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Key factors affecting the pension scheme performance in Albania, and its impact on budgetary deficit, public debt management, and pension levels since the reform measures of 2014-2015

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Abstract: The level and sustainability of pensions in Albania have gained increasing attention, particularly in light of rising consumer prices across Europe between 2021 and 2023. The Albanian pension scheme has operated under a persistent deficit, placing strain on public finances. Recognizing this, the government identified pension reform as a strategic priority in its 2014 public financial and debt management frameworks, culminating in the adoption of the Pension Policy Document. This paper analyzes the performance of the pension scheme from 2014 to 2023 using data from the Social Insurance Institute, INSTAT, the Ministry of Finance, the Albanian Supreme Audit Institution, and international sources. It assesses the impact on budget deficits and public debt, and identifies key sustainability factors such as GDP growth, contribution levels, pension benefits, demographic shifts, and labor force participation. Findings reveal that, despite improved revenue collection and tighter control of spending, pension levels have not kept pace with economic growth or inflation, particularly food prices, adversely affecting the elderly. Demographic pressures and limited reform outcomes further challenge sustainability. Practical implications include the need for enhanced fiscal transparency, legal clarity on pension indexation, and the development of a dedicated elderly consumer price index. The study contributes to policy dialogue on pension reform and economic development in transition economies.

Keywords: *Demographics, Pension scheme, Pension scheme reform, Pension scheme deficit, Budget Deficit, Public Debt, Public Debt Management.*

1. Introduction

Due to its levels and pervasive arrears, in early 2014 the Government committed to reduce the level of public debt as percentage of GDP. To ensure the medium-term stability of public debt, the Public Debt Management Strategy 2015-2017 [1] suggested the following measures on the revenue side: Macro-fiscal consolidation; Reforms to fight informality in the economy; Pension reform; Justice reform and fight against corruption.

The Public Financial Management Strategy 2014-2022 [1] emphasized that "the pension scheme is running a very high deficit which makes it unsustainable. Second, although all the elderly were covered by the scheme thanks to full employment during the communist period, most of the working-age population is uninsured due to the design of the scheme, the high level of unemployment and the size of the informal sector. Considering the importance of pensions for social protection and its weight in the budget, it is necessary that the system be reformed immediately."

Due to its relevant importance several measures were undertaken over the years, including two fiscal amnesties, pardoning penalties and interests to entities and/or individuals who paid their overdue balance to the scheme. The first one in 2014 was aimed at individuals self-employed in agriculture, whose participation in the rural pension scheme was very low, despite being legally required [2]. The second one in 2017 gave both legal entities [3] and those self-employed in agriculture [4] the

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opportunity to pay the amounts owed to the pensions scheme without penalties or interest accrued to date. In addition to amending the Social Insurance law in 2014-2015, the Government undertook a concentrated fight against informality in 2015 that lead to an increase in the number of businesses registered and number of people contributing to the pension scheme [5].

The paper analyses the factors that have affected the pensions scheme in the period 2014-2023 and evaluates the results of the policy measures undertaken. The paper finds that considering pressure from the public debt levels over the years, the government was able to keep the deficit of the pension scheme on check. On the other side of the coin, due to accounted and unaccounted economic and demographic factors and very limited reform results, average urban pensions have only kept up with average consumer price inflation over the years, while new pensions awarded during the years are even lower than average pensions. The real GDP growth for the years 2014-2023 has been very limitedly reflected in the average monthly pensions. With food prices steadily increasing from 2013 at a greater rate than average consumer prices, despite the currency appreciating close to 30% against the Euro, the elderly living on pensions and spending not less than half of their pension on food and non-alcoholic beverages, are placed at even tougher financial situation as pension increases have not kept up with price increases of their basket of consumption. And with the Euro not going as far as it used to, the elderly relying on remittances from relatives working abroad to close financial gaps will require more funds from abroad.

People retiring in 2024 have lived 32 years in a free market economy. They were 30-33 years old in 1992 when Albania broke from communism. So now the new pensions level is also exhibiting the symptoms of the low pension scheme contributive behavior by parts of our society over the past decades. While reforms' results have been very limited this last decade, the demographic indicators have worsened. In the last decade, the government in could choose between managing the deficit of the scheme or increasing pensions (chose managing the deficit). Currently, the unchanged low participation in the scheme, especially for the agricultural sector accounting for one third of employed work force, combined with the current demographic challenges due to increased life expectancy, low fertility rates, and high youth migration, warns for an even tougher situation in the coming years, unless appropriate economic and fiscal reforms are undertaken.

2. Literature Review

To provide a comprehensive understanding on the key factors that have affected the country's pension scheme over the last decade, this review examines official strategy and policy papers, as well as scholarly literature on Albania's pension system, highlighting key themes such as demographic changes, structural reforms, fiscal sustainability, inclusive growth, and social equity.

Recent studies underscore the increasing pressures on Albania's pension system caused by demographic and economic changes. The World Bank [6] further emphasizes that all Western Balkan countries, including Albania, face systemic risks due to aging populations, informal labor markets, and rising spending pressures. The Bank urges a regional focus on structural pension reform as a pathway to long-term fiscal resilience and inclusive social protection.

The European Commission [7] highlights that Albania's contributor-to-beneficiary ratio is among the lowest in the region, a result worsened by a 10.5% increase in emigration in 2022, which contributed to a 1.1% population decline and accelerated aging. In the 2024 progress report, the Commission noted that Albania has initiated a new revision of its pension scheme aimed at addressing critical gaps, including the methodologies for setting minimum and maximum pensions [8].

Similarly, the International Monetary Fund [9] warns that the existing public pension deficit is expected to increase if emigration and informality persist. Key risks include underreporting of wages, low contributor coverage, and an increasing share of pensioners receiving only partial benefits. Despite a major reform implemented in 2015, which gradually raised the retirement age to 67 (by 2056), extended contributory years to 40 (by 2032), and introduced a social pension, the system still faces long-term fiscal and social sustainability concerns.

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The Organization for Economic Co-operation and Development [10] argues that in high-inflation periods like those post COVID, pension indexation to prices (rather than real wages that might not grow as fast) has become more favorable for retirees but also more fiscally burdensome. It stresses the need for frequent and consistent indexation to maintain pensioners' purchasing power and public trust, while cautioning against overprotecting high-income pensioners at the expense of fiscal sustainability.

Scholars in Albania have increasingly warned that real pension values are declining due to the mismatch between indexation methods and the actual consumption patterns of the elderly. As recommended by International Labour Organization, et al. [11] indexing pensions to an elderly-specific CPI may offer better protection against poverty and inflation shocks. In the Albanian context, this is especially relevant given the disproportionate burden of food inflation on pensioners.

Literature underscores the need for reforms to ensure the sustainability and inclusiveness of the pension system. Economic reforms that ensure inclusive growth for urban and rural workers as well as the fight against informality are crucial for broadening the contribution base and reducing the fiscal burden on public finances.

3. Methodology

Literature on related topics suggests that to assess the progress and challenges of the pension scheme in Albania, quantitative methods would be most appropriate to find an answer. To conduct the study, we have analyzed data collected from relevant sources like the Ministry of Finance, Institute of Statistics (Instat), Social Insurance Institute (ISSH), International Monetary Fund (IMF) and Albanian Supreme Audit Institutions (ALSAI).

We identified key indicators to the pension scheme both on the revenue and expense side relying on strategic documents and annual reports generated by the government in relation to public finance management, debt management, and pensions reform. To assess progress toward set objectives, we relied also on analyses and data published in ALSAI annual audit reports of the Social Insurance Institute. This paper incorporates the recently published data on the 2023 population census in Albania as part of the analysis.

