

THE FUTURE OF VOLUNTARY PENSION FUNDS IN BOSNIA AND HERZEGOVINA

Selma Omerović¹

¹DUF "EURO-INVESTMENT" d.d. Tuzla, Bosnia and Herzegovina,
e-mail: selmaomerovic1@outlook.com

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Abstract

In Bosnia and Herzegovina, the pension system is divided into two entity pension systems, the pension system of the Federation of BiH and the pension system of the Republika Srpska. In the world, there are three pension pillars on which the financial and social protection of citizens is based. The first two pillars are mandatory and prescribed by the state, and the third is voluntary and includes savings in voluntary pension funds. Currently, there is one state pension fund in the Federation of Bosnia and Herzegovina, that is, only the mandatory first pillar of pensioner protection is applied, although since 2017 there has been legislation for the third pillar. In the Republika Srpska, in addition to the mandatory state pension fund, there is also the Republika Srpska Pension Reserve Fund, which was established in 2010 and is responsible for ensuring the financial sustainability of the mandatory pension insurance. Although in the Republika Srpska, legislation for the third pillar of pensioner protection has existed since 2009, the first and only voluntary pension fund in this entity was established in 2017. The aim of this paper is to analyze the state and possibilities for the functioning of voluntary pension funds in Bosnia and Herzegovina, because the crisis of the pension system is always a current topic, both in the world and in our country. The reform of the existing pension funds is absolutely necessary, considering the fact that human life expectancy is getting longer, and the number of unemployed is increasing, especially due to the development and use of information technologies.

Keywords: *pension system, pension pillars, reform, voluntary pension fund.*



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1 INTRODUCTION

The pension system is an important part of the social security system in all countries of the world, including Bosnia and Herzegovina. Pension and disability insurance is an insurance system based on the principles of reciprocity and solidarity. Thanks to this system, beneficiaries are provided with rights in the event of the risk of old age, disability and physical incapacity, and their family members are provided with rights in the event of the death of the insured person, or the beneficiary of the rights. Therefore, the pension system should function in such a way that it provides security for the above categories of insured persons at all times.

The crisis of the pension system is present even in the most developed countries of the world, because the population of people who will use pensions is increasing dramatically. In addition to unemployment as the biggest problem that every country is struggling with, it is also a fact that human life expectancy has significantly increased in recent years. This has been contributed to by the improvement of medicine and health care.

The pension system in Bosnia and Herzegovina, which is based on intergenerational solidarity, has run into difficulties due to a number of problems. Current problems relate to the constant decline in the population, the increase in the number of unemployed people, and the increase in the number of older people who need to use pension and disability insurance

services. Another problem in Bosnia and Herzegovina is the emigration of the working-age population, who, unable to find work, go to other countries. Therefore, the problem is also the outflow of the workforce that should contribute to maintaining the pension system of our country.

The functioning of the pension system in the world implies the existence of three pillars of pensioner protection. The first and second pillars of pension insurance refer to mandatory public pension insurance, and the third pillar involves savings in voluntary pension funds. Given that there are two entity pension funds in Bosnia and Herzegovina, pension systems have entity regulations and function differently. In the Federation of BiH, there is only a state pension fund, i.e. the mandatory first pillar of pensioner protection is applied, while in the Republika Srpska, in addition to the mandatory state pension fund, there is also the Pension Reserve Fund of the Republika Srpska, and one voluntary pension fund that was established in 2017.

The pension system reform is still not being carried out to a certain extent in the entity of the Federation of BiH, because there is still no voluntary pension fund, although a legal framework has been in place since 2017. In the Republika Srpska, the reform process began back in 2010, when the Pension and Disability Insurance Fund of the Republika Srpska established the Pension Reserve Fund, which was formed to ensure the long-term financial sustainability of mandatory pension insurance. Although a legal framework has existed in the Republika Srpska since 2009, the first and only

voluntary pension fund in this entity was established in 2017, which shows that this entity has nevertheless made a step forward when it comes to maintaining the stability and security of pension insurance.

