

DRAFT

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Pension Reform in Bosnia and Herzegovina

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The purpose of this report is to assess the status and prospects of pension reform in Bosnia and Herzegovina (BiH). This report also seeks to analyze the extent and value of the pension reform technical assistance (TA) that has been or will be provided to BiH by international donors, in general, and the World Bank, in particular. One of the main conclusions sought from this assessment is what pension reform TA, if any, USAID should provide to BiH in the short-term or medium-term. The following is based on information gathered from meetings, presentations and various reports.

Specifically, this pension reform assessment will focus on three main areas:

1. Determine the status of the social security system in Bosnia-Herzegovina;
2. Determine what the World Bank pension reform activities are or will be in the near future; and
3. Assess the conditions for a possible Pillar 2, a mandatory defined contribution pension scheme.

Background

Bosnia and Herzegovina is in its eighth year of post-war reconstruction and development. Since the war ended in 1995, BiH has struggled to stabilize its economy and its fiscal situation. The current economic and fiscal situation in BiH is still fragile but improving.

Immediately after the war, BiH's economy relied heavily on international donor support. In 1996, 40% of GDP came from the international donor community. Today, international assistance is about 9% of BiH's GDP and remittances from citizens abroad are about 7% of GDP.¹

Over 50% of BiH's public expenditures go to salaries because many of the enterprises are state-owned. The informal economy is large at about 36% of GDP and unemployment is officially about 41%.²

Of the 3.68 million inhabitants in BiH, 19.5 percent of the population lives in poverty with the poverty level higher in the Republika Srpska (RS or Entity) at 25% of its population and at 16% in the Federation of Bosnia and Herzegovina (FBiH or Entity), according to the government of BiH.³

In 1999, BiH made a commitment to join the European Union (EU) by 2009. This prospect may be the catalyst BiH needs to help accelerate its economic growth and development. Based on the experience of other EU countries in the region, were the BiH government to make a serious commitment to harmonize its economic and social protection laws and regulations with that of the EU norms, economic growth and financial stability would likely improve at a faster pace. To do so, however, a wide range of structural reforms will be required at several levels and in most sectors.

The Pension System in BiH

¹ Development Strategy BiH - PRSP Second Draft for Public Discussion

² Ibid

³ Ibid

Pension benefits in BiH are very low even though they were 9.2% of GDP in 2002 and impose a 24% contribution rate on gross wages in FBiH and 24% of net wages in RS.⁴ The average pension benefit is 193 KM (\$50 USD) per month in FBiH and 120 KM per month in RS, according to the FBiH Pension Fund. Unquestionably, pensioners in BiH are extremely vulnerable, so much so that pensioners have turned out in force in Sarajevo, Banja Luka and many of the cantons (local municipalities) several times this year to demonstrate against such low pensions and a reduction of their standard of living since the war ended.

“On Tuesday, pensioners held protests in front of the Federation Government building in eight cantons in the Federation of BiH and requested that the local authorities finally show their understanding for their situation by taking concrete measures.... The pensioners requested that the Federation Government pay out three outstanding pensions from the year 2000, and that the pensions increase...”, SFOR Stabilization Force, Main News Summary, Wednesday, 1 October 2003

The inadequate state of pensions in BiH is directly related to the pension system inherited from the Socialist Federal Republic of Yugoslavia (SFRY), which in some respects resembled a universal social assistance system, and the conflict that ended in 1995. After the war, BiH's single pension system was replaced with three ethnically-based pension systems – the Croat-Mostar pension system, the Bosnian-Sarajevo pension system, and the Serbian-RS pension system. In 2002, the Mostar and Sarajevo pension systems merged to form the FBiH pension fund. In effect, the very small country of BiH with limited financial and human capital resources has two government mandated systems that function almost

⁴ Source: BiH Ministry of Finance , 2004 Budget Framework Paper

identically – Pay-As-You-Go (PAYG) defined benefit systems that pay inadequate pension benefits to the elderly. Additionally, the pension funds of the Entities are not harmonized and their financial sustainability is unlikely without significant reforms, such as an integrated pension system for BiH, well formulated pension policies and improved operational efficiencies, particularly stronger contribution collection compliance and enforcement.

