




Social security contributions

Prof.Asoc.Dr. Etleva Bajrami

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- Social and health insurance are today the most developed form of social protection of the individual in Albania and beyond.
 - People's financial and economic insecurity increases with retirement.
 - Insecurity also increases with the interruption of work for various reasons such as unemployment, illnesses, accidents at work that cause physical inability to work, etc.

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- According to Albanian legislation, social and health insurance contributions are mandatory payments for all economically active persons, including the self-employed.
 - By paying social security and health insurance contributions a person is insured to benefit from social security and health insurance laws.
 - By social insurance we mean the insurance coverage of all economically active citizens, in the state or private sector, as well as the insurance of non-economically active citizens.

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- A pension is a fixed amount paid regularly to a worker on retirement or as a survivor benefit.
 - The amount is fixed, which means that it is determined by contract. The monetary amount may change if certain events occur such as inflation.
 - A pension scheme can be a social security scheme that pays pensions as its primary form of social benefit, accompanied by other benefits, or a pure savings scheme that is limited to providing retirement income.


Methods of financing basic social security systems


- Two basic ways of financing social security can be distinguished:
 - The so-called "pay-as-you-go" financing, in which the payment of pensions in relation to a certain time is made with the income of the social security funds that come from the employees of the same period.
 - The capital financing system presupposes that through the collection of income for social security, through contributions, a fund will be created, which will be invested and in a certain time be able to cover the expenses for the payment of pensions.





➤ The General Social Security System consists of:

- Compulsory social security,
- Voluntary social security,
- Supplementary social security,
- Special state pensions
- Social pensions
- Professional funds and voluntary retirement funds.

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- Mandatory Social Security works according to the "pay as you go" principle.
 - The social security system is financed by contributions from employers, employees, the self-employed and the state.
 - The compulsory insurance scheme covers employees, employers and the self-employed in urban and rural areas, provided that they have contributed to the scheme for at least 15 years.
 - The pension system includes 3 types of pensions: old age pension, disability pension and family pension.

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- Insured in the mandatory health insurance scheme are economically active persons, with permanent residence in the Republic of Albania, who pay the mandatory health insurance contribution.
 - Insured in the compulsory health insurance scheme are also economically inactive persons, the payment of whose contributions is financed from the state budget or other sources, defined by law, as well as voluntarily insured persons.

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- Social security mandatorily protects all economically active citizens in Albania
 - Social Security also provides mandatory protection to all employed persons in case of reduced income as a result of temporary disability caused by illness, accident at work, occupational disease and unemployment.
 - The contribution is a payment that cannot be set below a minimum wage and above a maximum monthly wage.

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- The right acquired is another important characteristic of social security.
 - Payment indexation. Old-age, disability and family pensions are indexed to inflation each year to provide inflation protection
 - The insured person has the right to be informed about social security contributions and/or benefits.



➤ *Voluntary Social Security*

- Voluntary Social Insurance protects people when, for a time and for reasonable reasons, they cannot be included in compulsory insurance, but who voluntarily wish to continue it.

➤ *Supplementary Social Security*

- Supplementary Social Security has as its basic principle the benefit of pensions to a greater extent than the mandatory social security scheme offers

➤ *Other pensions paid from the state budget*

- Special State Pensions
- Social pension

Benefits of the Social Security Scheme (PAYG)

- Reducing income differences and poverty in the society of individuals in the third age, as well as those with low incomes.
- The PAYG scheme is a safe scheme, because it does not depend on the investments of the funds, so it does not depend on the fluctuations of the financial markets.
- The administration costs of the scheme are low.
- In any case, it is necessary to achieve a system dependency ratio, or dependency ratio, as high as possible.

Disadvantages of the Social Security Scheme (PAYG)

- A disadvantage of the scheme is that this system does not create any capital that can be invested in favor of the insured.
- Another disadvantage is that this system cannot be interrupted once it is put into operation.
- The scheme would not be able to work if the dependency ratio reached the point where employees could not afford the contributions to be paid to fund the scheme, or even fewer years of work

Contributions and calculation of contributions

- The employer's social and health insurance contributions for the employee and the employee himself are calculated for each individual employee based on their gross salary.
- Employers are all natural and legal persons who employ other persons with or without a contract.

Salary for effect of calculation of contributions

- The maximum salary for the purpose of calculating the employee's health insurance contribution is his gross salary without an upper limit.
- This salary also includes the amount of lek that is deducted from the total gross salary and is paid by the employer to the voluntary pension funds as a contribution of the employee.
- For the purpose of calculating social and health insurance contributions for employed individuals (employees) to legal or natural person taxpayers, the calculation is made on the minimum wage.

Contributions for economically active persons in two or more entities

- Each of the subjects makes the declaration of the employee in the regional tax office as if the person was not employed by another employer.
- The amount paid as health care insurance contributions has no upper limit but has a lower limit of the minimum wage, while the contributions paid for social security must not be higher than the contribution paid for the maximum salary.