2 STATUS OF EXISTING PENSION FUNDS IN BOSNIA AND HERZEGOVINA

One of the clearest indicators of the difficulties facing the pension system in Bosnia and Herzegovina is the trend in the number of insured persons and pension beneficiaries, and their ratio. According to publicly available statistical data, in the Federation of BiH one job covers one pension, i.e. the ratio of the number of employees to pensioners is currently approximately 1.20, while published statistical data for the Republika Srpska show approximately the same ratio. For the normal functioning of the pension system, it is necessary that four jobs cover one pension, which means that the current pension funds do not even come close to meeting this criterion.

In the last five years, the pension system crisis in Bosnia and Herzegovina has only deepened, with the ratio of the number of insured persons to pensioners remaining unchanged. The average ratio of the number of insured persons to pensioners for the previous five years in the Federation of BiH is 1.23, while in the Republika Srpska it is 1.18. If we compare the growth in the number of insured persons and the growth in the number of pension beneficiaries in the period

between 2019 and 2023, it can be concluded that in the Federation of BiH in 2023 the number of pension beneficiaries was 4.25% higher than in 2019, and that the number of insured persons in 2023 increased by 1.80% compared to 2019. In the Republika Srpska in 2023 the number of pension beneficiaries increased by 5.68% compared to 2019, while the number of insured persons increased by 5.40%. The increase in the number of pensioners was significant every year until 2020 and the outbreak of the COVID-19 pandemic, when growth slowed down, which can also be explained by the increased mortality rate of this population in that period.

If we consider only 2023 compared to 2022, in the Federation of BiH the number of insured persons increased by 1.04%, and the number of pension beneficiaries by 2.42%, while in the Republika Srpska a larger increase in the number of pension beneficiaries was also recorded, at a percentage of 2.23% compared to an increase in the number of insured persons of 1.58%. An overview of the trends in the number of insured persons and pension insurance beneficiaries in the observed period from 2019 to 2023 is shown in Table 1.

Table 1. Number of insured persons, number of pension beneficiaries, ratio of the number of insured persons and beneficiaries, situation as of 31.12.

Year	FEDERATION OF BIH			REPUBLIC OF SERBIA		
	Number of insured persons	Number of pension beneficiaries	Insured/beneficiary ratio	Number of insured persons	Number of pension beneficiaries	Insured/beneficiary ratio
2019	531,483	425,770	1.25	315,887	267,479	1.18
2020	520,162	428,117	1.21	315,498	271,004	1.16
2021	525,397	429,545	1.22	321,946	272,585	1.18
2022	535,665	434,167	1.23	327,784	276,503	1.19
2023	541,261	444,666	1.22	332,953	282,671	1.18

Data source: Own processing based on data from the Federal Institute of Statistics of the FBiH, the Republic Institute of Statistics of the RS and the Pension and Disability Insurance Fund of the RS

In the observed period, pension expenditures increased by a significantly higher percentage compared to the increase in the number of pension insurance beneficiaries. The highest percentage of growth in pension expenditures in both entities was recorded in 2022, compared to 2021. In the Federation of BiH, the percentage of growth in pension expenditures was slightly weaker in 2020 and 2021, reaching its peak in 2022, when the growth rate of pension expenditures was 14.08%, and this rapid growth continued in 2023, when pension expenditures increased by 23.70%. In the Republika Srpska, a rapid growth in pension expenditures also occurred in 2022, but did not change significantly in 2023. An overview of data on the amount of pension expenditures, expenditure growth rates, and growth rates of the number of pension beneficiaries is shown in Table 2.

Table 2. Pension expenditures, expenditure growth rate, growth rate of the number of beneficiaries, status as of 31.12.

Year	FEDERATION OF BIH			REPUBLIC OF SERBIA		
	Pension Expenditure (in million)	% growth in pension expenditure	% growth in number of pension beneficiaries	Pension Expenditure (in million)	% growth in pension expenditure	% growth in number of pension beneficiaries
2019	182.98	-	-	93.40	-	-
2020	183.19	0.11	0.55	97.18	4.05	1.32
2021	183.63	0.24	0.33	102.12	5.08	0.58
2022	209.49	14.08	1.08	117.75	15.31	1.44
2023	259.13	23.70	2.42	135.86	15.38	2.23

Data source: Own processing based on data from the Federal Pension and Disability Insurance Institute of the Federation of Bosnia and Herzegovina and the Pension and Disability Insurance Fund of the Republic of Serbia

