

PENSIONS INSURANCE SYSTEM IN ROMANIA AND IN EUROPEAN UNION'S STATE MEMBERS

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Abstract: The actual socio-demographical and economical context of Romania - the ageing of the population, the reduction of the active population, macro economical problems and so; transforms social protection and pension system's efficient administration into a fundamental challenge not only for the actual governments but for the future ones. This unfortunate context becomes an alarming situation for the countries in a transition period, like Romania - incapable of finishing a pension reform, lack of vision and coherent strategies in field-, and also for the developed countries which are confronting with a growth lack of balance between available resources and those necessary for pension insurance.

Key words: pensions, reform, European, socio – demographical context.

1. Romanian pensions system

Social protection has lately become a sensitive subject in Romania, and also in European Union's member states. The actual problematic connected with slow economical growth, the spreading of unemployment, ageing, the lowering birth-rate, the reduction of active population and so, generate a powerful pressure upon the pension insurance system and also upon its financing; social labor conscription can be regarded from different perspectives building itself as a crossroad area of pressures from many directions¹:

- derived pressure from social labor constriction's main function, that of population or its specified categories protection in front of some social risks; represent the main reason of the entire system;
- derived pressure from the demands and standards of ensuring a balance at the macro economical level;
- pressure from the productive sector, companies and employees, that carry the burden of social cost and labor; considered of affecting companies competitively and real employees incomes but also the labor market functioning.

Romania has a long life tradition in what concerns social- insurances, those being implemented since the beginning of XXth century, being among the first European countries that introduced at that time a compulsory insurance system.

Before 1989, the pension system in Romania situated itself at a comparable level with employee's incomes, except of farmer's pensions which were very low; the great majority of population was covered.

By pension system which was working without major financial problems, in the conditions of pensioner's dependence rate towards the low active population

After 1989, pension quantum was established proportional with the size of every citizen's contribution, using PAYG system that assumes a certain redistribution based on social solidarity principle between generations and between pensioners categories; but this redistribution(through establishing an extreme limit of pensions)disadvantaged the persons with high incomes.

¹ *Maria Poenaru, „Prestațiile sociale în țările membre ale U.E. și în România; Academia Română,2003*

As a consequence among public pensions, now called the first pile which also exists in the European countries, social solidarity principle is maintained and compulsory contribution payment, even though their importance has decreased in favor of private pensions, the distortion between contribution proportions and those of the pensions being unjustified. This inequitable method has been preserved until 1st April 2001, when law 19/2000 has been adopted, law which represents the beginning of a late Romanian's pension system reform.

The main causes which determined these unbalances are made of:

- the low rate of economical activity and the alarming increase of unemployment through out government's inefficient capitalization politics and the selling of many companies that represented the productive segment;
- the reduction of the liable to pay duties through the increase of unemployment and the establishment of social laws which assure different social professional systems without social insurance contribution payment;
- the increase of the number of pensioners due to the early retirement by avoiding the increase of unemployment and also through laws resembling electoral and political capital;
- artificial increase of the number of pensioners due to the invalidity in suspect conditions, fraudulent or undiscovered;
- the inefficiency of contribution collecting system;
- the growth of tax dodging;
- the increase of inflation that produced the cracking of pension's benefices;

All these causes, and also the inefficient politics adopted after 1989 induced important financier unbalances in necessary resources for pension's allocation, and the Romanian pension system has confronted with series problems during the transition period²:

- the injustice of calculating retired person's pensions in different period of time;
- the postponement of pension system reform and its legislation instability;
- the reduction of liable to pay from over 8 million to approximately 4,5 million in present;
- the alarming increase of retired persons (from 3, 5 millions in 1990 to over 6 millions after 2004);
- low collecting rate (the non-payment of some employers);
- undeclaring real incomes;
- low rate of covering the active population with pension insurances;
- postponing the introduction of some complementary solutions of collecting contributions;

Practically, because of the increase of elder population and of diversifying its specific needs.