To measure share of household consumption on food and non-alcoholic beverages growth in Albania, the study uses nominal household consumption values obtained from INSTAT's household surveys. Household size data and reported food spending shares are also used to estimate average per capita food spending in nominal terms. Real growth rates are derived from nominal values deflated by relevant consumer price indices, all chain-linked to 2013-2014 to enable comparability across time.

4. Analysis and Discussion

4.1. Aging population, low fertility and high youth migration

As per the 2023 Census of the Population [12] "The average age of the population is 42.5 years, from 35.3 years in the 2011 Census." The same report emphasizes that "fertility below replacement level since 2001, increased life expectancy, and migration remain the main factors of population aging. The 2023 Census data show that one in five individuals (19.7 percent) are 65 or older, compared to one in nine individuals (11.3 percent) in the 2011 Census and 7.5 percent in the 2001 Census."

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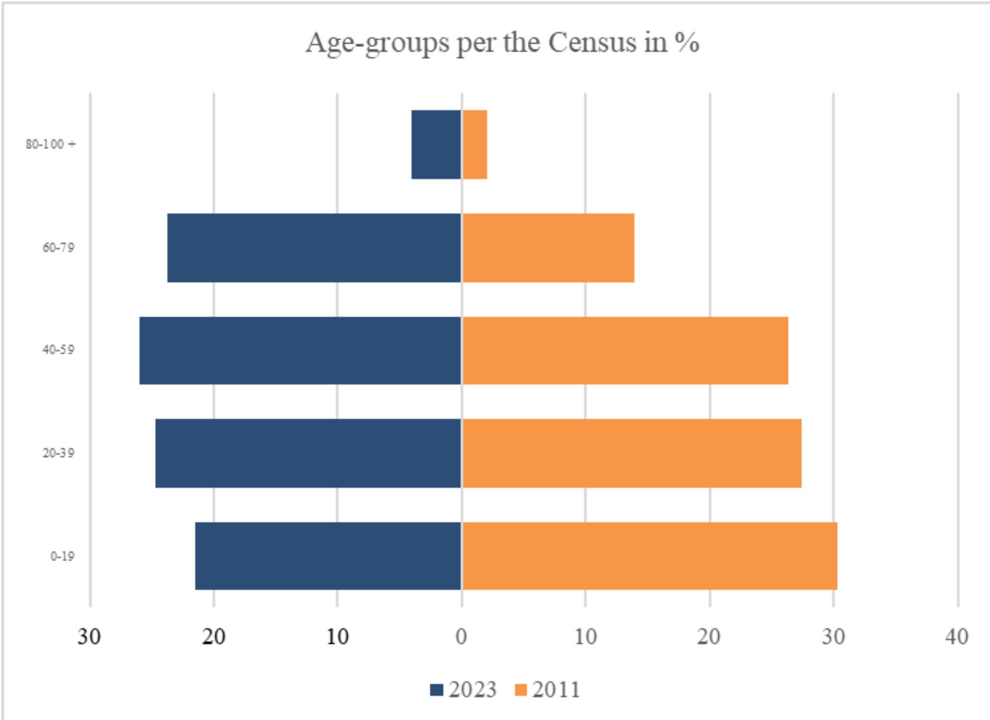

Figure 1.
Resident population by age groups as percentage of total.
Source: Instat, authors' compilation.

Comparing the data from the two Censuses we note that the resident population of Albania has decreased by 398,025 people. The analysis shows that the elder part of the population has shifted upwards vertically in almost the same numbers, moving from example in same numbers from age-group 50-54 in 2011 to 60-64 in 2023. This indicates an increase in the number of people entering or about to enter pension age. Despite the overall population decrease, the number of residents 55 years and older has increased by 234,928 people.

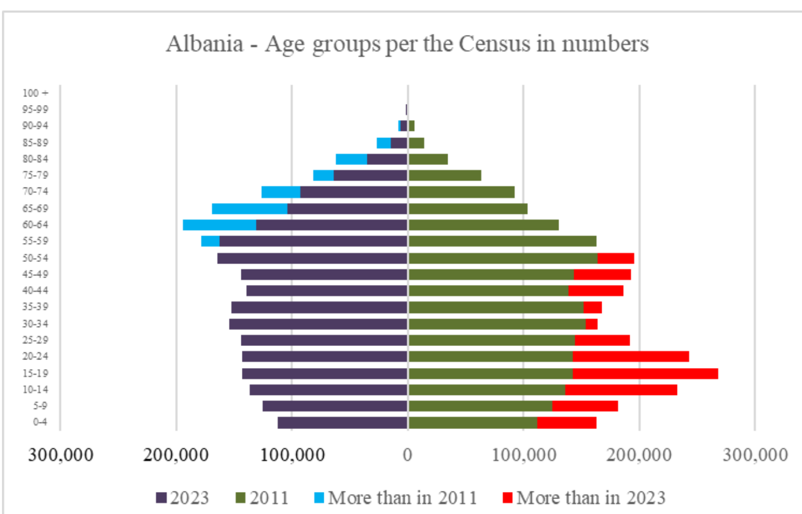

Figure 2.
Resident population by age groups in numbers.

From age distribution, the other main concern is the indicators related to the younger part of the population. From Figure 2, we can identify clearly the age group that has migrated over the last decade (have not moved up vertically in the same numbers. And those aged 10-24 years in 2021 are the largest group affected by migration. Today part of the age group 20-35 years old, able to work and reproduce, these individuals are not part of the country's workforce and are not contributing to new births. The population in the age-group 10-24 years old has decreased by 322,999 people. Migration of the youth and those able to reproduce, combined with the low fertility rates, have contributed to the decrease of the population age 0-9 years old by 107,906 and considering the current age distribution the issue will worsen in the future. The aging population, high youth migration and low fertility rates have placed and will place significant pressure on the pension scheme.

4.2. General Government Deficit and Social Insurance Deficit

The social insurance scheme continues to be a significant part of the country's fiscal spending, putting pressure on the general deficit and public debt. The scheme continues to run on a deficit (revenues are lower than outlays), however the deficit was kept under control and even reduced over the years, affected by keeping spending under control and increases in revenues.

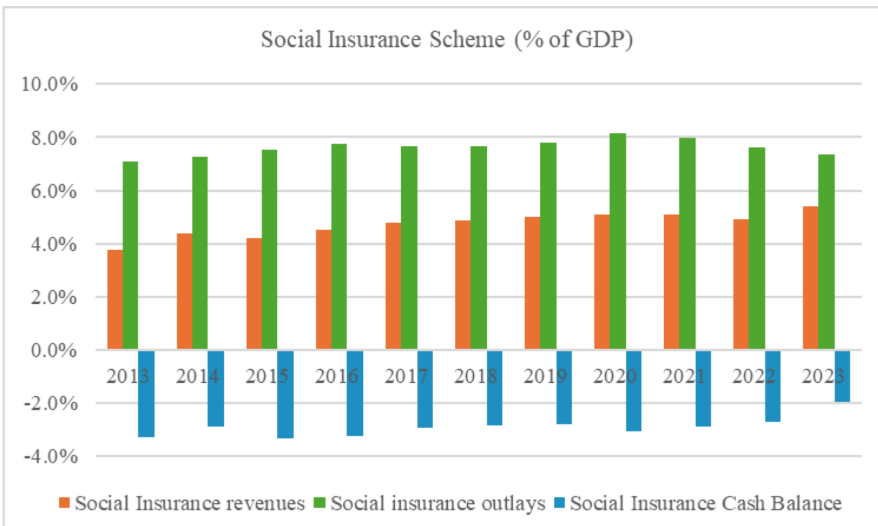

Figure 3.
Social Insurance Scheme Revenues and Outlays 2013-2024.
Source: Ministry of Finance, authors' compilation.