Prior to 2000, pension payments were paid irregularly and pension arrears were mounting at a fast pace. After the war, as the contribution base deteriorated the pension rolls increased because veterans returning from war were added to the pension rolls and Croats who were receiving pensions from Croatia became new pensioners in the BiH pension system. To compound the fiscal problem, pension benefits were increased several times, seemingly without the benefit of financial analysis, thereby further increasing the pension deficit. For example, by 1998 the pension arrears were 24% of the Federation's GDP.⁵

In 2000, the Office of the High Representative (OHR), which oversees the post-war implementation of the civilian aspects under The Dayton Agreement, mandated that pension payments could not exceed the contributions collected, that pension benefits had to be paid timely and arrears in the pension system not be increased any further. This measure was instituted to bring pension benefits in line with available resources, namely the pension contributions actually collected. It also sought to eliminate the chronic late payment of pensions and the growing pension arrears.

⁵ Source: World Bank Report No. 25672, page 5.

Between 1998 and 2000 other reforms were made to the pension system⁶. The number of service years needed to get a full pension was increased. The retirement age was increased. The accrual rate for determining pension benefits will be reduced gradually. While these reforms and others have helped to improve the pension reform system putting it in a better state than what existed in the late 90's, longer-term, the cash-in, cash-out pension system for the Entities is not sustainable. The low benefits must be increased to allow pensioners to receive an adequate income and the operations of the pension funds must be strengthened.

The Federation's Pension System

According to the FBiH Pension Fund, there are 287,000 pensioners in the FBiH. Of the pensions paid, 40.57% are for old age pensions, 37.07% for disability pensions, and 22.36% for survivor pensions.⁷ At the low end, the pension benefit is 140 KM (\$xx) and at the high end it is about 636 KM (\$xx).

The number of workers contributing to the pension system for every pensioner has declined making it financially difficult for the Entities' pension funds to pay pensioners under their PAYG schemes. While there are 434,000 members enrolled in the BiH pension fund, only about 187,000 workers contribute regularly to the fund. For example, in 1991, the dependency ratio, pensioners to workers, was 1:3 in BiH. At the end of 1995 that ratio had fallen to 1:1.3.

⁶ Since 1998, the World Bank has been assisting BiH with stabilizing its pension system. It has provided legal and regulatory support for the earlier reforms and provided assistance with the merger of the Mostar and Sarajevo pension funds.

⁷ The Federation Institute for Pension and Disability Insurance, Information, April 2003

The high 24% pension contribution rate on gross wages is paid by both employers and employees - 17% by the employer and 7% by the employee. Nevertheless, the FBiH pension system continues to require budget support. (See Table 1)

RS

The pension fund in the RS is more financially strained than the FBiH fund although the contribution rate of the 24% and the retirement age of 65 for men and women is the same for both funds.

The fragile financial state of the RS pension fund seems to be directly related to the RS's poor economy, a large informal sector, weak contribution collections, administrative inefficiencies and strong political influence on the system. These problems exist on top of the extremely low pensions paid to retirees.

In the RS, pension benefits are about by one third lower than pensions in the FBiH.⁸ The average pension in the RS is 140 KM compared to 200 KM for BiH pensioners.

It is difficult to sustain a pension system like the systems in the RS and FBiH where the number of contributors is almost equal to the number of pensioners. For example, there are 180,000 pensioners in the RS who rely on contributions from 220,000 employees. The RS dependency ratio is 1:1.1, according to the Minister of Labor and Veterans, and is getting worse as

⁸ Development Strategy BiH - PRSP Second Draft for Public Discussion

unemployment increases, officially at 40%, and the informal sector grows.

