

# THE PERCEPTION OF EMPLOYEES ON THE MANDATORY PENSION SAVINGS IN CASE OF KOSOVO

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## *Abstract:*

*The stability of pension fund is very important for social welfare in general and for a sustainable economic development in particular. The main purpose of this study is to analyse the perception of employees on the mandatory pension savings in the case of Kosovo. Examining local and international literature, the method used in this study is the online questionnaire with a sample of 300 respondents employed in the private and public sector. The collected data were processed and tested through the IBM SPSS program where the descriptive analysis, frequencies, the cross-tabulation tables, Pearson correlation and Chi-Square test are used and presented in the study. The paper concludes that employees, regardless of age, the level of education and the sector in which they work, do not have any perception related mandatory pension savings in general. The result of Chi-Square Test also proves that the variables under analysis respondents' level of education and their perception to the right of the state to compulsory pension are not related to each other. The paper comes with some others conclusions and recommendations based on research findings.*

*Keywords: Pension system, PAYGO, financial stability, Kosovo citizens*

## **1. Introduction**

The pension system and the impact of its stability is discussed both theoretically and empirically in regard of its importance for social wellbeing, demographic shifts, economic growth and sustainability. Kosovo follows the pension system generation to generation of different calling internationally PAYG. Kosovo Pension System consists of three main pillars which include the first pillar which is that of the basic pension, the second pillar which is the mandatory one, where the employer together

with the employees are obliged to contribute and the third voluntary pillar. In the focus of this paper is the secondary pillar in regard of employees' perception. Kosovo as a country in transition but a candidate for the European Union follows the best international practices, in this regard has formulated the laws on pensions.

Based on the current Law no.04 / L-101 on Kosovo Pension Funds, every employer is obliged to contribute on behalf of its employees to the KPST, and the employee is obliged to contribute on his own behalf. The first two pillars are mandatory pensions, the basic pensions provided by the Ministry of Labour and Social Welfare and the individual savings pensions provided by the Kosovo Pension Savings Fund. The third pillar, the Employer Supplementary Pension Funds and the Individual Supplementary Pensions, are voluntary funds where employers can provide supplementary pensions for their employees, but also individuals can provide supplementary individual pensions through individual supplementary pensions. Funds cannot be withdrawn until retirement age, and the retirement age is 65 years. State pensions are administered by the Kosovo Pension Administration, within the Ministry of Labour and Social Welfare. The financing of these pensions is done from the state budget (taxes, customs, etc.). Every person who is a permanent resident of the Republic of Kosovo and who has reached the Retirement Age has the right to receive the Basic Pension. The responsibility of the Administration is the management and administration of pension benefits (Official Gazette of the Republic of Kosovo, 2012): (i) regulate the payment of basic pensions to persons who meet the criteria; (ii) keep records of bills and cash available and the payment of basic pensions, (iii) keep records of all expenses related to the distribution of pensions;

In the other hand The Kosovo Pension Savings Fund is an independent legal entity under the supervision of the Central Bank of Kosovo established for the sole and exclusive purpose of administering and managing individual accounts for savings-based pensions, prudent investment and safekeeping of pension assets. This fund also pays the income generated in the individual accounts for the purchase of annual pensions, for savings-based pensions, as a trustee acting on behalf of participants and beneficiaries. (Tax Administration of Kosovo) A non-profit legal entity is the fund, where it is able to sue and be sued, where the options work together with the procurement law and the law of Kosovo.

Members who lead the Fund must have at least ten years of professional experience in the field of pensions, such as: Financial analyst at a major international financial institution, financial expert who has done extensive academic research, professional advisor to a company for asset management. (Law No. 04 / L-101) Private, state and local pension funds provide pension income in the form of employee annuities, which are covered by the pension scheme. Funds are collected from the contributions of employers and employees, to whom either the contribution is automatically deducted from their salary or they contribute voluntarily. The vast majority of pension fund assets are bonds and shares of joint stock companies (Law No. 04 / L-101)

All employers are obliged to contribute on behalf of the employees from the first day of employment.

The amount that the employer is obliged to pay on behalf of the employee is 5 % of the employee's gross income, but the employer can contribute voluntarily up to a maximum of 15 % on behalf of the employee. This also applies to employees who have to contribute on their own behalf to their pension contributions, which means

they are required to pay 5 % of the total gross income amount to contribute voluntarily up to 15%. The sustainability of the system and the comprehensive nature of the social pension, however, have a price, and that is, 'how adequate are these pensions?' Even if inflation is taken into account, the basic pension of € 40 per month contributes very little to poverty alleviation. In a way, the main problem is that the pension scheme in Kosovo is heavily influenced by donors although it operates in a context of very low social development.