Social Insurance outlays have been 7.1% of GDP in 2013 and 7.4% of GDP in 2023, reaching a peak of 8.2% of GDP in 2020, the year of the Covid pandemic. The average annual outlays of the scheme in the period 2014-2023 have been at around 7.7% of GDP. On the other hand, Social Insurance revenues have been 3.8% of GDP in 2013 and 5.4% of GDP in 2023, the highest level to date. The average annual revenues of the scheme in the period 2014-2023 have been at around 4.8% of GDP.

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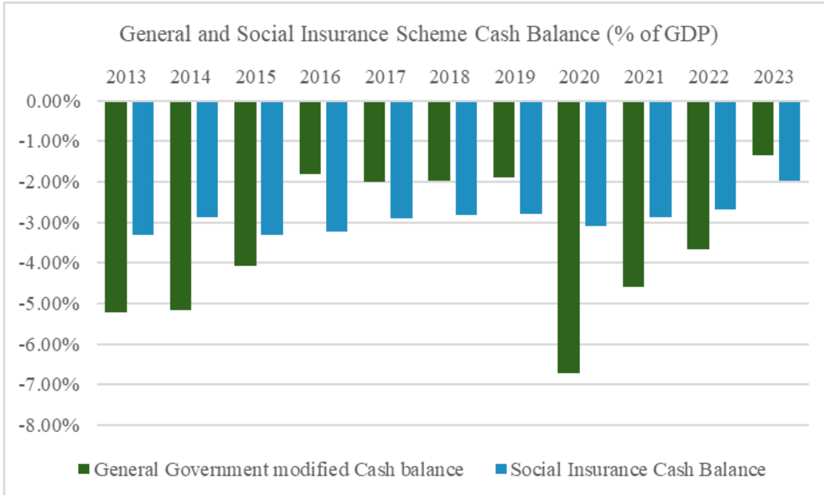

Figure 4.
General Government Deficit and Social Insurance Scheme Deficit 2013-2024.
Source: Ministry of Finance, authors' compilation.

With revenues increasing more than spending in the last decade, the scheme deficit has improved from 3.3% of GDP in 2013 to 1.97% in 2023, with average deficit in the years 2014-2023 at 2.85% of GDP. However, this deficit level continues to be significant, putting strain on the general government deficit and as a result also on public debt levels. The average annual deficit of the scheme in the period 2014-2023 of 2.85% of GDP accounts for 86% of the average annual general government deficit for the same period. If not hit by the pandemic crisis and the earthquake of 2019, that forced general deficit to increase in 2020-2022, the two deficit levels would be the same.

Table 1.
Revenues, spending (outlays), and deficit of the two main pillars of the social insurance scheme.

In thousands ALL	**2023**	**2013**
Total Revenues	**124,618,101**	**51,063,000**
Urban Revenues	118,010,882	48,296,000
Rural Revenues	2,901,153	2,519,877
Total Spending	**158,705,903**	**87,879,230**
Ubran Spending	144,941,001	73,095,549
Rural Spending	13,764,902	14,783,681
Total Deficit	**(37,793,868)**	**(37,063,353)**
Ubran Deficit	(26,930,119)	(24,799,549)
Rural Deficit	(10,863,749)	(12,263,804)

Source: Albanian Supreme Audit Institution, authors' compilation.

Table 1 shows the nominal amount of revenues, spending and deficit for the two main components of the scheme, Urban and Rural. Despite GDP growth over the years, the overall deficit of scheme in nominal terms has remained stable at 37-38 billion Lek. Total revenues covered 58% of total spending in 2013, while in 2023 that figure has improved to 78%. The Urban scheme revenue coverage has moved from 66.1% in 2013 to 81.4% in 2023. The Rural scheme has remained stable in terms of nominal value of revenues and spending, with revenues covering 17% of spending in 2013 and 21.1% of spending in 2023.

4.3. Pensions, prices, and economic growth

In the sections above we noted that total spending for the pension scheme as a share of GDP has remained constant over the last decade. However, despite the economy growing from 2013 by 35% in real terms, average pensions have barely been keeping up with average inflation, as shown in the figures below.

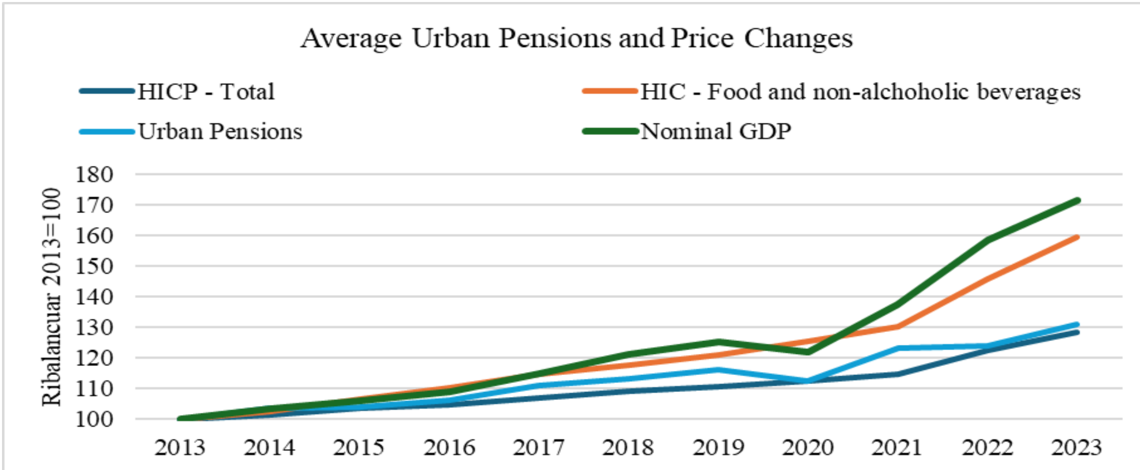

Figure 5.
Average Urban Pensions, GDP and Price changes 2013-2024.
Source: Instat, IMF World Economic Outlook, authors' compilation.

The average Urban pension in nominal terms has increased by 31% from 2013, in line with average consumer price inflation (28.3% from 2013). One the other hand the nominal GDP has increased by 71% in the same period. Food and non-alcoholic beverages price index, the key consumption group for the average Albanian [12] has been steadily increasing at a faster paste than average consumer prices. Food and non-alcoholic beverages price levels have increased by 59.4% over the decade.

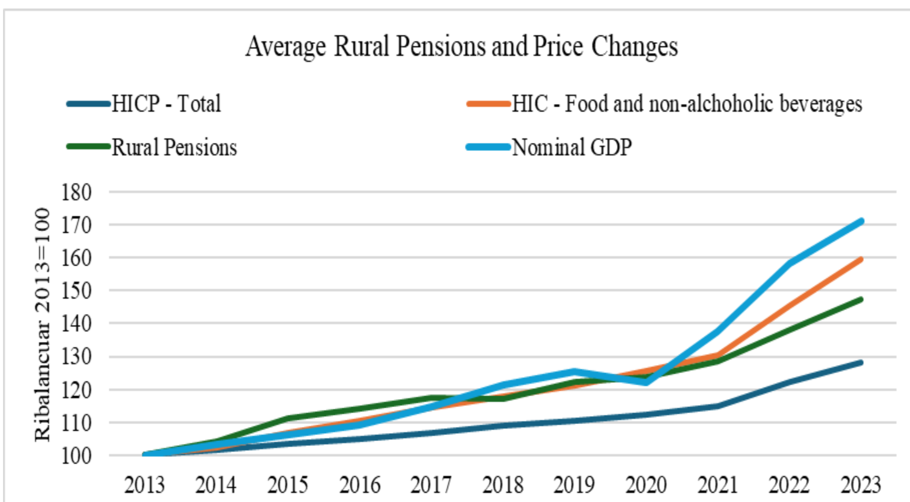

Figure 6.
Average Rural Pensions, GDP and Price changes 2013-2024.
Source: Instat, IMF World Economic Outlook, authors' compilation.