The government of the RS is trying to increase pension benefits although it does not seem to have the budget support to do so or the support of the international community. According to the Minister of Labor and Veterans, pensions have increased 20% in the RS since January 2003 based on a goal to increase the average pension of 120 KM paid in January 2003 to 170 KM by year end. It is estimated that 84 million KM in budget transfers will be needed for 2003 pensions and an even larger amount will be needed next year. (See Table 2)

According to many experts, pension contribution collection and compliance are extremely weak in the RS as they are in the FBiH. As such, budget transfers are needed to supplement the pension contributions actually collected. Yet, even with budget transfers to support pension payments, the cash-rationing system forces the government to pay less than the full pension for those months where the contributions collected are insufficient to meet the full pensions due. Moreover, unpaid pensions are not treated as an accrued liability of any unpaid pension amounts because the cash rationing mandated by the OHR prohibits any further pension arrears. Thus, on a month-to-month basis, pension benefits could vary dramatically.

Another thorny issue for the RS pension fund is the lack of harmonization with the FBiH pension fund. According to the Minister of Labor and Veterans, the RS pension fund is paying pensions to 8,500 pensioners who worked in FBiH and made pension contributions for 30 or 40 years to the FBiH pension fund. The RS believes that the

FBiH should be paying pensions to pensioners who contributed to the FBiH pension system even though they now reside in the RS. And, in some cases, the RS is paying pensions to pensioners who never worked in the RS or paid contributions in the RS but nevertheless began collecting their pensions from the RS and have since relocated to FBiH. It seems as if the FBiH pension funds refuses to pay pensions to pensioners who contributed to their fund but started collecting pensions in the RS and now reside in FBiH.

The pension payment issues based on residency, and not on whether contributions were actually paid into a pension fund, need to be resolved in a way that will conceivably lift some of the financial strain on the RS pension fund and will allow pensioners and workers to move freely within the country.⁹

The Challenges for the Pension System in BiH

BiH’s pension system faces policy, technical and administrative challenges. The main and longer-term pension reform issue is the financial stability of the pension system for all citizens of BiH. The current cash rationing approach employed by the funds is only a short-term solution and should

<p>Pension Reform Issues in BiH</p> <ul style="list-style-type: none">• Macroeconomic stability• Continued strengthening of the financial sector• Improved analytical, technical and administrative capacity of the Pension Funds and the policy makers• Coordination or integration of pension contributions and benefits of the two Entity pension funds for greater efficiency of the pension system, as a whole, and to promote labor and population mobility• Improved contribution collection• Broader pension coverage that includes all workers, including the self-employed, farmers, and the informal sector workers• Ultimately, a unified pension system for the country that includes public and private pension funds and is efficient, effective, reliable and ensures the public’s confidence in such institutions

⁹ According to a 2002 human rights ruling, pensioners should receive a pension from one Entity or both Entities as long as they have worked and contributed to a pension fund for the required period of time. Thus, a pensioner could receive a pension from one or both Entities if the requirements for a pension benefit have been met.

be replaced with a system that provides an adequate income for retirees within a pension environment that financially sound and sustainability for several generations. To attain such, the BiH pension system is in need of longer term pension policy reforms that should be preceded with policy analysis and institutional capacity building.

According to most experts, the current challenges to the BiH pension system are:

1. Weak contribution collection compliance and enforcement;
2. Uncoordinated pension systems between the FBiH and the RS;
3. Low benefits; and
4. Pension benefit arrears

Weak Contribution Collection Compliance and Enforcement

Tax reform is a continuing process in BiH. Since 2001, both Entities have been working to strengthen their tax administration processes. Nevertheless, payroll tax compliance is low and enforcement is weak, which undermine the financial stability of the pension system. The European Union's tax compliance and enforcement project has focused on customs, sales, and excise taxes as well as a planned VAT. Seemingly, it has yet to focus on the payroll tax collection issues.

Stronger payroll tax compliance and enforce mechanisms are definitely needed to help reduce evasion and improve the financial stability of the pension funds. Therefore, the government of BiH and the tax administrations in both Entities will need to make a much stronger commitment to revenue collection and greater operational efficiency. However, without closer examination of this problem and recommendations on

possible solutions, which is beyond the scope of this assessment, there is not much to report on this matter other than that compliance and enforcement of payroll tax collections is very poor.

