

# Chapter 7


## Sustainability of Mandatory Pension Insurance in the Circular Economy: A Comparative Analysis

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### ABSTRACT

*The main characteristic of pension systems is financial stability. The authors will present some models of the pension system, economics models such as the theory of income uncertainty, overlapping generations' model. The authors will present the interrelation of employment, population, and circular economy, trying to improve the existing pension system in Serbia. The circular economy is a response to the growing needs of humanity. It is referred to as sustainable development in all the spheres of human life. The circular economies can also refer to the sustainability of the pension system, which is linked to the quality of life. The quality of life is part of sustainable development as its social component. The chapter provides an overview of the sustainability of the pension system by reducing the costs with employment increasing. As an example of good practice, the authors present Australia and Chile in a small analysis that indicates pension fund sustainability. This practice can serve as an example of the improvement of the pension system in Serbia and similar smaller countries.*

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## **INTRODUCTION**

The subject of the chapter is to examine the sustainability of the pension system as a social category of sustainable development. Authors use descriptive and comparative methods with main objective- to find solutions for overcoming the unsustainability of the pension system in Serbia. Underdeveloped economy and fiscal system result lower standard of living, as well as a number of social problems in all categories of society, especially for retirees. Of course, the authors aware of the fact that it is not possible full implementation of the models that have been effective in developed countries. The labour market that is affected by an adequate circular economy policy, results employment, GDP increasing and higher income of the pension fund. This proves the connection of the pension system and the circular economy. However, the authors think that it is possible to modify the existing model of the pension system in Serbia that can be based on successful models of pension systems of development countries. Giving an overview of the relevant literature, controversy, and their own opinion of the pension sustainable system, authors present descriptive theoretical and mathematical models. It will be compared the pension systems of some development countries with Serbian (pension system), using composite Global Pension Grade Index. Finally, the concluding observations include the views of the authors as well as recommendations for a pension system sustainability model in Serbia. In many developed countries, besides the public pensions, the private pension system is becoming increasingly important. According to Bijlsma and colleagues: “Many countries encourage private funded pensions as a supplement to public pensions, which face increasing demographic pressure. It is likely that the role of institutional investors as pension funds and insurance companies in financial intermediation will increase in the future. This may positively affect economic growth as these institutional investors can be expected to be more committed to long term investments” (Bijlsma, M., Beonekamp, J., van Ewijk, C. & Haaijen, F. (2018). On the other hand, in many countries a public pension system are unique and originated within a specific demographic, political and economic conditions of states. Based on this context, the public system plan is well or poorly funded (Dustin, D. W., 2019). In the process of adopting new laws and reforms, it is very important to point out that pension reforms can lead to unfair distribution of earnings for employees doing the same job in state-owned and public enterprises. For this reason, and because of dissatisfaction with the level of wages, employees are looking for employment in the private sector, where they would have higher earnings and higher pension in the future. Also, by legal regulation, existing workers may have less legal protection than employees who had higher earnings before the law was passed. Dustin further explained that this kind of unfairness in benefits can have the effect of motivation reduce for work, lower employee morale and increasing of brain-draining. This is the situation in Serbia, where a large number of professional staff go abroad (for many years). Dustin presents that the pension system in each country is developing in a specific macroeconomic environment, that is, in a specific demographic economic and political context. The fact is that in some countries with a public pension system, political decision-makers increase pensions due to “political victories” instead of considering the long-term effects of the increase. According to Dustin, in cooperation with the state, unions play an important role in financing the pension fund. If public-sector unions are strong, pensions are usually increased. In contrast, weak unions do not contribute adequately to the pension fund, so pensions are not sufficiently increased, as is the case in Serbia. According to a European Commission report (2019) in the area of labor, employment and social policy, recommendation for Serbia is to implement a codex of equality and anti-discriminatory policy. In the area of social protection, in 2017, 7.2% of the population were in absolute poverty. In Serbia, about half a million people do not have the conditions to meet own basic

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