The average Rural pension in nominal terms has increased by 47% from 2013, above average consumer price inflation (28.3% from 2013), but below the nominal GDP growth rate of 71% and the 59.4% rate of increase for Food and non-alcoholic beverages.

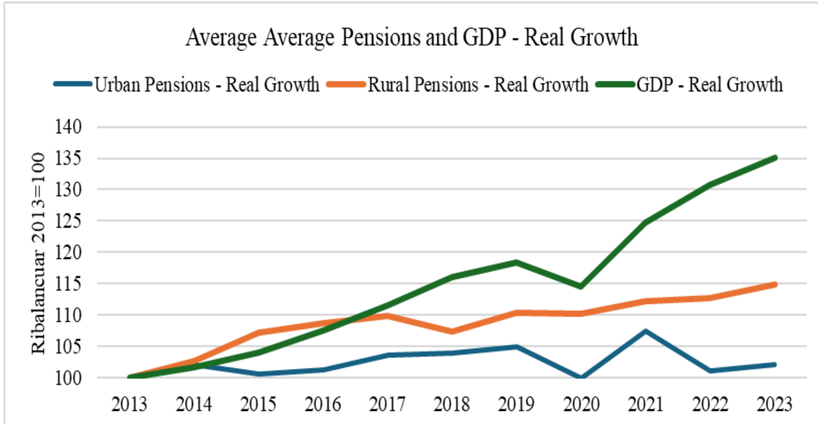

Figure 7.
Real Growth of Average Pensions and GDP, 2013-2024.
Source: Instat, IMF World Economic Outlook, authors' compilation.

In real terms, while the economy has grown by 35% over the decade, the average Urban pension, if adjusted for average consumer price inflation, has increased by only 2%. The average Rural pension, if adjusted for average consumer price, has increased by 14.8% over the decade. However, considering that the elderly spend a higher share of their income on food and non-alcoholic beverages (addressed in the following sections), whose prices have increased faster than average consumer prices, the real growth of average pensions is lower and risks moving to negative territory for Urban pensions.

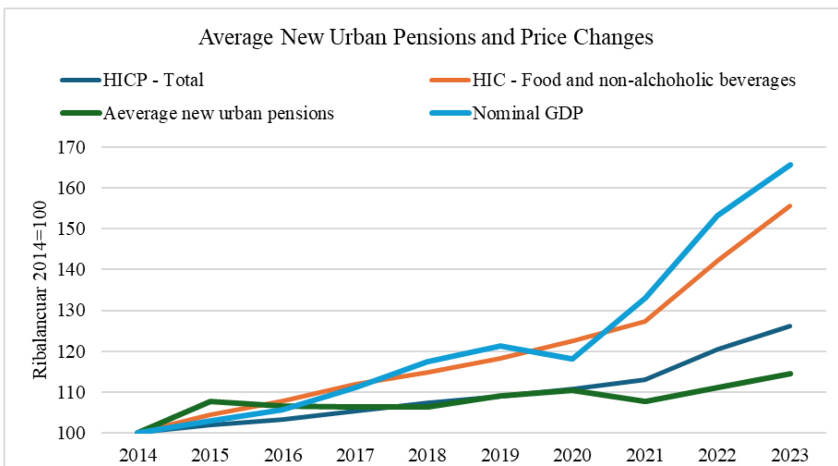

Figure 8.
Average New Urban Pensions, GDP and Price changes 2013-2024.
Source: Instat, ISSH, IMF World Economic Outlook, authors' compilation.

The real growth of pensions becomes bleaker if we analyze the levels of the average new Urban pensions over the years and their growth. As people enter retirement age, they become eligible for pensions. The above data indicates that the average new pension awarded to people entering the scheme on a given year has increased by only 14% from 2013, way below average consumer price inflation of 26% over the period. Thus, new entrants to the scheme in 2023, due to factors analyzed in the following parts of this paper, are worse than those who entered the scheme in 2013.

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4.4. The need for Publicly Available Elderly Consumer Price Index

According to Institute of Statistics [13] food and non-alcoholic beverages account for 39.6% of households' consumption spending in 2023. This figure emphasizes the sensitivity of the population to price changes in this consumption group. This figure becomes even more important if we consider the fact that during the last decade prices for food and non-alcoholic beverages have increased by 59.4%, while average consumer prices increased by only 28.2% [13]. In 2012 food and non-alcoholic beverage price levels in Albania were at 68% of the average EU price levels for this category [14]. In 2023, despite the currency appreciation by close to 40% against the Euro over the decade, food and non-alcoholic beverage price levels in Albania are reported at 91% of the average EU price levels for this category [15].

Table 2.
Average food and non-alcoholic beverages spending per person as share of average pensions.

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Household Consumption Spending in ALL	91,675	88,367	84,548	83,475	82,235	75,935	73,400	73,143	70,766	69,442
Average number of members per household	3.7	3.7	3.7	3.6	3.7	3.7	3.7	3.7	4.0	3.8
Spending on food and non-alcoholic beverages as % of total household consuption	39.6%	39.7%	41.3%	41.6%	41.3%	44.7%	44.1%	45.2%	48.7%	44.3%
Average spending on food and non-alcoholic beverages per household member in ALL	9,824	9,482	9,442	9,643	9,176	9,182	8,743	8,941	8,622	8,091
Average urban pension in ALL	18,341	17,350	17,258	15,732	16,254	15,875	15,527	14,873	14,585	14,518
Average spending on food and non-alcoholic beverages as % of urban pension	53.6%	54.7%	54.7%	61.3%	56.5%	57.8%	56.3%	60.1%	59.1%	55.7%
Average rural pension in ALL	11,051	10,349	9,656	9,295	9,165	8,792	8,808	8,556	8,330	7,825
Average spending on food and non-alcoholic beverages as % of rural pension	88.9%	91.6%	97.8%	103.7%	100.1%	104.4%	99.3%	104.5%	103.5%	103.4%
Average NEW urban pension in ALL	15,569	15,125	14,652	15,034	14,851	14,463	14,454	14,508	14,639	13,611
Average spending on food and non-alcoholic beverages as % of NEW urban pension	63.1%	62.7%	64.4%	64.1%	61.8%	63.5%	60.5%	61.6%	58.9%	59.4%

Source: Instat, ISSH, authors' calculations.

Using the figures published by Instat on the household budget structure by main groups of consumption and comparing them to average pension levels, it is easy to note that elderly people relying on pensions are more sensitive to price changes the food and non-alcoholic beverages group. Based on the calculations, the averages spending on food and non-alcoholic beverages makes up 53.6% of average Urban pensions, 88.9% of average Rural pensions, and 63.1% of average new Urban pensions. People who retire among others, that people retiring in 2023 with an average new pension need to spend a larger share of their income for this category compared to their average peers.

According to data from Instate there are economies of scale in the monthly consumption expenditure depending on household size. Similarly, two elderly people can live by themselves or with their children and that would affect their consumption expenditure. However, if we assume that on average elderly people live in an average size household, we can calculate the share of their income that goes for food and non-alcoholic beverages. Readers need to keep in mind the cost of living and expenditure levels are lower in poorer parts of the country and rural areas. Regardless of any issues, data indicate that food and non-alcoholic beverages take up a larger part of the spending for people on pensions than average people. As such they are very sensitive to changes in prices in this category that takes up more than 50% of their pension. When food prices increase by more than average CPI, indexing pensions with average CPI makes elderly people on pensions poorer.

Table 3.
Pension increases/indexed during the years compared to changes in consumer prices.