The general activity of the Pension Savings Fund of Kosovo (Trust) is regulated by the Assembly of Kosovo, while overseen by the Central Bank of Kosovo (CBK) (Trust, 2020). This Fund is committed to maintaining and investing pension contributions saved by the citizens of Kosovo during their work.

The administration of these individual accounts is a legal responsibility, however the money saved remains the property of the contributors. Although privately owned, the mandate of these savings is specific: they can only be used for retirement - and can not be used or withdrawn before retirement age for any other reason (eg borrowing, medical treatment and the like).

The saved pensions are administered by the Kosovo Pension Savings Fund (TRUST) Pension savings started in August 2002 for public sector employees and one year later for all employees and self-employed in Kosovo. Every employer is obliged to contribute on behalf of its employees to the Pension Savings Fund. Employees are required to contribute in their own name to pension savings. The obligations of the employer and the employee begin on the first day of employment of the employer for employees who have established an employment relationship and end when the employee reaches retirement age (Official Gazette of the Republic of Kosovo, 2012).

In this regard the main objective of this study include: (i) To analyse the perception of private and public sector employees on mandatory pension savings in Kosovo; (ii) To analyse how citizens perceive the pension system Generation for generation "PAY AS YOU GO", (PAYG) otherwise to give answer to the question How much are the citizens informed about the functioning of the pension fund in case of Kosovo? In the following section we go through review of related literature.

## **2. Literature Review**

Pension Funds are created for the purpose of managing the fund created by employees' contributions during their working hours. These funds are designed to provide benefits in the form of income to contributing workers after they retire. These Funds enable all individuals to accumulate savings from their work to finance their retirement needs (Davis & Steil, 2001).

Pension Funds are institutional investors who raise and invest funds from contributors to provide individuals with benefits after retirement. The entities that create pension plans are private businesses, local and state entities on behalf of employees, unions on behalf of their members and individuals on their own behalf. Pension funds at the rate known today detail from the middle of the last century. The first modern pension fund was established in 1950 by General Motors (Drucker P, 1996). Cipriani (2014) concluded that population aging could be a problem as soon as life expectancy presented in the initial model due to the fact that the increase in longevity has a negative effect on pension benefits. All pension systems - PAYG or

pre-funded, public or private, compulsory or voluntary - transfer a portion of the income from current employees to current retirees (Barr, 2000). For the average participant in a balanced PAYG the scheme will be equal to the sum of the rate of increase of the labour force plus the rate of increase of real wages (productivity) (Samuelson, 1958 and Aaron, 1966).

Providing an occupational pension scheme by an employer should be seen in the broader context of human resource strategy, as pension provision is generally considered to have an important place in a range of other benefits that can be provided to employees. as part of an overall reward package (Colin & Orla, 2003). The rationale for setting up pension benefit arrangements is often similar to the defined contribution scheme and defined benefit schemes with the main objective of insuring members after retirement. It also aims to provide retirees with a certain standard of living by ensuring that their income does not fall below a certain minimum level after retirement. Therefore, the pension benefit plan is designed to help employees experience a good life during their first retirement years in the context of developed countries.

There are three schools taught in pension schemes (Ofori, 2019): The first school of thought, emphasizing the contribution, is defended by most bodies for setting accounting standards, arguing that if employers contribute a certain percentage to the plan, their employee will be able to receive all or part of the retirement benefits, or in the event of termination of appointment or dismissal. The second school of thought (non-contributory) also protected by some accounting governing bodies, between the two extremes stands another school - hybrid, with the view that on an aggregate basis, the firm's active employees should always provide funding for active retirees.

Another study analyse the impact of financing rules for financial surpluses in pay-as-you-go pension systems on the business cycle and the life cycle in a dynamic stochastic large-scale overlapping generations model, where households take the inter-temporal links between contributions and pension benefits explicitly into account and point out that sluggish adjustments of contribution rates that are implemented by adjusting a financial buffer stock both stabilize an economy and decrease the volatility of life-time utilities of retirees and workers close to retirement (Scharrer, 2020). In short, if in an economy the rate of return to capital is higher than income growth (in particular, the sum of the population growth rate plus the growth of wages), funded pension systems are higher than delivery systems (Santiago, Jorge, Cáceres, & Karim, 2019). Another study from Godínez-Olivares, Boado-Penas, & Pantelous, (2016) shed light on strategies, also known as automatic balancing mechanisms (ABMs), calculate the optimal path of these variables over time, managing fluctuations in longevity, fertility rates, salary growth or any other kind of uncertainty faced by the pension scheme without repeated legislative intervention.