The previously mentioned data on the number of pension insurance policyholders do not show the actual state of the inflow of funds from pension contributions into pension funds, given the already known fact that some public companies do not regularly settle their contribution obligations, but the total pension service is settled at the moment when the insured person meets the conditions for retirement. Given the above, there is a lack of funds, i.e. insufficient inflow of money into pension funds. Since 2016, the pension and disability system in the Republika Srpska has switched to treasury operations, while the same was done in the Federation of BiH in 2020. In practice, this means that all income from contributions becomes income from entity budgets, but it also means that pensions are paid to the insurance from the entity budget, where the difference between lower income from contributions and expenditures for financing pensions is ensured from other sources, such as from VAT revenues, excise revenues and credit borrowing.

3 PENSION FUNDS REFORM IN BOSNIA AND HERZEGOVINA

Pension reform in Bosnia and Herzegovina began with the adoption of new legal

frameworks, both for mandatory state pension insurance and voluntary pension insurance. When it comes to the first pillar of pension insurance, i.e. mandatory public pension insurance, in the Federation of BiH it is regulated by the Law on Pension and Disability Insurance of the Federation of BiH ("Official Gazette of FBiH" No. 13/18, 93/19, 90/21, 19/22 and 47/24). In the Republika Srpska it is based on the Law on Pension and Disability Insurance of the Republika Srpska ("Official Gazette of the Republic of Srpska" no. 134/11, 82/13, 103/15, 111/21, 15/22 and 132/22). In order to ensure the long-term financial sustainability of mandatory pension insurance, the Pension and Disability Insurance Fund of the Republika Srpska established the Pension Reserve Fund, the operating rules of which are regulated by the Law on the Pension Reserve Fund of the Republika Srpska ("Official Gazette of the Republic of Srpska" no. 73/08, 50/10, 102/12, 20/18 and 111/21).

The reformed first part of the pension insurance increased the age limits for acquiring the right to old-age and early retirement, and changed the formula for calculating the pension. The conditions for old-age pension in the Federation of BiH imply that the insured person has reached the age of 65 and at least 15 years of insurance service, or at least 20 years of pension service or when he reaches the age of 40 years of insurance service regardless of his age. The possibility of early retirement is also given, with the age and service years increasing by six months each calendar year. For each month of early retirement compared to the

prescribed age of 65, the amount of the pension earned is reduced by 0.333333%. In the Republika Srpska, the insured person has the right to an old-age pension when he reaches the age of 65 and at least 15 years of insurance service. For an insured person who has not yet reached the age of 65, the right to an old-age pension is acquired when he or she reaches the age of 60 and has 40 years of pensionable service, and a female insured person who has not yet reached the age of 65 is entitled to an old-age pension when he or she reaches the age of 58 and has 35 years of insurance service. It is assumed that there will be a need to increase the age limit for exercising the right to a pension, given the increase in average life expectancy. In both entities, beneficiaries of old-age pensions are enabled to start an employment relationship and receive a bonus for staying in work longer, while continuing to receive a pension.

The pension system reform, which implies the introduction of the second pillar of pension insurance, would imply the allocation of a part of the mandatory contributions of employees to their individual accounts in mandatory pension funds. This would mean a transition from exclusively the first pillar to the existence of the first and second pillars of pension insurance. Given that the contributions from which benefits are paid for existing pensioners would be reduced, this transformation would lead to the unsustainability of the pension system, because the pension system in Bosnia and Herzegovina is already facing a lack of funds for pension expenditures and the existence of only the first pillar of pension insurance.

The third pillar of pension insurance is voluntary pension insurance based on individual capitalized savings. This insurance, in relation to the method of financing and determining pensions, is based on the principles of capitalized savings and defined contributions. The main difference compared to the first and second pillars of insurance is voluntariness, which is why there are fewer restrictions and greater freedom in negotiating the conditions and methods of paying contributions and receiving pensions. The difference is that the state does not guarantee the payment of pensions for the third pillar, as in the first and second pillars of pension insurance, but it encourages voluntary insurance through subsidies and tax breaks. When it comes to the third pillar of pension insurance, in the Federation of BiH there are only regulations that regulate this area, while in the Republika Srpska, the only true and only voluntary pension fund was established in 2017. Payments to the third pillar are accumulated in the personal account of each member of the fund and depend solely on the amounts paid by the members of the fund, the length of the accumulation period and the returns achieved on these funds. Payments are voluntary, flexible in both amount and payment period, and represent the personal property of the fund member.

