

# ANALYSIS OF THE PENSION EXPENDITURES IN ROMANIA AND OTHER COUNTRIES

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*The group that includes the expenditures on old age pensions and heirs pensions is the most important chapter of the social insurance state budget. The above-mentioned group decisively influences the level and the dynamics of the total expenditures on social welfare/security both in the countries of the European Union and in Romania. An increase in the expenditures on public pensions has been observed for the last twenty years in most countries of E.U., under the influence of the economic and demographic factors, their level representing about 12% of the GDP.*

*Key words: public pensions, schemes/tables for pensions, beneficiaries, social security services.*

## 1. The Romanian pension system – a short description

In Romania, the expenditures allotted to pensions are currently made in accordance with more schemes:

- the public pension system which functions within the social insurance system of the state by means of which the state offers other services, too, such as the allowance given for raising children till they are two years old;
- special schemes for the employees who work in certain public institutions, such as: the Ministry of (National) Defence, the Ministry of Administration and Home Affairs/Interior, the Romanian Secret Service, The State Secretariat for Cults, the Lawyers' Insurance Agency;
- the agricultures' social insurance scheme;
- the scheme for the pensions granted to the invalids/disabled, orphans and war widows;
- the scheme that provides welfare pensions.

The most comprehensive and representative scheme is that of the public pension system which functions under the law no. 19/2000, a law that was put into force on the 1st of April 2001. Within this scheme, we can find the following services, granted as types of pension:

- the pension due to age limit with a complete period of financial contribution;
- the anticipated pension;
- partial anticipated pension;
- invalidity-disability pension;
- heirs pension.

### a) The pension due to age limit

Beneficiaries: This type of pension is granted to the insured persons who meet, on the date of their retirement, cumulatively, the following conditions: the standard age limit and the minimum level of financial contribution. For those who work in normal conditions, these are as follows:

- The standard age limit for retirement as provided by the law is 60 years old for women and 65 years old for men. This age should be reached within 13 years from the date the law comes into force, by gradually increasing the retirement age, starting from 57 years old for women and from 62 years old for men, according to the actual spacing out scheme found in an appendix/annexment of the law. The age of 60 for women and 65, respectively, for men, as an obligatory condition for them to be offered a pension for the age limit will be reached in the period December 2014 – March 2015. (according to the appendix no.3 of the law).

- The minimum level of financial contribution, both for women and for men is of 15 years (before the enactment of the law the proposition was for a 10 year period) and will increase gradually in 13 years.. The persons who meet the two obligatory conditions will be granted a minimum pension.
- The complete stage of financial contribution has been fixe dat 30 years for women and 35 years for men. As in the case of the standard age, reaching the complete stage of contribution will be accomplished in 13 years from the date the law came into force, through its increase, starting from 25 years for women and 30 years for men.

For those persons who work in different, special conditions, the age limit for retirement and the stage of financial contribution are lower. For special work conditions, for example, the age limit cannot be less than 50 years for women and 55 years for men. The provisions of the law stipulate that the cumulative decrease in the standard age limit and the complete stage of contribution for those who have worked in special or difficult conditions cannot be less than 12 years.

#### b) The anticipated pension

Beneficiaries. The insured persons who have overran the complete stage of financial contribution by at least 10 years are entitled to an anticipated pension. They can claim their right to anticipated retirement, meaning before they turn the standard age for that, with no more than 5 years before. When they reach the standard age limit, the anticipated pension will become a pension for age limit and will be recalculated.

#### c) The partial anticipated pension

Beneficiaries. The right to a partial anticipated pension is given to the insured persons who completed their contribution stages as well as to those who overran the complete contribution stages by up to 10 years, but who are no more than 5 years younger than the standard age limit. The level of the partial anticipated pension is decided taking into account the sum allotted for the age limit, by decreasing it in accordance with the contribution level and the number of months before the standard age limit. For instance, for a person who overran the standard contribution stages by 5 years, the percentage of pension reduction for each month of decreasing the standard age is 0.25%.

#### d) Invalidity/disability pension

Beneficiaries. The persons who are entitled to an invalidity pension are those who have lost totally or partially or at least half of their working capacity because of:

- work accidents, according to the law
- professional diseases and tuberculosis;
- common diseases and accidents that are not related to their work.