A new balance between pension resources and other social insurances/other costs is needed through the increase of allocated resources and the reduction of exits, pension demands, and number of pensioners.

2. The necessity of reforming the Romanian pension system

Law 19/2000 marked the beginning of the Romanian's pension system reform. This new law has restriction the access at benefit by modifying the retirement age to 60 years for women and 65 for me (gradually until 2013), and the needed labor period of time: 30 years for women and 35 for men; the

² *Marian Preda, et al.-, „Sistemul de asigurări de pensii în România în perioada de tranziție: probleme majore și soluții”, Institutul European din România, București, 2004.*

introduction of a more drastic control concerning infirmity pensions, early retirement restrictions, clear definition and the delimitation of working places in dangerous conditions

Nicholas Barr (World Wide Bank, 1995) adopts in 1995 the following conclusions regarding pension systems in the former communist's countries from Central and Eastern Europe:

1. *State pension reform in these countries is vital* since the actual PAYG system's costs will induce more accentuate financier deficits. We should take into consideration that systems, PAYG and those based on funds do not totally resolve problems. If in the first situation the social pressure is oriented towards pension quantum's increase, the second, as the experience from Latin America has proved us, refers to a problem based on the cracking of funds by the inflation
2. *The reform has to be as simple as possible.* Operating methods of financial markets and private pension funds management must have a high operational expertise and one of adjusting the system. Though former communist's countries are still on one hand, in lack of

these high qualified human resources in domain, on the other hand there are compulsions caused by limited institutional capacities. All these make the simplification of pension system's reform program necessary.

3. *Private pensions need a settlement system well organized.* The management of pension funds stands up complex technical problems which are poorly understood even by the best consumers. In this way, fund adjustment mechanisms and institutions are taken as they are by the countries which are reforming their pension systems, although developed countries as U.S.A or England are changing in present, after the appearance of some financial scandals connected with these funds.
4. *Private pensions require protection against inflation.* The problem of inflation represents a threat for the west doing the fact that it is more profound in Eastern Union where the experience of financial market functioning is low. So, the intervention of the state as guaranty becomes of great importance, the state being the one able to offer both direct guarantee but one based on the emission of indexed obligations. This intervention is based on the principle of horizontal justice: pensioners do not have to endure the risk of inflation more than employees should.
5. Western countries experience show us that the social pressures are more powerful for the state intervention in the direction of guaranteeing these funds and the pressures become even stronger when the funds are confronting difficulties.
6. *Reform requires political options.* The political decisions regarding the adjustment and the functioning of these funds provoke a series of questions and principle options concerning: social solidarity measure, the size of redistribution (minimal/maximal), the actors that endure the risks and risk division (employee fund and state), the adjustment system compulsion degree (how much liberty has the employee to chose?) and so.
7. *The introduction of reform* implies the development of institutional capacity: the involvement of specialists and functionary from the system's design phase, computerizing the records.

The system based on funds cannot be taken into consideration as a short term adjustment of budget crisis, but as a long term reform for the protection of elder persons.

Nicholas Barr provisions have proved themselves real referring to Romania and Eastern pension systems and they are current, the Romanian pension system must be reformed considering the actual characteristics and system's institutional possibilities, Romanian beneficial profile and also Western countries experience or that of neighbor countries.

In the actual demographical context, the ageing of population, the reduction of birth-rate, the financial pressures on pension systems lead to the search of new alternatives for the public pension system on medium and long term for guaranteeing financial sustainability and assuring higher pensions.

According to a study of "Social and Economical Affair Department", in O.N.U (2006) the population of Romania will have with a 17,5% proportion an average of age over 65 years in 2020, and in 2050 30% of the population will have over 65 years , as a consequence the necessity of expanding the actual pension system with two more pension sources(Pillar II and Pillar III) was born, supplementary at public state pension (Pillar I); that are built through participants individual contributions, being administrated by private companies, not like the old system based on generation solidarity of " pay as you go" type.