Voluntary pension insurance in Bosnia and Herzegovina is regulated by entity regulations. In the Federation of BiH, it is regulated by the Law on Voluntary Pension Funds ("Official Gazette of FBiH" no. 104/17), and in the Republika Srpska it is based on the Law on Voluntary Pension

Funds and Pension Plans ("Official Gazette of the Republic of Srpska" no. 13/09, 107/19). The competent regulators have also adopted bylaws that regulate the functioning of voluntary pension funds in more detail. In accordance with the aforementioned laws, pension contributions are funds paid into a voluntary pension fund by the payer. A member of a voluntary pension fund may be a domestic or foreign individual residing in Bosnia and Herzegovina, who directly or through the organizer of the pension program, accesses the voluntary pension fund. A pension contribution to a voluntary pension fund may be paid by the insured person, or another individual or legal entity on behalf of the insured person; the organizer, on its own behalf and on behalf of the employee, or union member, in accordance with the pension program; or the employer, on behalf of and for the employee, in accordance with the membership agreement between the member of the voluntary pension fund and the management company. The right of a member of a voluntary pension fund to withdraw and dispose of accumulated funds is acquired upon reaching the age of 58, and the payment of funds, in addition to installments, can also be made in a lump sum up to a certain amount. The security of this type of insurance is at a high level, because the assets of a voluntary pension fund cannot be subject to forced collection, pledge, mortgage, and cannot be included in the liquidation or bankruptcy estate of the management company, depository bank or other persons, nor can they be used to settle the obligations of a member of the voluntary pension fund and other persons towards third parties. In the

event of the death of a member of the fund, the accumulated funds become the subject of a probate proceeding.

The goal of the pension system reform is to establish a long-term sustainable system with balanced income and expenditure, in which the focus of responsibility for social security in old age will shift from the state to the individual. This goal could be achieved by establishing a mixed public-private pension insurance system, in which the first part is mandatory pension insurance based on generational solidarity, and the third part is voluntary pension insurance based on individual capitalized savings. The privatized third part of the pension system should have a positive impact on the development and strengthening of the financial market and population savings, on the redirection of funds from personal consumption to investments, which would stimulate employment growth and the competitiveness of the economy. In relation to the capital market, an increase in the supply of securities, integration into international markets, more efficient allocation of capital, etc. is expected.

The current state of the pension systems in Bosnia and Herzegovina does not promise security in terms of long-term functioning, as there is a possibility that at some point there will be a halt in the payment of pension benefits. The laws regulating mandatory pension insurance also prescribe certain restrictions when it comes to the amount of pension, which in the future calls into question the financial ability to meet basic living needs. Both entity laws on mandatory

pension insurance have limited the amount of pension, in such a way that the personal point is limited to five. Therefore, when calculating the pension, the insured will only be recognized for contributions paid whose amount does not exceed the contributions of five average entity gross salaries. For insured persons whose gross salary exceeds five average entity gross salaries, the excess amount of paid contributions will not be used when calculating the pension. Given the above, it is necessary for each insured person to take care of social security in old age, and to take certain steps in terms of investing in voluntary pension insurance.

4 FUNCTIONING OF THE VOLUNTARY PENSION FUND IN THE REPUBLIC OF SRPSKA

In the Republika Srpska, there is also a third pillar of pension insurance, namely voluntary pension insurance, which is an integral part of the comprehensive pension system reform strategy in this entity. The first and only voluntary pension fund in the Republika Srpska and Bosnia and Herzegovina, which was established in 2017, is the European Voluntary Pension Fund (EPF). This Fund is managed by the Voluntary Pension Fund Management Company, which was established in the same year. The founders of the Fund are Skupna pokojninska družba from Ljubljana (now Triglav pokojnine dd), the European Bank for Reconstruction and Development (EBRD) and the Pension Reserve Fund of the Republika Srpska (PREF). The establishment of the European

Voluntary Pension Fund has given citizens in the Republika Srpska the opportunity to later use all payments in personal accounts in the Fund as an additional pension. Payment of funds can be made independently or through employers (by joining a pension plan, which includes the employer as the organizer of the pension plan and payer of contributions for its employees). Immediately after the establishment of the voluntary fund, many business entities in this entity signed a memorandum on the process of joining the European Voluntary Pension Fund, and provided their employees with additional pension insurance.