There are some other categories of persons entitled to the invalidity pension, too, if they meet the conditions mentioned above: the insured persons who do their military service; the pupils, the apprentices and the students who have lost their working capacity because of accidents or professional diseases that occurred during and because of their professional training/practice period; those who have lost their working capacity and the persons severely mutilated during the events that took place in 1989 as well as those who were already part of the previous system of invalidity pensions.

There are three degrees of invalidity/disability and a different type of pension is assimilated to each of them:

- First degree, characterized by the total loss of working capacity, of self-service, etc., when the invalid requires permanent attention/supervision; the first degree pensioner have the right to receive an allowance for their attendant/carer in a fixed quantum.
- Second degree, characterized by the total loss of their working capacity, but with the possibility for the invalid to self-service, orientation, etc. by himself/herself;
- Third degree, characterized by the loss of at least half of their working capacity, when the invalid is still capable of working.

When reaching the standard age or the reduced standard age for obtaining the pension for the imposed age limit, the beneficiary of the invalidity/disability pension may choose the most advantageous one between the two.

e) The heir's pension

Beneficiaries. The children and the surviving spouse are entitled to obtain an heir's pension if the deceased person was a pensioner or met the requirements for obtaining one.

**The children have the right to receive the heirs pension till they are 16. If they choose to continue their studies in an organized educational institution, according to the provisions of the law, they are entitled to the pension till they graduate, but till the age of 26.**

The surviving spouse is entitled to the heir's pension as long as he/she lives from the moment they reach the age of retirement, if their marriage has lasted for at least 15 years (or at least 10 years on condition that the level of the pension of the surviving spouse decreases by 0.5% each month, or 6.0% accordingly, for each year of marriage left till the completion of the legal period).

The heirs pension is to be calculated, depending on the case, from:

- the pension for the age limit in course at the time of death or the pension the spouse would have been entitled, according to the actual laws, the deceased spouse;
- the first-degree invalidity pension in such cases when the death of the support of the family had taken place before meeting the requirements for obtaining the pension granted for the legal age limit and had at that time an invalidity pension of any degree, anticipated pension, partial anticipated pension or he would have had the right, under the provisions of the law, to one of these types.

The level of the pension is established by applying a certain percentage to the average yearly total of points realized by the support of the family and on its basis, the pension is calculated taking into account the number of heirs and heiresses who are entitled to it:

- for a single heir – 50%;
- for two heirs – 75%;
- for three or more heirs/heiresses – 100%.

The surviving spouse who is entitled to his/her own pension and meets the requirements to obtain the heir's pension as the surviving spouse may choose the biggest pension.

## 2. The expenses concerning the pensions for the old persons. A comparative analysis

The pensions are one of the biggest, most important and at the same time, most complicated in the entire system of the expenditures on social protection. These claims are supported by the indicators expressing, in short, the expenditures implied by their proper functioning: the percentage of the pension expenditures of the GDP and the total amount of the expenditures on the social protection services. The analysis shown below refers to the expenditures on pensions associated to old age risks, most of them pensions granted for age limit and heirs pensions. Invalidity pensions are included in the „Disability” function, according to the ESSPROS methodology.

The expenditures on the services designed for the coverage of the sector consisting of the old age risks and the heirs risks (taken together) hold nearly 12 % from the GDP (table 1) and cover nearly half of the total expenditures on the social protection services (table 2) in the EU member states on the whole

|         | 1990  | 1995 | 2000 | 2001 | 2002 | 2003 | 2004  |
|---------|-------|------|------|------|------|------|-------|
| EU-25   | ...   | ...  | 12,1 | 12,1 | 12,0 | 12,3 | 12,0  |
| EU-15   | 11,3* | 12,1 | 12,2 | 12,1 | 12,1 | 12,4 | 12,32 |
| Italy   | 13,6  | 15,2 | 15,4 | 15,3 | 15,5 | 15,7 | 15,4  |
| Austria | 13,0  | 13,2 | 13,3 | 13,5 | 13,8 | 13,8 | 13,6  |
| Sweden  | ...   | 12,8 | 12,0 | 9,1  | 9,1  | 12,9 | 12,7  |