Year	DCM Nr.	Effective date	Increase in %	Inflation, average consumer prices	Food and non-alcoholic beverages Index
2013	583, date 17.07.2013	01.08.2013	4.00%	1.94%	4.24%
2014	456, date 09.07.2014	01.08.2014	2.00%	1.63%	2.20%
2015	651, date 22.07.2015	01.08.2015	1.40%	1.90%	4.29%
2016	549, date 27.07.2016	01.08.2016	1.60%	1.20%	3.14%
2017	130, date 22.02.2017	01.03.2017	3.00%	2.07%	4.02%
2018	438, date 12.06.2018	01.07.2018	2.80%	2.03%	2.68%
2019	167, date 27.03.2019	01.04.2019	2.80%	1.41%	2.92%
2020	263, date 30.03.2020	01.04.2020	2.30%	1.62%	3.60%
2021	196, date 31.03.2021	01.04.2021	2.70%	2.04%	3.90%
2022	188, date 30.03.2022	01.04.2022	3.30%	6.73%	11.77%
	605, date 14.09.2022	01.10.2022	6.00%		
2023	553, date 28.09.2023	01.10.2023	8.60%	4.76%	9.41%
2024	582, date 18.09.2024	01.10.2024	4.10%	N/A	N/A

Source: Center for Official Publications, Instat.

In Table 3 are listed the Decisions of Council of Ministers on "Indexing the Pensions" for the years 2013-2024. Indexing for price increases during the year happens the following year. The data above confirms tha no significant real increases in pensions have been approved in the past decade. As can be noted, from 2017 pension increases have been higher than average consumer prices, suggesting that they account somehow for the fact that consumer prices for the elderlies have increased faster than average consumer prices. However, both Instat and the Social Insurance Institute need to publish and make publicly available the Elderly consumer price index. Per the IMF "it can be argued that the weights of a CPI used for indexation of pensions should cover only the expenditure of the pensioner population." [11]. In addition, moving the date when pension increases become effective farther into next year, lowers the cost for the government but transfers the burden of price increases to retired people on pensions. The government should establish a fixed legal date to index the pensions for normal price increases and reserve the right to make further adjustments in times of high inflationary pressures, like in the year 2022.

4.5. The Revenue Side: Salaries, Contributions, and Participation in the Pension Schemes.

The average number of people contributing to the pension scheme has significantly increased over the years, affected by a larger share of the population entering the labor market and limited results from the fight against informality and fiscal amenities in 2014 and 2017. From 2013 the number of contributors to the pension scheme has increased by 272,505 [13]. The largest increase happened in the years 2014-2015 with a total increase of 157,867 from 2013. During those years the government undertook an amnesty aimed at individuals self-employed in agriculture, whose participation in the rural pension scheme was very low [2] and concentrated action to tackle informality [5].

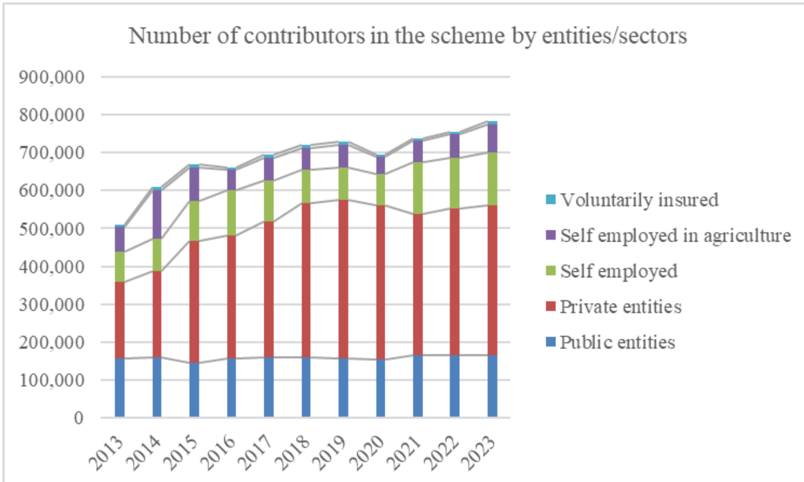

Figure 9.
Number of contributors in the scheme by type 2013-2024.
Source: ISSH, authors' compilation.

The action to tackle informality was successful and concluded with 132,096 additional contributors to the scheme in the years 2014-2015. However, the results of the amnesty for those self-employed in agriculture faded over the years. The number of contributors from the agricultural sector increased from 64,274 in 2013 to 127,728 in 2014, to then go back gradually to pre reform levels over the next years, with reported levels of 62,070 in 2022 and 75,451 in 2023. From the analyses of the data, despite the 2017 fiscal amnesty provided a second change for those employed in the agricultural sector [4] it did not attract a lot of new participants in the scheme, with reported numbers for the year 2017 being 58,526 in total, an increase of 5,358 from the prior year.

The data show also the impact from the Covid crisis on the number of contributors, with 2020 showing a decrease in participation in the scheme of 35,079. Another important shift in contribution numbers was reported in 2021 when the number of those employed in private entities decreased by 31,085 and the number of those self-employed increased by 53,459. This shift, with unwanted consequences for the health of the pension scheme, came the same year that the government amended the tax law to introduce zero taxes for small businesses, which led many people to move out of the payroll of companies and register as self-employed for tax purposes.

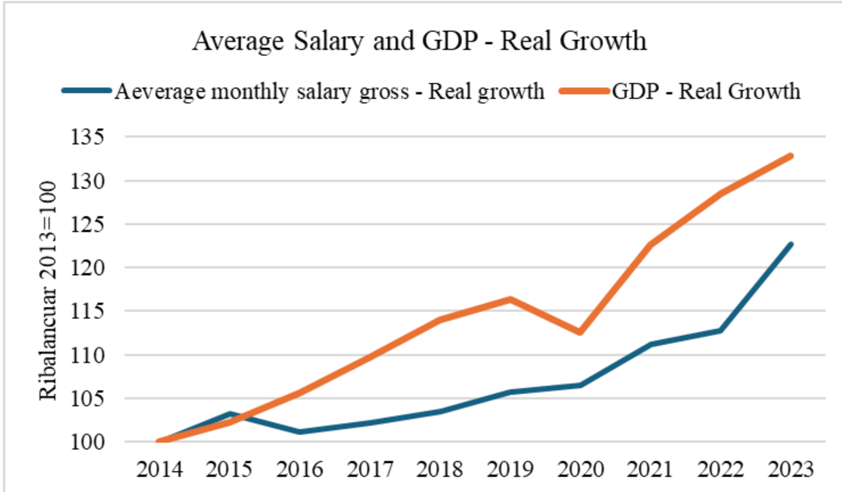

Figure 10.
Salaries trend compared to GDP 2014-2023.
Source: Instat, IMF World Economic Outlook, authors' compilation.

As noted in the sections above, over the years total revenues of the scheme have increased from 3.8% of GDP in 2013 to 5.4% of GDP in 2023, affected by the increase in number of contributors and increase in salaries for contributive purposes. The increase in salaries for contributive purposes is affected, the fight against informality (declaring the true salary and being reported as an employee) and real wage increases. As noted in the figure above, over the last decade average real salaries [12] grew by less than the economy, this impacting the revenue side of the pension scheme. Salaries increase by 22.7% from 2014, while the economy grew by 32.8%.

According to Institute of Statistics [12] "over the year 2014 in Albania the number of employed is 1,037 thousand persons. The agricultural and services sectors have the highest share of employment with respectively 42.7% and 39.4% of the total employment. According to the 2014 survey estimates, it results that 41.6 % of employed are employees, 26 % are self-employed (with employees or without employees) and 32.4 % are contributing family workers." The same source Institute of Statistics [16] for 2021 claims that "employment is estimated at 1,248,749 persons. The service and agricultural sectors have the highest share of employment with respectively 44.3% and 33.8% of the total employment. According to the 2021 survey estimates, it results that 47.9% of employed are employees, 32% are self-employed (with employees or without employees) and 20.1% are contributing family workers."