A study from Steurer, (2009) using US data covering the period 1933-2001, it is shown that each system generates its own Aaron condition thus the standard Aaron condition assumes that the wage rate and labour participation rate does not vary across individuals and that the rate of population growth is constant and exogenous. The study also concludes that the comparisons between PAYG and funded systems depend critically on exactly which variety of PAYG system is being

compared, and that PAYG systems are becoming less attractive over time as fertility rates decline.

Another study demonstrate that the magnitude of the optimal PAYG program and the nature of the underlying risk sharing effects are very sensitive to the chosen combination of risk concepts and stochastic specification of long run aggregate wage income growth thus the study concludes that for realistic parameter values, the magnitude of the optimal PAYG program is largest when wage shocks are not permanent and individuals in any generation are considered from a pre-birth perspective, i.e. a "rawlsian risk sharing" perspective is adopted (Thøgersen, 2006).

Countries that are based on pay-as-you go pension systems, should designed automatic balancing mechanisms (ABMs) in order to face adverse demographic and economic changes. In this respect, ABMs can be defined as a set of pre-determined measures established by law to be applied immediately as required according to an indicator that reflects the financial health of the system(Boado-Penas, Godínez-Olivares, & Haberman, 2020) thus the purpose of ABMs is, through successive application, to restore the sustainability of the pay-as-you-go pension system.

The sustainability of "Pay as You Go System" is very important for social welfare. A study dedicated the sustainability of the "Pay as you Go System" in Peru find out that both systems compete coexists with Private Pension Funds or "Fully Funded Pension" have advantages and disadvantages concluding that "Pay as You Go System" cannot be sustainable over a long period of time thus based on a comparative analysis of advantages and disadvantages, the study suggest to make Private Pension Funds (Fully Funded Pension) the best alternative to Pay as You Go System (B.Guillén & Mosqueda, 2013).

### **3. Research objectives**

This study is based on broadly national and international literature review. The data used in this study is primary data collected using the questionnaire tool. The questionnaire was distributed online through the social network Facebook and email addresses. The questionnaire was designed in accordance with the academic rules for a quality questionnaire including the introductory statement of the questionnaire, demographic questions and research questions oriented towards achieving the purpose of the study. The questions are categorized into structured questions, semi-structured questions and open-ended questions. Respondents were selected 300 employees, including private sector employees and employees in the public sector.

The data processing program that has been used is the Statistical Program for Social Sciences specifically IBM SPSS. Data are presented in tabular, where Pearson Correlation and Chi Square test are used in regard of achieving the main aim of this study that was the employees' perception due to pension fund stability in case of Kosovo.

#### 4. Results and discussion

In this section we interpret the findings and discuss the results.

**Table 1**

##### Age of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-25	64	21,3	21,3	21,3
	26-35	163	54,3	54,3	75,7
	36-45	56	18,7	18,7	94,3
	46-55	17	5,7	5,7	100,0
	Total	300	100,0	100,0	

*Source: Author's calculations*

It can be seen that 21 % of the respondents are aged 18-25, then 54 respondents are aged 26-35, continuing with the ages 36-45 are 19 and the respondents aged 46-55 are 6 (It is worth noting that over the age of 65 we have only one respondent but based on statistics it results in 0 due to small number).

**Table 2**

##### Respondents regarding their level of education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Secondary school	49	16,3	16,3	16,3
	Bachelor	118	39,3	39,3	55,7
	Master	101	33,7	33,7	89,3
	PhD	32	10,7	10,7	100,0

*Source: Author's calculations*

Based on the table it is obvious that the largest number of respondents according to the level of their education with Bachelor degree there are 118 of them, with Master degree there are 101, while with secondary education there are 49 and with doctorate 32.

**Table 3**

##### The sector where respondents work

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Private sector	240	80,0	80,0	80,0
	Public sector	60	20,0	20,0	100,0
	Total	300	100,0	100,0	

*Source: Author's calculations*

From the table three we can see that from the total number of respondents 240 or 80 percent of them work in private sector and 60 of the respondents or 20 percent work in public sector.