Uncoordinated Pension Systems between the FBiH and the RS

The FBiH and RS pension systems are not integrated or coordinated. There is no basic exchange of information, data, or revenue or benefit payments. Paying benefits based on a pensioner's residency seems to cause grave financial consequences for some pensioners and poses a financial burden on both funds because the funds are forced to make pension payments without their having the benefit of having received contributions from some retirees to whom they are making payments.

Retirees receive a pension benefit from the pension fund where they reside although they may have spent most of their work history in the other Entity and paid contributions to the other pension fund. For example, if you worked in the FBiH and made pension contributions to that pension fund but retired in the RS, you will receive your pension from the RS. If this is the case, your retirement benefit will most likely be lower than what you would receive if you had retired in the FBiH because RS pensions tend to be lower than FBiH pensions. Conversely, workers from the RS who retire in FBiH will tend to receive a higher pension benefit.

Lack of worker and pensioner mobility and inequitable benefits are the obvious drawback to the uncoordinated pension system. Duplication of effort by BiH's having two pension funds in a country so small and with limited

resources is another drawback of the pension system. On a positive note, a recent law that provides for better coordination between the funds and even the prospects for consolidating the pension funds at the state level is encouraging. On the other hand, it may cost as much as 150 million KM annually to match the pensions in the RS with those in the FBiH.¹⁰

Low Benefits

Low pensions are such an issue in BiH that pensioners have taken to the streets in large number to protest the low pensions and their reduced standard of living since the war ended.¹¹

According to the pensioners' association in FBiH,¹² more than 200,000 pensioners receive less than 200 Km per month. 50% of the pensioners receive about 155 KM per month and only 1% of the pensioners receive above 500 KM per month. And, for the last six years, pensioners have not gotten a cost-of-living increase.

Many pensioners, it was told, have very little to live on after paying just their utility bills. As a consequence of such low pensions, many of the association's members are beggars and fight daily just to survive.

It was also stressed by the pensioners association that pensioners are not welfare recipients because they contributed to the pension system for as much as 30 or 40 years.

Pension Benefit Arrears

¹⁰ Development Strategy BiH - PRSP Second Draft for Public Discussion

¹¹ OHR BiH Media Round-up, 30/7/2003

¹² The Union of Association of Pensioners in FBiH has 180,000 members

The number of pensioners to contributors has deteriorated in BiH reaching about 1:1.3 by the end of the war and it remains about the same today.¹³ Thus, with fewer contributors to the pension system, weak contribution collection compliance, high unemployment and a sizeable informal economy, the government of BiH has simply skipped paying pensions in some years as it did for five months in 2002.

This year as a catch-up measure and most likely in response to the pensioners' protests across the country, two months of the pension arrears were paid. In earlier years when huge arrears existed, pensioners were given privatization vouchers, which many pensioners are said to have used to purchase their apartments.

The World Bank's Pension Reform Assistance

The World Bank in conjunction with a grant from the Department for International Development (DFID) of the United Kingdom (DFID) will provide a \$7 million loan to the Government of Bosnia and Herzegovina for social insurance technical assistance. The purpose of this loan is to help BiH improve its health and pension insurance systems. The loan funds are to be divided between the FBiH and the RS with health and pension technical assistance projects to be implemented in each Entity.¹⁴

The technical assistance that is planned under this loan project is to address three main areas: implementation of the current health and pension-related reforms; an assessment of the key policy issues which affect health and pension insurance systems with a view toward future reforms; and technical assistance and limited investment support to strengthen the business processes and operations of the social insurance delivery providers.

¹³ Source: World Bank Report No. 25672, page 5.

There are eleven executing agencies for this loan project:
(1) Federation Ministry of Health; (2) Ministry of Health and Social Welfare of RS; (3) Federation Ministry of Labor and Social Policy; (4) RS Ministry of Labor and Veterans; (5) Federation Health Insurance and Reinsurance Institute; (6) Health Insurance Fund of RS; (7) Federation Pension and Disability Insurance Institute; (8) Pensions and Disability Fund of RS; (9) Federation Tax Administration; (10) Tax Administration of RS; and (11) Ministry of Civil Affairs.