Table 4.
Participation in the scheme compared to labor market employment level.

	2014		
number by type of employement	**Labor Market**	**Contributors**	**Percentage**
Employees with salary	431,392	386,089	89%
Self-employed and Contributing family workers (without pay)	162,809	86,168	53%
Self-employed in Agricultural Sector	442,799	127,728	29%
Total Employed	**1,037,000**	**599,985**	**58%**
	2021		
number by type of employement	**Labor Market**	**Contributors**	**Percentage**
Employees with salary	597,876	537,785	90%
Self-employed and Contributing family workers (without pay)	228,796	135,695	59%
Self-employed in Agricultural Sector	422,077	58,091	14%
Total Employed	**1,248,749**	**731,571**	**59%**

Source: Instat, ISSH, authors' computations.

In the table above are presented the employment data from the Labor Market Surveys [12, 16] and data on the number of people contributing to the scheme by sector. While the number of people contributing has increased so has the number of employed people in the country. Data indicates that the level of informality has not been reduced from 2014 to 2021, with contributors still accounting for only 58-59% of those employed. The data also indicate a worsening of the indicator for those self-employed in the agricultural sector, whose participation levels very remain low. The low level of participation risks leaving them with no pensions when they age.

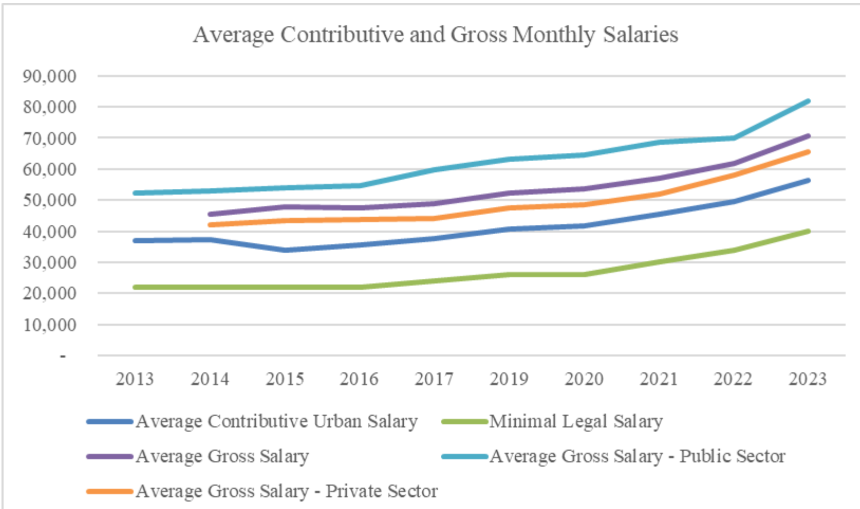

Figure 11.
The urban pension scheme calculated average contributive salary compared to real and minimum legal salaries.
Source: Instate, ISSH, authors' compilation.

In addition to lower participation rates in the scheme, data indicate that also salaries declared for contribution in the scheme are underreported and do not reflect their real levels. The figure above shows that the average contributive Urban salary continues to remain below the real salaries per Instat [12] thus undermining the revenues generated by the pensions scheme.

As public entities have been disciplined in the past years to pay their contributions (see section below) and have no incentives to underreport salaries, this channels the issue to two groups: 1. those working in private entities and 2. those who are self-employed. Considering that the self-employed pay their contributions based on the legal minimal salary (minimum allowed), they can only avoid paying contributions if they report themselves as working only for parts of the year, while being inactive for the remainder of the year.

Table 5.
The urban pension scheme calculated average contributive salary compared to real and minimum legal salaries.

Sector	Total Revenues (in ALL)	Average Contributors	Average Yearly Contribution	Average Monthly Contribution	Mandatory Contribution rate	Average Gross Monthly Contributive Salary	Average Gross Monthly Salary per INSTAT/ Legal Min.
Budgetary	38,678,000,000	143,958	268,676	22,389.63	24.5%	91,386	81,887
Public non budgetary	6,733,000,000	21,616	311,482	25,956.85	24.5%	105,946	
Private legal entities	68,165,000,000	394,746	172,681	14,390.06	24.5%	58,735	65,566
Self Employed	3,874,000,000	140,119	27,648	2,303.99	24.5%	9,404	40,000

Source: Albanian Supreme Audit Institution, Instat, ISSH, authors' calculations.

The analysis of the data above indicates the areas of issue related to contributions: 1. There is an under declaration of salaries for those employed in the private sector, and 2. The self-employed are inactive for part of the year, thus not paying contributions. Further analysis is required regarding self-employment data and contributions, because if they are idle, and not engaging in evasion, this would indicate economic issues, or high concentration in seasonal employment (like tourism).

4.6. The unpaid contributions owed to the pension scheme.

According to the Albanian Supreme Audit Institution [17] risks associated with the high number of subjects owning money to the pension scheme poses both a financial and social risk. Due to unpaid contributions by their employers or themselves, a significant number of people cannot benefit from the social insurance scheme today and in the future. In addition, increasing uncollected amounts increases the pressure on the pension scheme deficit.

Table 6.
Amount due by entities for unpaid employee insurance in 2023.

Amounts in ALL	**Number**	**Amount Due**	**Fines**	**Interest**	**Total Due**	**In %**
Budgetary	511	131,179,667	100,782,721	178,944,467	410,906,855	2%
Public non budgetary	312	271,361,166	76,667,521	34,729,718	382,758,405	2%
Private legal entities	26,854	9,000,075,717	1,121,460,705	34,729,718	10,156,266,140	58%
Small business	82,452	6,145,988,266	687,886,556	147,461,821	6,981,336,643	38%
TOTAL	110,129	15,548,604,816	1,986,797,503	920,848,715	18,456,251,034	100%

Source: Albanian Supreme Audit Institution.

The total amount due by entities in the Urban Scheme for unpaid insurance is reported at about 18.5 billion Leke at the end of 2023, representing 110,129 entities. Amounts due to the Rural scheme per ALSAI are at about 6 billion Lek. Private entities, followed by small businesses (including the self-employed), account for most of the debt to the scheme. Public entities, despite problems prior to 2014, have managed to have limited unpaid insurance balance and the creation of new arrears in this area.

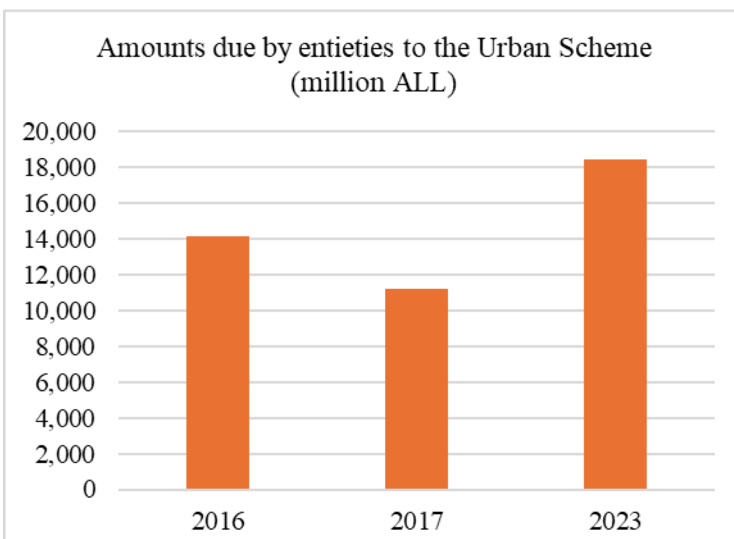

Figure 12.
Amount due by entities to the pension scheme.
Source: Albanian Supreme Audit Institution.

