

Statement to the Panel Ministry of Labor, Montenegro

REFORM OF THE PENSION AND INVALIDITY INSURANCE SYSTEM

In order to remove numerous weaknesses of the pension system which was functioning in Montenegro until December 31, 2003 and its bringing to the financial sustainability, on recommendation and with cooperation of the World Bank, the Government of Montenegro decided to use the concept of multi pillar pension system which implies:

1. the reform of the existing system based on intergenerational solidarity (Pay As You Go - PAYGO system) – first pillar;
2. introduction of mandatory individual fully funded savings – second pillar;
3. introduction of voluntary individual fully funded savings – third pillar.

By adoption of the new **Law on pension and invalidity insurance** (I pillar) in September 2003 and its application from January 1, 2004, the restructure of existing mandatory insurance is accomplished and normative frame for introduction of mandatory fully funded insurance (II pillar) and voluntary insurance (III pillar) is created.

Effects of application of the new Law are:

- Fund PIO participation of expenditures in GDP decreased from about 13% before the reform to 9,39% in 2006;
- Participation of source incomes in overall incomes is increased from 51,54% in 2003 to 67,73% in 2006 as a consequence of higher level of employment, decrease of gray economy or higher level of fiscal discipline;
- The number of pensioners on annual level has negative trend, especially in the case of invalidity pensioners.

In December 2006 the Parliament of Montenegro adopted the **Law on Voluntary Pension Funds (III pillar)**, which will be enforced on July 1, 2007.

The pension funds will, through their pension schemes, contribute to the new quality of capital market and investments, and throw system of voluntary insurance will provide higher degree of material and social security for the old age from the one provided by mandatory Insurance. Also, by the implementation of the multi-pillar pension system, the future obligations of the state toward mandatory public insurance will be diminished.

The Government of Montenegro adopted **National employment strategy for the period 2007-2010**, with the goal to, in the forthcoming association process to the EU, in the area of labor market, accomplish developments and structural relations on that market which will be similar to developed market economies.

With the Strategy is anticipated the accomplishment of following priorities:

- Growth of employment from 2,5-3%, annually (for the period from 2003-2006 was 2-2,5%);
- Decrease of unemployment rate to 8-10% (in 2006, 14,7%)

- Decrease of work and employment on “black market” (it is estimated that, in that kind of work relation are 25.000 to 30.000 persons);

In order to stimulate employment of persons who, because of a number of factors, have difficulties to get employed (disabled persons, persons who are on the list of Employment agency for more than five years, persons who are techno-economic excess), the Government, in April 2006, adopted the **Regulation on tax facilitation for employment of certain categories of unemployed persons**. This regulation also stimulates the employment of domestic workforce on seasonal jobs and the facilitations are provided for engagement of unemployed persons in public works also.

By reducing the contribution rate, disburdening the economy, or employers and the rest of insurance contributors and also reducing the regulative and administrative burdens, the presumptions for faster economic development and growth of employment, more jobs and stimulation for transfer from grey economy in formal economy will be created. Besides this, by reducing the fiscal obligations for personal earnings and by the unification of record keeping, collection of payments and control in one institution (Department of Public Revenues) will be provided more efficient collection of payments and higher financial effects.