The technical assistance activities contemplated are:

- Design options for future social insurance reforms;
- Strategic and business planning training;
- Information management skills training;
- Human resources policies development;
- A review of the core functions and operations of the Entities' pension funds;
- A review of the current reporting systems and the contribution collection systems;
- Pension Reform workshops and an international conference;
- Client/Beneficiary surveys; and
- Financing computer and office equipment

Specifically, the World Bank plans to hire an international pension expert early next year to become a pension advisor to the government of BiH. This person will be charged with helping the government of BiH and the Entities' pension funds begin to develop the analytical and technical capacity needed to improve the pension system in BiH. Once this person is in place, it is likely that the World Bank's pension reform TA under this loan will become better defined. Until such time and assuming that this pension reform expert is actually engaged and physically in BiH early next year, USAID/BiH may want to

wait until this person has developed his project goals and objectives before it undertakes any pension reform TA in BiH.

Prospects for a 2nd Pillar

BiH's two pension funds, one for each Entity, are really single source pension schemes. The two schemes are government mandated unfunded defined benefit schemes which are financially unsustainable.

A more diversified pension system in BiH would likely provide less risk to the pension system as well as provide greater income security to future retirees. In fact, the global trend for countries is a multi-pillar pension system for these very reasons. Typically, countries are adopting a three-pillar approach to pension reform that is often some variation on the following:

- Pillar 1 - A government mandated defined benefit or defined contribution (often unfunded, PAYG) system managed by the government
- Pillar 2 – A government mandated funded scheme, more likely defined contribution, managed by the private sector
- Pillar 3 – Voluntary funded pension schemes managed by the private sector– occupational or individual based; defined benefit or defined contribution

2nd pillar pension funds complement the 1st pillar as an additional pension savings mechanism to reduce old-age poverty. They tie benefits directly to contributions thereby discouraging evasion and early retirement. They also promote capital market development as private pension funds become major institutional investors.

In the near-term, a 2nd pillar pension scheme does not appear feasible for several reasons. The two pension funds are not well managed or integrated. They do not allow for individual recording of contributions that a pillar 2 requires and it's uncertain if their current information management systems can handle such record keeping requirements. According to several financial experts, the financial institutions are still fairly weak and the capital market is basically non-existent. The contribution collection compliance and enforcement aspects of the 1st pillar need to be strengthened before introducing a 2nd pillar.

The infrastructure required for a 2nd pillar in BiH will most likely be a ground up undertaking, which has been done in other countries in the region but only after four to five years of intensive hands-on pension reform institutional capacity building TA was provided to parliament members, the executive branch, journalists, pension regulators, and the intended private pension fund providers. The legal and regulatory framework for adequate licensing, accreditation and oversight of private pension fund providers will be needed. However, these tasks should be preceded with a major pension reform policy design that should be preceded with sound policy analysis and pension modeling. Consequently, significant investments in time and resources by the government, financial institutions, the public and the donor community will be required in order to advance a multi-pillar pension system in BiH.

A more detailed examination of the constraints for private pension funds in BiH is suggested in about two years. This examination should look at the prospects for a mandatory 2nd pillar as well as a 3rd pillar that would allow for voluntary private pension funds. It may be that a 3rd pillar would be a better solution for private pension funds

in BiH in the medium-term than would a 2nd pillar in light of the budgetary and operational deficiencies of the current pension funds.

Recommendations:

The single-pillar pension system in BiH, albeit there are two separate government mandated funds in BiH, has huge pension reform TA needs. It needs assistance with analytical capacity building, human resources capacity building and administrative and operations capacity building. Strengthening the capacity of the policy makers and the pension funds to develop prudent pension policies and implement any such policies effectively and efficiently is the key to the success of any pension reform in BiH.

At this time, it seems most appropriate for USAID/BiH to assist BiH with pension policy and pension fund management knowledge transfer TA. The World Bank's social insurance sector loan project is to be commended. However, it is unlikely that the vast pension reform needs in BiH will be fully met by this WB loan considering it covers TA for both Entities and for pensions and for health. For example, the World Bank has allocated approximately \$1.4 million USD for office and computer equipment, software, publications, training materials and periodicals¹⁵. Computer equipment and software to upgrade a pension system, and in BiH we have two pension funds to upgrade, are far more expensive than this amount allocated. Health systems tend to be even costlier and here again, BiH has two such systems that need upgrading. Thus, it appears as if additional donor support will likely be needed as a complement to the WB's social insurance sector loan project if a fully functioning and efficient pension system with public and private pension funds in BiH is to be achieved.