|           |      |      |      |      |      |      |      |
|-----------|------|------|------|------|------|------|------|
| Greece    | 11,2 | 11,2 | 12,6 | 13,0 | 13,0 | 12,9 | 12,8 |
| France    | 11,4 | 12,5 | 12,3 | 12,2 | 12,4 | 12,6 | 12,8 |
| Belgium   | 10,5 | 11,4 | 11,2 | 11,7 | 12,2 | 12,6 | 12,3 |
| Germany   | 11,2 | 11,6 | 11,9 | 12,1 | 12,3 | 12,4 | 12,4 |
| UK        | 9,9  | 11,6 | 12,7 | 12,4 | 12,6 | 11,6 | 11,5 |
| Denmark   | 10,2 | 11,7 | 10,7 | 11,8 | 10,9 | 11,1 | 11,1 |
| Holland   | 11,6 | 11,1 | 10,9 | 10,4 | 10,7 | 10,6 | 11,1 |
| Portugal  | 5,6  | 7,9  | 8,7  | 9,1  | 9,9  | 10,5 | 11,0 |
| Finland   | 8,2  | 10,0 | 8,8  | 9,1  | 9,4  | 9,7  | 9,6  |
| Luxemburg | 9,9  | 10,3 | 7,9  | 7,8  | 8,2  | 8,7  | 8,1  |
| Spain     | 8,3  | 9,4  | 8,8  | 8,6  | 8,5  | 8,5  | 8,5  |
| Ireland   | 5,4  | 4,8  | 3,4  | 3,5  | 3,6  | 3,7  | 3,8  |
| Poland    | ...  | ...  | 10,8 | 11,8 | 12,2 | 12,4 | 11,8 |
| Slovenia  | ...  | ...  | 11,0 | 11,3 | 11,5 | 10,8 | 10,6 |
| Malta     | ...  | 8,8  | 8,6  | 9,4  | 9,4  | 9,5  | 9,5  |
| Hungary   | ...  | ...  | 8,0  | 8,2  | 8,7  | 8,6  | 8,6  |
| Czech     | ...  | 6,6  | 8,3  | 8,2  | 8,3  | 8,2  | 7,8  |
| Cyprus    | ...  | ...  | 7,9  | 7,2  | 7,9  | ...  | 8,5  |
| Latvia    | ...  | ...  | 8,8  | 7,9  | 7,6  | 6,9  | 6,1  |
| Slovakia  | ...  | 6,9  | 7,1  | 7,1  | 7,2  | 7,0  | 6,6  |
| Lithuania | ...  | ...  | 7,3  | 6,8  | 6,5  | 6,3  | 6,1  |
| Estonia   | ...  | ...  | 6,4  | 5,9  | 5,9  | 5,9  | 5,8  |
| Romania   | ...  | ...  | 6,2  | 6,2  | 6,3  | 5,6  | 5,6  |

\*EU-12

*The percentage of expenditures on the pension services (old age/OAP + heirs) of the GDO*

|                | 1990  | 1995 | 2000 | 2001 | 2002 | 2003 | 2004 |
|----------------|-------|------|------|------|------|------|------|
| EU-25          | ...   | ...  | 46,8 | 46,4 | 45,8 | 45,7 | 45,9 |
| EU-15          | 46,2* | 44,8 | 46,8 | 46,2 | 45,7 | 45,5 | 45,5 |
| Austria        | 50,1  | 47,3 | 48,1 | 48,8 | 48,5 | 48,3 | 48,2 |
| Belgium        | 41,7  | 43,1 | 43,9 | 44,9 | 44,8 | 44,5 | 44,1 |
| Denmark        | 36,7  | 37,7 | 38,0 | 38,0 | 37,6 | 37,2 | 37,2 |
| Finland        | 33,8  | 32,8 | 35,9 | 36,6 | 36,9 | 37,0 | 36,9 |
| France         | 42,7  | 43,5 | 44,7 | 44,1 | 43,6 | 43,3 | 43,6 |
| Germany        | 45,8  | 42,8 | 42,4 | 42,8 | 42,6 | 42,9 | 43,5 |
| Greece         | 51,7  | 52,0 | 49,7 | 51,4 | 50,6 | 50,7 | 50,9 |
| Ireland        | 30,4  | 26,4 | 25,1 | 24,4 | 23,5 | 23,2 | 23,3 |
| Italy          | 57,3  | 63,4 | 63,2 | 62,2 | 61,9 | 61,8 | 61,3 |
| Luxemburg      | 46,8  | 45,1 | 39,8 | 37,4 | 37,4 | 37,2 | 36,5 |
| Holland        | 37,4  | 38,0 | 42,4 | 42,0 | 41,6 | 40,3 | 41,6 |
| Portugal       | 41,9  | 41,1 | 44,7 | 45,7 | 45,4 | 46,2 | 47,2 |
| Spain          | 42,9  | 43,9 | 46,3 | 45,2 | 44,5 | 43,8 | 43,7 |
| Sweden         | ...   | 37,4 | 39,4 | 39,9 | 39,4 | 40,2 | 40,1 |
| UK             | 45,4  | 43,2 | 48,7 | 46,3 | 45,3 | 44,9 | 44,6 |
| Czech Republic | ...   | 38,8 | 42,7 | 42,7 | 41,9 | 41,2 | 41,1 |