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Vol. 9, No. 7: 1632-1652, 2025
DOI: 10.55214/2576-8484.v9i7.8994

In 2017 the government passed a fiscal amnesty law, forgiving fines and interest for those paying the principal due. From this measure a total of 4.1 billion Lek due to the insurance scheme was written off [3].

Despite the amnesty, from 2017 the unpaid balance has increased by 7.3 billion Lek (65% increase). The average annual increase in amounts due by 1.2 billion Lek per year, if eliminated, would be enough to move by a couple of months earlier in the year the annual indexation of the pensions with inflation.

4.7. The expense side: the elderly and pension levels.

Data indicates that in the last decade the number of people receiving elderly pensions has increased by 192,365 in the Urban scheme and has decreased by 49,002 in the Rural scheme. This increase in the number of people eligible for pensions explains why average pensions have not increased in real terms while the pensions scheme spending as share of GDP has remained roughly the same over the years.

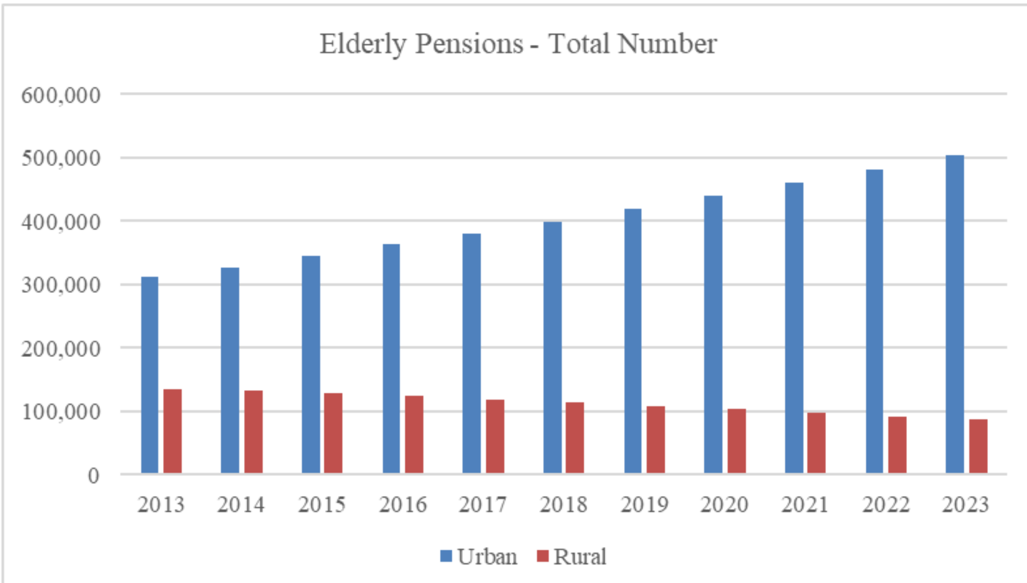

Figure 13.
Total Number of Old Age Pensions in the Rural and Urban scheme.
Source: ISSH, authors' compilation.

In the figure below are presented the number of new people becoming eligible for pensions each year under each scheme. The number of entrants in the Urban scheme (meeting retirement age and being eligible for pension) has been higher than the number of those exiting the scheme (death) over the years. One the other hand, in the Rural scheme number of new entrants has been dropped closed to zero, while number of members has decreased by close to five thousand a year.

ISSN: 2576-8484
Vol. 9, No. 7: 1632-1652, 2025
DOI: 10.55214/2576-8484.v9i7.8994

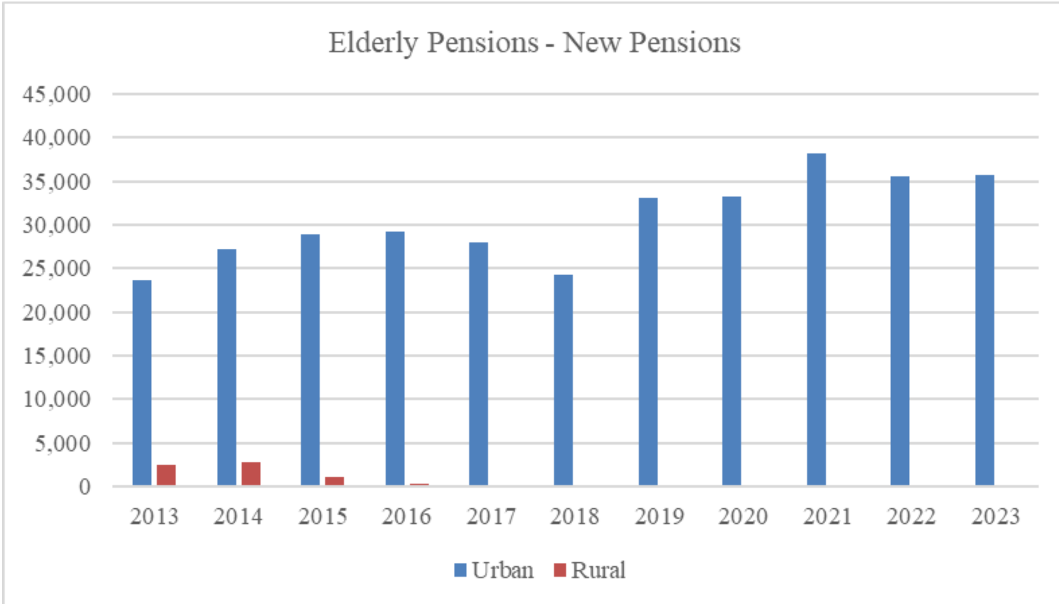

Figure 14.
Number of New Old Age Pensions in the Rural and Urban scheme each year.
Source: ISSH, authors' compilation.

As new members become eligible for pensions and some of them leave the scheme, new pension levels (for new retirees) will have a higher impact on the scheme. If we assume a first in first out principle for the scheme, the Urban pension scheme has 313,400 members (62% of the total) that have entered the scheme starting in 2014. The Rural pension scheme, as it is shrinking and its very limited to new participants, has only 8% of its members that have entered after 2013. This means that the level of average new pensions is more relevant for Urban pensions than the reported average monthly pensions.

Figure 15.
Total number of elderly pensions by time of retirement, assuming first in-first out.
Source: ISSH, authors' calculations.

The level of new Urban pensions is also showing the symptoms and suffering from the low pension scheme contributive behavior of parts of our society since the fall of communism. The data indicate that the average contributive years of a new person becoming eligible for pension has decreased by 6.5 years since 2023. Having contributed less, a larger share of new entrants receives a fraction of the full pension (partial pension).

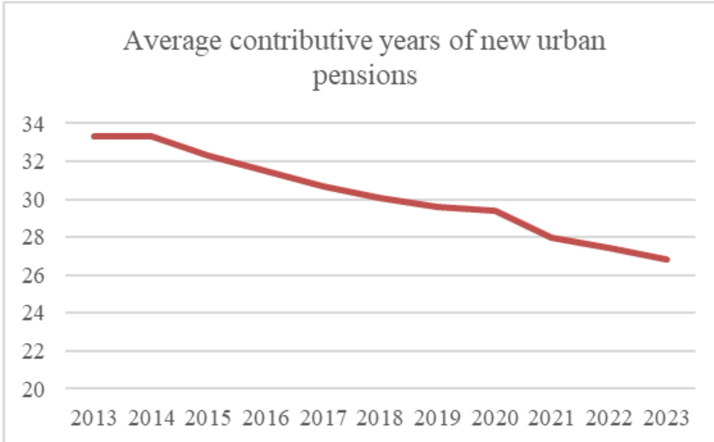

Figure 16.
Average contributive years of new urban pensions.
Source: ISSH.