¹⁵ Ibid.

In close collaboration and coordination with the World Bank, it is recommended that USAID/BiH provide technical assistance that will help the Entities' pension funds become financially stable and sustainable and administratively well run. By combining forces with the World Bank and other donors to improve the current pension situation in BiH, the next step in improving the pension system in this country could be the introduction of private pension funds. Conversely, private pension funds should not be introduced in BiH until the pension policy making and administrative capacity within BiH is improved tremendously, preferably in line with international standards and best practices.

With that said, the **recommendation herein is to provide pension reform TA to BiH on a go-slow basis**. Because BiH's pension reform TA needs are so great, the pension reform commitment from the government of BiH questionable coupled with the WB's plans to begin its pension reform TA some time early next year, a go-slow approach seems the best approach for the Mission, at this time.

The recommended pension reform TA first step (Part 1) is knowledge transfer. The tasks suggested for Part 1 are several study tours to countries that have reformed their pension systems, sponsorships to regional pension conferences and, perhaps, a pension reform roundtable in BiH.

The BiH counterparts would benefit greatly from learning how other countries, particularly their neighboring countries in the Central and Eastern Europe region, have improved their pension systems. In essence, pension reform regional lessons learned could easily be the focus of a Part 1 pension reform TA activity that USAID/BiH could provide.

Additionally, since the Mission has a study tour and training contracting mechanism available – World Learning –this first step could be done without a heavy contracting or administrative burden on the Mission. World Learning, which has in-depth experience with study tours, could easily facilitate pension reform related study tours designed under Part 1.

Pension Reform Study Tour Countries	
Regional Countries*	International Countries (in the medium-term)
Bulgaria	Ireland
Croatia	Sweden
Hungary	United States
Macedonia	
Poland	

* Perhaps a roundtable on pension reform of countries from the region could be organized in BiH

There have been and continue to be excellent regional pension reform conferences that the BiH counterparts could benefit from. As these conferences are scheduled, the Mission could assess whether sponsoring participants to any such conferences would be appropriate.

For one-off projects that arise, the Financial Services Volunteer Corp (FSVC) could perhaps be utilized. For example, FSVC could be tapped to provide volunteers to review draft insurance and pension legislation. They could also be used to organize a pension reform roundtable in BiH.

The second recommended step (Part 2) is pension reform training and institutional capacity building focused on eventually introducing private pension funds. Part 2 will undoubtedly be more intense and, thus, require a sizeable commitment from USAID and the BiH government on several levels. Namely, training and institutional capacity building are suggested for policy makers, the Entity

pension funds, a possible private pension fund regulator and potential private pension fund providers. An extensive publication education campaign would be needed and a cadre of pension economists and actuaries should also be developed.

In all due respects, this recommended two-step go slow approach is being suggested to allow the Mission to gauge the level of pension reform commitment in BiH since a "Pension Reform Champion", an individual at a high government level, is not visible and also to assess what pension reform activities the WB actually implemented. Only a moderate commitment from the Mission will be required if Part 1 were adopted. However, Part 1 is necessary to help the counterparts begin to understand what a pension reform entails. In contrast, Part 2 will require a major commitment from all stake holders and, as such, should not be adopted until it is clearly evident that the political will for pension reform in BiH exists. Thus, Part 2 would complement any TA provided by the World Bank and the TA provided under Part 1, if adopted.

Conclusion

The high unemployment, high dependency ratio, low benefits, poor contribution collection process and the administration inefficiencies of the Entities' pension funds will require a substantial overhaul of the BiH pension system if financial stability and sustainability are to be achieved. However, such a prospect does not appear likely in the medium-term due to the serious technical and administrative deficiencies that appear in the BiH pension system.