|           |     |      |      |      |      |      |      |
|-----------|-----|------|------|------|------|------|------|
| Cyprus    | ... | ...  | ...  | 46,9 | 49,3 | ...  | 48,3 |
| Estonia   | ... | ...  | 45,4 | 44,2 | 44,6 | 44,8 | 43,7 |
| Latvia    | ... | ...  | 58,3 | 56,3 | 56,3 | 53,1 | 50,0 |
| Lithuania | ... | ...  | 47,9 | 47,6 | 47,5 | 47,4 | 47,3 |
| Malta     | ... | 51,4 | 51,8 | 54,0 | 53,1 | 52,3 | 51,2 |
| Poland    | ... | ...  | 55,7 | 57,3 | 56,9 | 58,5 | 60,1 |
| Slovakia  | ... | 38,1 | 37,1 | 38,3 | 38,5 | 39,4 | 40,1 |
| Slovenia  | ... | ...  | 45,3 | 45,5 | 46,5 | 45,0 | 44,7 |
| Hungary   | ... | ...  | 41,5 | 42,4 | 43,1 | 41,3 | 42,5 |
| Romania   | ... | ...  | 48,5 | 48,7 | 48,2 | 45,6 | 37,9 |

\*EU-12

*The percentage of the expenditures on pension services (old age and heirs) of the total amount of expenditures on social services*

The highest percentages of the services related to the old age (OAPs) and heirs pensions were recorded in Italy, Austria, Germany, France, Holland, etc., and the lowest, in Ireland. In the cases of the new EU member states, except Cyprus and Malta, the highest percentages are found in Poland, Slovenia and Hungary.

In Romania, this percentage out of the GDP was estimated at 6.2% in 2002 and at 5.6% in 2004, according to the ESSPROS methodology. With such a percentage in 2004, Romania is on the penultimate place of all the 26 countries compared. This percentage is situated at less than a half of the average percentage estimated for the 25 EU member states on the whole. The highest level of this indicator was recorded in Austria (13.6%), France and Greece, each of them with 12.8% of GDP. When interpreting this evaluation, one should take into account the important differences between these countries as far as their GDP per inhabitant is concerned.

As a percentage in the total expenditures on the social protection services, those for the coverage of the old age and heirs risks (together) hold the highest percentage, about 45% on the average in the EU countries.(table 2). The services for these two functions hold a high percentage in Italy (61% of the total social protection services). High percentages are found in Austria, France, Germany, etc., and from the newly admitted countries, in Poland (60.1%) Among the dominant factors we should mention the great number of people aged 60 and more as well as the level of pensions.

In Romania, the percentage of the services in this group in 2004 was estimated at 38% of the total of services and at only 5.6% of the GDP, percentages that are much lower than those from most European countries, though nowadays we have a big number of pensioners, most of whom have a very low level of pensions, far from being enough to make a decent living.

The big amount of expenditures on pensions and their continuous increase have led and will lead to serious financing problems on the one hand, as a result of the fact that the pension is the main source of money for many old people (in many cases, the only one) and, on the other hand as a result of the fact that the financing process is closely related to the economy, the economic growth and the competitiveness of products respectively.

## References

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