

# DEMOGRAPHIC CHANGES IN THE CONTEXT OF THE CROATIAN PENSION SYSTEM

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## OBJECTIVE

In recent decades, the Croatian pension system has undergone numerous reforms and changes, but its functioning is still characterized by insufficient revenues, relatively high contributions, and relatively low pensions. Moreover, the pension level is often perceived as so low that it does not allow beneficiaries to earn a decent living. The dissatisfaction stems from the fact that among today's pension recipients there is a prevailing view that they have taken care of themselves during their working lives by paying contributions into the pension system, which is a consequence of not understanding how the inherited system of generational solidarity works.

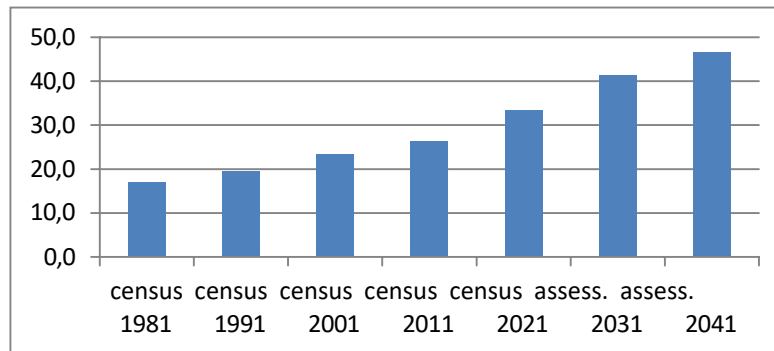
Moreover, due to the unfavorable demographic situation in Croatia, this system will increasingly run into difficulties, and it will not be possible to repair it or secure its financing in this form. The seemingly surprisingly worrying results of the 2021 census are only the expected consequence of long-term population aging, depopulation, low birth rate and negative net migration. In a broader sense, the consequences will be visible in the pension system, but also in the negative impact on the labor market and the health care system.

Therefore, it seemed reasonable to investigate possible economic policy measures to mitigate the effects of an aging population. Most of the studies dealing with the pension system in Croatia refer to the analysis of the capitalized savings in the second and third pillars of the pension system, as well as to the prediction of the future development of funding problems in the first pillar or the intergenerational solidarity. Our contribution is to complement the existing literature by showing the ways to eliminate the negative consequences of population aging in order to promote demographic renewal and the possible increase of pension income.

## METHODOLOGY

Demographic trends in Croatia have been unfavorable for several decades, and after Croatia joined the EU, a wave of large-scale emigration began (Ivanda, 2017). One of the most important indicators of population structure by age and aging rate is the age dependency ratio of the elderly. The age dependency ratio is expressed by the number of elderly people per hundred working-age people and shows the utilization of the working-age contingent with the post-working-age contingent. Chart 1 shows changes in the age dependency ratio and estimates of these changes in the future.

According to the 2011 population census, there were 26.4 people of working age for every 100 residents. By 2021, it is estimated that the labour force will already be burdened with 33.4 elderly people, about 26.5 percent more than in 2011, and an estimate for 2041 suggests that the system will be completely unsustainable due to high age dependency.



**Figure 1:** Movement of the age dependency coefficient

## RESULTS

The empirical findings support the need for policy measures aimed at mitigating the effects of population aging. These policies can take the form of active labour market policies or legal reforms that delay retirement by penalizing early retirement and providing stricter eligibility criteria and incentives for employment above the threshold age (Žokalj, 2017). In this study, we propose some measures for active employment policies aimed at increasing labour force participation and employment rates to reduce the high burden of demographic change in Croatia. We also present some novelties in legislative reforms aimed at preventing early retirement and increasing labour force participation by subsidizing employers who hire citizens older than 65, but most importantly, economic policies that promote demographic renewal.

## CONCLUSION

This paper provides insights into the composition and comparative relevance of the demographic effects that explain the difficulties in the functioning of the Croatian pension system. The unfavourable situation of the pension system, with its declining revenues, will put additional pressure on pension expenditures, which must be reflected both in the level of pensions and in the search for other sources of revenue. For all these reasons, a radical or profound change in the functioning of the Croatian pension system is needed. There are a number of possible solutions for a permanent increase in labour productivity and post-retirement employment opportunities. Nevertheless, an active, innovative and long-term approach by a number of institutions can mitigate or even reverse the detrimental impact of demographic trends on the system of intergenerational solidarity in Croatia.

**Keywords:** *demography changes, pension system, age dependency ratio, Croatia*

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