It is recommended that the Mission provide pension reform TA to BiH in close collaboration with the World Bank to help it strengthen the analytical, technical and management capabilities of its policy makers and the administrators of the pension system but in a **go-slow, two-step process**. The first step recommended is regional knowledge transfer that should focus on what other countries in the

region have done. Part 1 will require limited resources from the Mission and provide high value because the counterparts will begin to learn what it takes to reform a pension system, basic pension reform information that seems to be missing among the stakeholders. Part 2 will require a significant commitment from the Mission and the counterparts and, as such, should not be undertaken unless a high level government official has committed in earnest to reforming BiH's pension system.

It is important to note that sound pension policies and institutional capacity building alone will not improve the pension situation in BiH for the longer-term. BiH also needs continued strong economic growth to ensure the increase in the contributions that are needed to raise pensions and support a private pension fund industry.

Respectfully submitted,
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Safety Net Advisor

**Table 1: Bosnia and Herzegovina:
Federation Pension Fund, 2002–03**
(In millions KM)

	2002	2003
Total receipts	723.1	705.7
Contributions	679.5	691.5
Transfers from the budget	41.0	10.0
Other	2.6	4.2
Total expenditures	718.1	702.2
Pensions ¹	687.7	670.3
Others	30.4	31.9
Balance	5.1	3.5
Financing	-5.1	-3.5

Sources: IMF Staff

¹Unchanged levels of pensions and number of pensioners in 2003 from August-2002 levels.

**Table 2: Bosnia and Herzegovina:
Republika Srpska Pension Fund,
2002–03**

(In millions KM)

	2002	2003
Total receipts	331.0	332.2
Contributions	240.3	247.3
Transfers from the budget and public utilities ¹	90.7	84.0
Total expenditures	331.9	331.9
Pensions ²	302.3	302.3
Others	29.5	29.5
Balance	-0.9	0.3
Financing	0.9	-0.3
Domestic Financing	0.9	-0.3

Sources: IMF Staff

¹If contributions collected by the Pension Fund are higher, budget transfers will be reduced.

²Unchanged levels of pensions and number of pensioners in 2003 from August-2002 levels.

Meetings and Contacts*

Miodrag Babic	Head of Insurance Department, RS Ministry of Finance
Christian Bodewig	Social Protection Consultant and PRSP Coordinator, World Bank
Caroline Brearley	USAID/BiH
Csaba Feher	Pension Specialists, World Bank, Washington, DC
Nedim Gavranovic	Chief Actuary, Sarajevo Osiguranje (Life Insurance Company)
Sam Greer	Chief of Party, Tax Administration Modernization Project (TAMP)
Alan Holmes	Head of DFID Office
Zlatko Hurtic	PRSP Coordinator, Council of Minister BiH
Almir Jazin	Financial Services Volunteer Corp (FSVC)
Ted Kill	Deputy Chief of Party, Tax Administration Modernization Project (TAMP)
Jovo Kosmajac	Acting Director, RS Pension Fund
Jozo Ljiljanic	President of Board of Directors, The Union of

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	Association of Pensioners in FBiH
Marko Matic	Director, FBiH Pension Insurance Organization (the FBiH Pension Fund)
Mico Mici	RS Minister of Labor and Veterans
Marijana Milic	Economist, IMF
Tamara Pejic	Advisor for Insurance, RS Ministry of Finance
Anamaria Goemic Powell	Social Policy Coordinator, DFID
John Seong	USAID/BiH
Irinia Smirnov	Research Analyst, World Bank
Vladimir Zlonoga	Deputy Director of President of Assembly of The Union of Association of Pensioners in FBiH

The Pension System in Bosnia and Herzegovina		
	Federation of Bosnia and Herzegovina	Republika Srpska
Retirement Age	65 for men and women	65 for men and women
Contribution Rate	24% (17% employer, 7% employee) on gross wages	24% on net wages
Average Pension	193 KM	120 KM
Dependency Ratio		1;1.1
Employees	434,000 pension fund	220,000

	members, but 187,000 regular contributors	
Pensioners	287,000	180,000
Pensioners as a percentage of the population	12%	18%
Pensions as a percentage of GDP		
Years of service for full benefit	40 years	40 years