The data in the figure below shows the level of average Urban pensions compared to the level of average new pensions for each year. While average Urban pensions have increased by 26% over the decade, new pensions have increased by only 14%, being affected by dropping contributive years. In 2014 the new average pension was 94% of the average Urban pension, while in 2023 that number dropped to 85%.

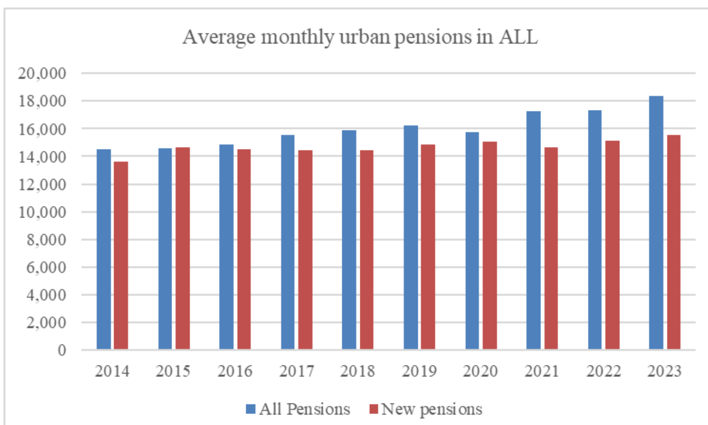

Figure 17.
Average monthly urban pensions 2014-2023.
Source: ISSH, authors' compilation.

The above analysis is supported also by the number of elderly urban pensions by category. In 2013, people receiving full pensions accounted for 78% of the total. In 2023 that figure has dropped to 48%, indicating that most new entrants in the scheme during the decade have been eligible only for partial pensions.

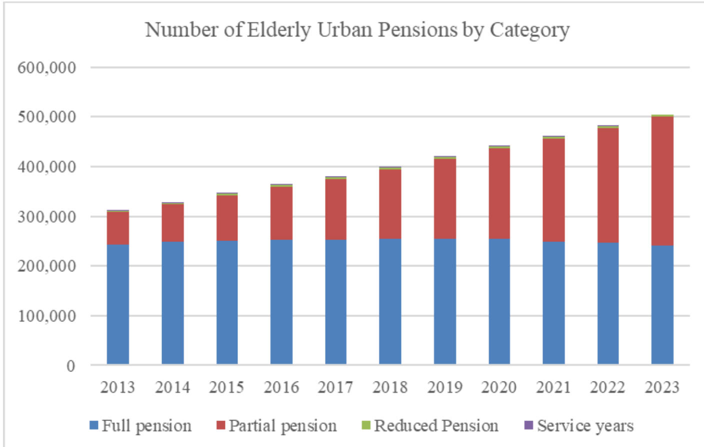

Figure 18.
Number of elderly urban pensions by category 2013-2024.
Source: ISSH, authors' compilation.

With the full pension only being indexed over the years, and more people receiving partial pensions than ever before, most of today's elderly are worse off than before, while the government was able keep the spending levels under control.

5. Conclusions and Recommendations

This study contributes to the public finance literature in Albania and aims to contribute to a more strategic approach on this public policy matter. The sustainability of the pension scheme is important for ensuring adequate pension levels and consumption, lowering pressures on deficit and debt levels, and allowing for more resources to be allocated to other governmental programs that promote growth and prosperity. The findings suggest that the situation and problems with pensions and pension level are more complex than merely informality in wage level declaration to authorities and can be condensed as per below.

- Pension levels have not grown in line with economic growth over the past decade but have merely been keeping up with average consumer price inflation. If accounting for the higher inflation in food and nonalcoholic beverages, where the elderly spend most of their income on, real pension growth is negative.
- If we assume a first in first out principle for the scheme, the Urban pension scheme has 313,400 members (62% of the total) that have entered the scheme starting in 2014. This means that the level of average new pensions is more relevant for Urban pensions than the reported average monthly pensions. In 2014 the new average Urban pension was 94% of the average Urban pension, while in 2023 that number has dropped to 85%.
- With the full pension only being indexed over the years, and more people receiving partial pensions than ever before, most of today's elderly are worse off than before. New entrants to the scheme in 2023 are worse off than those who entered the scheme in 2013.
- The aging population, high youth migration and low fertility rates have placed and will place significant pressure on the pension scheme, with more people retiring in the past years and fewer people entering the work force in the future. The elderly population will grow in numbers in the next decades, as more people enter retirement age compared to those moving out (death). The population age 50-64 is 536,797 while the population 75+ is 178,504 per the census 2023. One the other side, the work force will shrink, as the population age 19 and younger is reported only 516,872.

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Vol. 9, No. 7: 1632-1652, 2025
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- The scheme continues to run on a deficit (revenues are lower than outlays), however the deficit was kept under control and even reduced over the years, affected by keeping spending under control and increases in revenues.
- The average number of people contributing to the pension scheme has significantly increased over the years, affected by a larger share of the population entering the labor market and limited results from the fight against informality and fiscal amenities in 2014 and 2017.
- The level of informality has not been reduced from 2014 to 2021, with contributors still accounting for only 58-59% of those employed. The data also indicate a worsening of the indicator for those self-employed in the agricultural sector, whose participation levels continue to be very low. The low level of participation risks leaving them with no pensions when they age.
- Over the last decade average real salaries [13] grew by less than the economy, this impacting the revenue side of the pension scheme.
- In 2021 the number of those employed in private entities decreased by 31,085 and the number of those self-employed increased by 53,459. This shift, with unwanted consequences for the health of the pension scheme, came the same year that the government amended the tax law to introduce zero taxes for small businesses, which led many people to move out of the payroll of companies and register as self-employed for tax purposes.
- In addition to lower participation rates in the scheme, data indicate that salaries declared for contribution to the scheme are underreported and do not reflect their real levels for those employed in the private sector.
- For the self-employed category, that pays contributions based on the legal minimal wage, the low contribution levels compared to the large number of contributors are a concern and indicate either evasion by becoming inactive for most of the year, seasonal activities (like tourism), or other economic factors. The legal minimal wage has increased by 82% from 2013, while the economy has grown by 71% in nominal terms over the same period.
- Despite the amnesty, from 2017 the unpaid contributions balance, owed to the pension scheme by economic entities, has increased by 7.3 billion Lek (65% increase). The average annual increase in amounts due by 1.2 billion Lek per year, if eliminated, would be enough to move by a couple of months earlier in the year the annual indexation of the pensions with inflations.

The Albanian Government should consider the following measures per the findings of this paper:

- The government should analyze how come the economic growth over the decade has not been fully reflected in the three major groups of our population, workers, retirees and those engaged in agriculture and how to ensure more inclusive economic growth in the future.
- The government should analyze the impact of aging population on public health care costs and its future impact on government spending, deficit, and fiscal space.
- The government should analyze the effects of demographic changes and high migration on the economy, fiscal stability, and pensions schemes and identify and implement policies to address any concerns.
- The government needs to address what the future of the pension scheme will be and be clear about that with the public. With pensions not growing, current workers might be demotivated to participate and current contributors might be demotivated to contribute more than the bare minimum.
- The government should establish a fixed legal date to index the pensions for normal price increases and reserve the right to make further adjustments in times of high inflationary pressures like in the year 2022.
- Both Instat and the Social Insurance Institute need to publish and make publicly available the Elderly consumer price index and index pensions based on that publicly available figure.

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- Ensure that tax policies in the future don't create loopholes, incentives for tax avoidance and cannibalizing the tax base.
- Further analysis is required regarding self-employment data and contributions, because if they are idle, and not engaging in evasion, this would indicate economic issues.
- The government should ensure that it is taking full and timely legal action for the collection of unpaid contributions from economic entities, as it will negatively affect the lives of several thousands of people once they reach retirement age.
- The fight against informality should be a constant engagement and not just rely on random concentrated actions by tax authorities.

Transparency:

The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

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