



Weekly Briefing

Montenegro Social briefing:

**Revival of trade unions - a warning of a general strike due to changes in
pension legislation**

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Revival of trade unions - a warning of a general strike due to changes in pension legislation

Recent changes in retirement legislation concerning retirement conditions have triggered a series of disagreements in society - all trade union organizations and numerous NGOs expressed dissatisfaction, while the media closely follow the evolution of the situation. As a result, it seems that the trade unions after a more inactive or, at least less noticeable role, see the announced changes in pension legislation as a chance for their revival on the social scene of Montenegro.

What triggered the avalanche of discontent?

In July 2018, Ministry of Labor and Social Welfare announce Draft on amendments of the Law on Pension and Disability Insurance which triggered the avalanche of discontent and opposing opinions.

The proposed Draft Law defines new conditions for the achieving old-age pension. Besides to the condition that person shall become entitled to old-age pension upon reaching 40 years of insurance service, additional condition is attributed by the Draft Law – age of 65 as a cumulative retirement requirement (in the transition period from 2019 to 2023). Thus, in the first year of law enforcement (2019), the age limit for obtaining the right to old-age pension for insured persons who had reached the age of 40 years of insurance was 61 years and each subsequent calendar year would be raised for one year. So, starting from 2023, the right to old-age pension is achieved cumulatively by fulfilling the conditions of 40 years of insurance and 65 years of age. Therefore, both conditions have to be met: 40 years of insurance and 65 years of age. If both conditions are not met, employees may retire after reaching 67 years of age and

15 years of insurance and earlier if meet more stringent conditions for disability pension.

This had the effect of opposition in the views between two trade unions: the Union of Free Trade Unions of Montenegro and the Federation of Trade Unions of Montenegro at one side and the Ministry of Labor and Social Welfare on the other. According to the trade unions, proposed amendments to the Law are largely aimed at further tightening the conditions for retirement. Their representatives, who were members of the working group for drafting the Draft Amendments to the Law, voted against the proposed solutions, submitting simultaneously a joint proposal of amendments to the Law, which was not accepted by other members of the Working Group.

In order to protest against the proposed amendments to the law, these two trade unions have organized public tribunals "For a Dignity Third Age" whose main aim is to familiarize people with the new Draft Law and present their proposals. Their requirements relate to retirement conditions that instead of fulfilling the two conditions proposed by the Draft Law is either 40 years of work or 65 years of age. In addition, their claims also refer to pension calculations. Namely, as a basis of pension calculation the highest paid 20 years of work should be used instead of all 40 years. In addition, trade union organizations demand that the lowest pension be raised to 80 percent of the minimum wage.

However, despite the organized meetings, there was no agreement between the trade unions and the Ministry. In connection with this, the unions announced the launch of a referendum initiative, where citizens would declare on the law, as well as inviting all employees for general strike. Whether there will be a referendum, a general strike or protests remains to be seen, but such a situation undoubtedly brought social peace into question, which will be a challenge for present-day authorities in the coming period.

Certainly there are problems in the sustainability of the pension system. Namely, there is a very bad situation when it comes to the ratio between number of

employees and number of pensioners. Currently, ratio employees/pensioners is 1.6 and such poor situation affect sustainability of pension system. That is exactly why amendments had been proposed. However, although this relationship would improve, on the other hand new amendments to the Law would aggravate the ratio between paid contributions and payed pension amount when person retire.

Analysis of the paid contributions from one and the paid pension of the average pensioner, on the other side indicates unfavorable ratio between these two elements. Namely, for an employee with an average gross salary of EUR 765 (in the first seven months of 2018, MONSTAT), on average EUR 156.8 was paid for taxes and contributions for the Pension and Disability Insurance Fund. As one of the conditions for retirement is 40 years of work, the total paid contributions are over than EUR 75,000. On the other hand, according to the Pension and Disability Insurance Fund's data, the average pensioner is on average 10.7 years retired, which would result in a total pension income around EUR 36,000 for the entire period of retirement. Any extension of the years of working would also shorten the time of retirement and increase the difference between the contributions paid and the pension income.

Government between social peace and need for reform due to unsustainability of pensions

Is such a reform necessary and was such government activity adequate? Why did the Government of Montenegro come out with such requests? Is this a hasty move by the government or a real need?

Since the beginning of the transition period, the existing pension system in Montenegro - the so-called PAYG system has been continuously faced with the problem of financing due to the high unemployment rates and unregistered work, the declining rates of fertility, aging of the population, and slow overall economic growth. Negative demographic trends and generally poor labor market

conditions are just some of the reasons that have spurred reflection on the reform of the pension system and its implementation.

the ratio of the number of employees who pay contributions and pensioners, whose income from these contributions is financed is becoming more unfavorable. Analyzing the movement of this relationship, it is noticeable that the number of pensioners and employees is approaching. During the 80s of the 20th century, this ratio was 1 retired person to 7 workers, while today the relationship is almost equal. This led to insolvency, which was reflected in irregular payments of pensions, and today it is reflected in the high deficit of the state pension and disability insurance fund (PIO fund). Expenditures of the pension system in Montenegro in relation to GDP are very high. Coverage of pension contributions is less than 1, i.e. One EUR of pension is covered with about EUR 0.7 of pension contribution. The total costs are covered with about 70% of the contribution, while about 30% of the income of the PIO Fund comes from other bases (mainly from state budget and loans). The total expenditures of the Pension Fund account for around 10-12% of GDP.

The pension system in Montenegro has been used for many years to solve many social problems, from the problem of unemployment to retirement under more favorable conditions. The retirement age has not changed for a long time despite the prolongation of life expectancy (First prolongation was in 2004). Early retirement and less stringent conditions for obtaining a disability pension were the means used to deal with redundancy in the economy. On the other hand, the government has significantly tolerated the gray economy (unregistered or incompletely registered work).

The first more significant changes in legislation were in 2010 when a new Law on Pension and Disability Insurance was adopted. The unions accepted the changes that were adopted by the law, which concerned the gradual equalization of women and men with regard to the conditions for obtaining the right to old age pension; gradual raising the age limit for the acquisition of the right to an old-age pension at 67 years by 2025 (for men), or by 2041 (for women);

Enabling retirement with 40 years of insurance regardless of the age of life; introduction of early retirement pension institute; change in the way of adjusting pensions; calculating special service for women based on birth, etc. However, these reform steps were obviously not sufficient to solve the problems of pension system described above.

All this led to an increase in the number of pensioners and a reduction in the number of contributors. Therefore, the Government of Montenegro is expected to find itself under pressure and the need to adopt such reform measures, which are also the consequence and pressure of international institutions.

Nevertheless, on the domestic scene, the reaction of trade unions, NGOs and other organizations was expected, which in the whole situation saw not only the need to protect workers and pensioners, but also the opportunity for self-promotion and increasing social significance and gaining points on the public scene. However, Government will be on the huge test in order to find adequate balance between social peace and real need for financial sustainability of pension system.