Amendments to the Income Tax Law ("Official Gazette of the Republic of Srpska" no. 60/15, 5/16, 66/18, 105/19, 123/20, 49/21, 119/21, 56/22 and 112/23), which entered into force on 18.12.2019, stipulate that income tax is not paid on the amount of pension contributions paid for voluntary pension insurance up to 1,200 KM per year, in accordance with the Law regulating voluntary pension funds and pension plans in the Republika Srpska. Also, in accordance with the Law on Contributions ("Official Gazette of the Republic of Srpska" no. 114/17, 112/2019, 49/2021, 119/2021, 56/2022, 132/2022 and 112/2023) and Article 21, contributions are not paid on income that is exempt from income tax, so voluntary pension insurance up to the specified annual amount is also exempt from contributions. In addition to the aforementioned significant tax breaks, the Government of the Republika Srpska has been paying a monthly amount of 20 KM of voluntary pension insurance to all employees

who receive a salary from the budget of the Republika Srpska since the beginning of 2020. Although the Republika Srpska has waived a part of the contribution that would have gone to the mandatory Pension and Disability Insurance Fund, that part represents an investment to reduce problems in the future.

The European Voluntary Pension Fund has many different combinations of employer and employee contributions. In practice, most often the employer increases the employee's salary by the amount he pays into the fund, on which he does not pay taxes and contributions. In this way, the employer additionally invests in employees to reduce unwanted fluctuation, while at the same time the employees have savings that are in their name, in their account in the Fund and which they will dispose of in accordance with the regulations as regulated. The amount that is accumulated depends on the period of payment into the European Voluntary Pension Fund, the amount of the monthly pension contribution, as well as the Fund's yield.

4.1 Analysis of the operations of the European Voluntary Pension Fund

The operations of the Management Company and the European Voluntary Pension Fund are strictly supervised by the competent regulators and the depositary bank. As one of the most significant institutional investors on the Banja Luka Stock Exchange, the European Voluntary Pension Fund, in accordance with legal restrictions and

investment policy, invests in securities, and is a significant provider of liquidity on the primary and secondary bond markets. The portfolio of this Fund consists mostly of bonds, followed by deposits with commercial banks, and shares in open-end investment funds.

Based on data from financial reports taken from the official website of the European Voluntary Pension Fund, as of 31.12.2023. the investment structure of the Fund's assets consisted of: investments in bonds in the percentage of 85.87%, investments in deposits with commercial banks in the percentage of 7.27%, investments in shares of open-end investment funds in the percentage of 6.15% and investments in shares in the percentage of 0.71% of the total investment of the Fund. Investments in state, entity or local government bonds account for 97.55%, while investments in corporate bonds account for 2.45% of the Fund's total bond investments. The nominal interest rate ranges from 1.5% to 6% per annum, depending on the type and series of bonds, and the interest rate on cash deposits ranges from 1% to 3% per annum.

If we look at the Fund's operations over the last five years, we can see a significant increase in the Fund's net asset value. One of the causes of the increase in the net asset value is the increase in the number of issued units, with the largest increase in the value of issued units of 440.81% recorded in 2020 compared to 2019. In 2021, the increase in the value of issued units was significantly smaller compared to 2020, at 29.64%, while the increase in 2022 was 7.88% compared to

2021. The smallest increase was recorded in 2023, at 3.60%. The inflow of funds from issued units enabled the investment of funds in financial instruments, which led to an increase in the Fund's investments, which is also one of the reasons for the increase in the Fund's net asset value. Namely, in 2020, the Fund's investments increased by 443.93% compared to the previous year. This was followed by an increase of 97.54% in 2021 compared to 2020, and then an increase of 55.13% in 2022 compared to 2021. And in the case of the Fund's investment, the smallest increase was recorded in 2023 in the percentage of 30.22%. The observed period also saw an increase in operating income related to income from property investments, which in 2020 increased by 386.77% compared to the previous year. A significant increase of 218.25% was also recorded in 2021, while in 2022 it was significantly lower at 53.94%. In 2023, there was another significant increase in operating income of 110.96% compared to the previous year. An overview of data on the value of issued units, investments and operating income of the Fund is presented in Table 3.