Table 4

## Pearson correlations

Correlations		VAR 1	VAR 2	VAR 3	VAR 4
VAR 1	Pearson Correlation	1			
VAR 2	Pearson Correlation	,479**	1		
VAR 3	Pearson Correlation	,352**	,527**	1	
VAR 4	Pearson Correlation	,111	,154**	,173**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Primary data calculated by the author himself, IBM SPSS program

Variables including into Correlation Matrix include:

Var 1: Kosovo budget will have difficulty financing pensions

Var 2: Population aging has become one of the factors determining the reform plans and initiatives

Var 3: Although employees pay double in the second pillar for as long as we work, in the end we will not receive a pension from this pillar for the rest of their lives

Var 4: You are informed that after the age of 73, the pensioner will continue to receive only a basic pension from the state budget

Variable Kosovo budget will have difficulties in financing pensions is positively related to the variable population aging has become one of the factors that determines the plans and initiatives of reform in the value of the Pearson coefficient 0.479. Variable Kosovo budget will have difficulty in financing pensions is positively related to the variable Although employees pay in the second pillar as long as we work, in the end we will not receive a pension from this pillar for the rest of their lives in value of the Pearson coefficient 0.352 is also positive but weakly related to the variable you are informed that after the age of 73, the pensioner will continue to receive only the basic pension from the state budget at the value of the Pearson coefficient 0.111.

Variable Population aging has become one of the determinants of reform plans and initiatives is positively related to the variable Although employees pay in the second pillar as long as we work, in the end we will not receive a pension from this pillar for life in the value of the Pearson coefficient 0.527 and in positive but weak relation to the variable You are informed that after the age of 73, the pensioner will continue to receive only the basic pension from the state budget in the value of the Pearson coefficient 0.154.

Variable Although employees pay in the second pillar for as long as we work, in the end we will not receive a pension from this pillar for the rest of their lives is in a weak but positive relationship with the variable You have been notified since the age of 73, the pensioner will continue to receive only the basic pension from the state budget in the value of the Pearson coefficient 0.173.

**Table 5**

**Crosstabulation**

		Do you think that the state has the right to compulsory pension?		Total
		Yes	No	
Your level of education	High school	40	9	49
	Bachelor	94	24	118
	Master	78	23	101
	PHD	26	6	32
Total		238	62	300

*Source: Primary data, Author's calculations*

In this table we present the data between the variables including the questions: Do you think the state has the right to compulsory pension to the level of respondents' education. From the above table we can see that from the total number of respondents with secondary education 40 responds that the state has the right to compulsory pension and 9 of them say no. Based on the total number of respondents of 118 with bachelor education level, 94 answered yes and 24 no. From the total number of respondents with master education level 78 of them answered yes and 6 no, while from the total number of respondents with doctoral education level 32 in total, 26 of them answered yes that the state has the right to compulsory pension and 6 of them say no.

**Table 6**

**Chi-Square Tests**

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	,511 <sup>a</sup>	3	,917
Likelihood Ratio	,510	3	,917
Linear-by-Linear Association	,107	1	,743
N of Valid Cases	300		
a. 0 cells (0,0%) have expected count less than 5. The minimum expected count is 6,61.			

*Source: Primary data, Author's calculations*

In this case, the value of chi square statistics is 0.511. The p-value of the Asymptotic Significance (2-sided) is 0.971. The result is insignificant as the p-value is greater than the alpha level (normally .05)., the value of p is greater than the standard value of alpha, The result proves that the variables under analysis respondents' level of education and their perception to the right of the state to compulsory pension are not related to each other.

## 5. Conclusions

To achieve the goal set out in this study, primary data provided by the self-administered questionnaire in the online form were used. The questionnaire was created in the google form and distributed through the social network Facebook and email addresses. The number of participants in the survey is 300 with a sample of employees working in the private and public sector. In addition to the theoretical literature reviewed on pension funds and the development of the pension fund in Kosovo, this study also present the findings using descriptive statistics, Pearson Correlation and Chi Square test. It is worth concluding that the funds are collected from the contributions of employers and employees, to whom either the contribution is automatically deducted from their salary or they contribute voluntarily. The vast majority of pension fund assets are bonds and shares of joint stock companies.

All employers are obliged to contribute on behalf of the employees from the first day of employment. The amount that the employer is obliged to pay on behalf of the employee is 5 % of the employee's gross income, but the employer can contribute voluntarily up to a maximum of 15 % on behalf of the employee. Based on the results of the study, the following recommendations are worth considering:

Pension fund managers need to be transparent and accountable in their dealings with clients through regular updating of employee pension fund status. The contributory pension scheme should be encouraged by its practitioners in the form of providing adequate awareness tools or interactions such as seminars to constantly update organizations and employees on the benefits of the pension scheme and its importance in post-retirement life. Disseminate detailed information about pensions in Kosovo, whether through the Internet or the distribution of brochure. The management of pension funds should create a strong organizational structure and implementation policy that will improve their portfolio composition. A strong organizational structure will also influence the choice of firms' investment portfolio leading to improved return on investment. Furthermore, the study recommends that the payment of pension funds by employers continue in compliance with the established regulations, thus, the Fund leaders should put more measures in place to ensure that they are compliant.

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