju.

Stabilnost životnog standarda građana u velikoj meri zavisi od delatnosti osiguranja, posebno penzijskog osiguranja bez obzira da li je obaveznog ili dobrovoljnog karaktera. Penzijska politika je deo ekonomske politike svake zemlje. Penzijski sistem međugeneracijske solidarnosti već desetinama godina funkcioniše u svim evropskim zemljama, bez obzira na njihovo političko i ekonomsko uređenje i nivo razvijenosti.

U zemlji Srbiji već godinama broj umrlih je veći od broja novorođenih, napredak medicinske nauke produžava životni vek ljudi, veće stope nezaposlenih, produženje radnog veka do sticanja prava za penziju i neki drugi manje značajni faktori uticali su na disproporciju broja zaposlenih u odnosu na broj penzionera. To je rezultiralo veoma lošim stanjem penzionog sistema i izazvalo pitanje njegovog budućeg funkcionisanja.

Ključne reči: *penzioni sistem, stabilnost, razvoj, standard, izazov, osiguranje.*

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