Table 3. Value of issued shares, investments and operating income, as of 31.12.

Year	Value of issued shares (in thousands)	% growth in value of issued shares	Investments (in thousands)	% growth in investments	Operating income (in thousands)	% growth in operating income
2019	1,293.52	-	1,521.02	-	21.67	-
2020	6,995.48	440.81	8,273.28	443.93	105.47	386.77
2021	9,068.92	29.64	16,342.72	97.54	335.67	218.25
2022	9,783.23	7.88	25,353.24	55.13	516.74	53.94
2023	10,135.73	3.60	33,016.13	30.22	1,090.10	110.96

Data source: Own processing based on data published on the official website of the European Voluntary Pension Fund Banja Luka

Looking at the investment structure of the European Voluntary Pension Fund, it is evident that the assets of this Fund consist of bonds in the largest percentage. More than 97% of these bonds relate to domestic state, entity or local government bonds, with the aforementioned bodies guaranteeing the repayment of debt to investors with their entire assets. Given that bonds are among the safest financial instruments because they have a low rate of price fluctuation, and their income is known in advance, it can be concluded that the capital of the Fund members is protected.

The European Voluntary Pension Fund also functions thanks to its members. As of 31.12.2023. this Fund had a total of 37,906 active members, which is a significant increase compared to the situation at the end of 2019, when the number of active members was 3,165. One of the possible causes of the increase in the number of Fund members are the measures adopted by the Government of the Republic of Srpska. By introducing tax breaks and co-financing voluntary pension insurance, the Government has stimulated both employers and employees. Employers use these measures to invest in their employees and thus retain them, while employees invest part of their income in capitalized savings, which are safe and can be used in the future.

5 ESTABLISHMENT OF A VOLUNTARY PENSION FUND IN THE FEDERATION OF BIH

With the entry into force of the Law on Voluntary Pension Funds of the Federation of BiH (hereinafter referred to as the "Law"), and the adoption of secondary legislation, a legal basis has been created for the further development of the pension system in this entity and the capital market, where new types of funds should appear, differing in the method and criteria of investment. As already mentioned in the paper, not a single voluntary pension fund has been registered in the Federation of BiH, although the conditions in terms of legal regulations and the existence of competent regulators for the functioning of voluntary pension funds have been met.

The institutions responsible for the functioning of voluntary pension funds in the Federation of BiH are: the Securities Commission of the Federation of BiH (hereinafter referred to as the "Commission"), the Insurance Supervision Agency of the Federation of BiH (hereinafter referred to as the "Agency") and depository banks. The establishment and operation of voluntary pension funds and companies that manage these funds are supervised by the Commission. After the adoption of the Law, the Commission adopted bylaws for the implementation of this Law. If a voluntary pension fund were to be established, with the prior consent of the Commission, a bank would be engaged as a depository and custodian in the role of controller of the fund's operations. There are banks in the

Federation of BiH that have a license from the Commission to perform depository and custodian activities, which include safeguarding the assets of investors in the fund, and ensuring that investors and the public are provided with truthful reporting on the movement of the value of the fund's assets. In the case of the existence of a voluntary pension fund and the fulfillment of the conditions for acquiring a pension for a fund member, the Agency appears as the competent authority, which supervises the insurance companies that make the payments. Therefore, there is strict supervision for the establishment and operation of a voluntary pension fund in the Federation of BiH, given that the operations and safety of the invested money of members of these funds are taken care of by state institutions, as well as reputable banks and insurance companies.

A voluntary pension fund management company is established in the legal form of a joint stock company, which applies the provisions of the Law on Business Companies of the Federation of Bosnia and Herzegovina ("Official Gazette of the Federation of Bosnia and Herzegovina" No. 81/15, 75/21). A management company can be established by domestic and foreign natural and legal persons, provided that natural persons may only have a non-qualified share, while more than 50% of the share in the capital must be held by a legal entity engaged in banking, insurance or pension fund activities, as well as a person who has more than 50% of the share in the capital, or voting rights, in the aforementioned entity. In addition to

establishing and managing voluntary pension funds, the management company also performs organizational tasks, makes investment decisions, makes one-time and scheduled payments, and performs all administrative, marketing and other tasks.

There are many categories of the population that could be interested in voluntary pension savings. In addition to existing and future employees, unemployed people, such as farmers and housewives, could also be interested in this type of savings, who would save money for retirement by investing in voluntary pension funds. As an incentive for investors to establish voluntary pension funds, the Government of the Federation of BiH should be interested in their formation, in terms of amendments to certain legal regulations. At the beginning of 2023, a Proposal for Amendments to the Law on Contributions of the Federation of BiH was established ("Official Gazette of the Federation of Bosnia and Herzegovina" No. 35/98, 54/00, 16/01, 37/01, 48/01, 1/02, 17/06, 14/08, 91/15, 104/16, 34/18, 99/19, 4/21 and 6/23), which has not yet been adopted, and refers to the reduction of contribution rates from a total of 41.50% to 31.50%. In addition to the proposed measure to relieve employers of their obligations, it is necessary to introduce certain tax exemptions for voluntary pension savings, following the example of the Republika Srpska. Namely, if it were prescribed that contributions and taxes are not paid on a certain amount of savings in a voluntary pension fund, interested parties and investors would certainly be engaged in establishing a voluntary pension fund, and thus enable the

existence of a third pillar of pension insurance in this entity. Also, in addition to tax exemptions, one of the ways to encourage this type of savings is to co-finance a certain amount of savings by the Government of the Federation of BiH. The absence of legally guaranteed financial incentives for citizens to invest in voluntary pension funds, whether it is tax exemptions, state contributions or some other form of incentive, may be one of the main reasons for the lack of voluntary pension funds in this entity.

CONCLUSION

The pension system in Bosnia and Herzegovina faces a number of problems that affect the functioning of the mandatory state pension insurance, or the first pillar of pension insurance. Common problems of the region, including Bosnia and Herzegovina, relate to the constant decline in the population, the increase in the number of unemployed people, and the increase in the number of older people who need to use pension and disability insurance services. Although both entity pension systems are based on intergenerational solidarity, sustainability is not possible given that one job covers one pension. Due to insufficient inflow of money into pension funds, both entity pension systems have switched to treasury operations. However, whatever the state undertakes in the field of parametric changes within the entity pension insurance cannot be enough to increase the pension income of citizens in old age. In order to ensure a higher pension for future pensioners without the burden falling on employers, one

of the solutions is the formation of voluntary pension funds, or the formation of the third pillar of pension insurance.

Developed economies have long since switched to a pension financing system with a third pillar of pension insurance, with the aim of facilitating the functioning of the existing system. The reform of the pension system in the Republika Srpska has begun, given that this entity already has an established voluntary pension fund, which, in addition to contributing to the strengthening of the pension system, also affects the development of the domestic capital market and the attraction of new investors in various branches of the economy. Voluntary pension funds are generally among the largest institutional investors in capital markets, as they contribute to the creation of the primary and maintenance of the secondary market for government, local and corporate securities. The experiences of neighboring countries show that voluntary pension funds, together with banks, are the largest investors in government bonds.

In the entity of the Federation of BiH, the third pillar of pension insurance has not yet been established, that is, not a single voluntary pension fund has been registered. A possible reason for the failure to establish voluntary pension funds in this entity is a disincentive legal framework. Also, the lack of financial incentives for potential investors would to a certain extent limit the success of these funds' operations. If the entity authorities were to engage in amending certain legal regulations relevant to the establishment of the third pillar of pension

insurance, banks, insurance companies, other financial institutions, and all interested parties that meet the prescribed conditions would certainly be stimulated to establish voluntary pension funds. This way of reforming the pension system would help restore credibility to the pension system, influence the development of the capital market, and thus enable the strengthening of some of the characteristics of the transition such as: resilience, integration, green transition, governance, and competitiveness, which are key elements of successful and sustainable market economies.

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