Alternative pensions have a serial of attracting characteristics as flexible retirement age individual's freedom on choosing, increasing life-hope, high capacity of handling risk and incertitude.

3. The integration of Romanian pension system in the European pension system

The actual reform of Romanian's pension systems must gather European Union's legislative tendencies. It is confronting in present with difficulties in its own pension systems that have as determinisms social and economical factors, which have lead in European Union at establishing a long and medium term of common measurements. As a consequence of Romania's demand of joining European Union, European Commission imposed to Romania several demands concerning the perspective of Romanian's pension systems in joining the European one:

- the increase of contribution collecting degree;
- the reduction of the system's financial crisis;
- the increase of PIB percentage destined for social insurances;
- the reduction of inequalities from the system generated by applying special pension laws for some socio-professional categories;
- the growth of coordinating capacities with E.U.'s social insurance systems;
- the actualization of social insurance laws concerning the transfer of rights and social insurance benefits in Romania and other states;
- the development of institutional capacities;

At the meeting which took place at Lisbon in 2000, The Europe Council has decided to form a Commission able to realize a study about member states pension system's sustainability and to propose solutions for resolving the unbalances (the Lisbon Strategy)³.

A series of short term (2010) or long (2050) common measurements concerning the following strategic points were adopted:

1. The delivery of adequate pensions:

- assuring a decent life style for the retired persons;
- promoting solidarity among generations;
- supplying individual's access at public or private pension systems;

2. System's financial sustainability:

-public expenses with pensions are assumed to grow with 3-5% of PIB in most of EU's countries "between years 2000-2050" (15-20% of PIB in 2030) the following measures concerning system's sustainability were proposed:

- economical growth;
- the growth of skilled labor occupying rate from an economical growth of 3% from PIB, the medium employment rate should get until 2010 to 70% from the total active population (60% for feminine population) and to 83% until 2045- if the skilled labor occupying rate will grow according to this strategy, until 2010, the growth of public pension's expenses are to be reduced at a third in 2050;
- the growth of elder population's occupying rate (55-64) from 38, 5% to 50% until 2010 (retirement postponement);
- bringing qualified labor from countries in course of developing or under-developed ones;
- attraction women to enter and re-enter the labor market after a break of time period;
- the system's flexibility to allow women to work and to take care of the youngsters (the attempt of stimulating the growth of fertility);
- the recognition of years when the woman ends her work in order to take care of the new-born as bonus to the pension (2, 3 years);

³ Adequate and sustainable pensions, Lisabona, 2000, www.en.int.org.

- adding one year to the pensioning age will absorbed approximately 20% of the medium forecasted growth of pension expenses from 2050;
- the harden of beforehand retiring conditions;
- the growth of retiring age with 5 years until 2010;
- equalizing the age of retirement for men and women to 65 years until 2020;
- adopting reserve funds in order to support the baby-boom generation's retirement;
- the growth of access for obtaining supplementary pension reducing in this manner the pressure upon public system;

- finding other financial resources for the public pension system, like eco-taxes;
- insuring the citizens that a long term contribution to the system will lead to higher benefits (to encourage the elder ones to remain on the labor market);

3. Re-newing pension systems as a response to the changing needs on the labor market:

Improving Pillar II system in order to enlarge the covering of mobile workers concerning the working place and the territorial one.

4. Conclusions

Analyzing Romanian pension system, as a consequence of diversifying its specific needs a new balance of pension resources and the reduction of system's problems through:

- enlarging resources allocated by PIB and attracting new supplementary financial resources;
- the reduction of retirement demands, of infirmity and early pensions ,and the number of retired persons;
- creating and adopting long and medium term strategies regarding the assurance of life hope for elder persons;
- organising complete and efficient informational data bases;
- introducing a correct monitoring statistic indicators system, necessary for a highly competent analysis of pension system;
- a demographical politics based especially on the groth of birth rate;
- an adequate politics of immigration from certain areas and emigration towards some regions;
- recalculating the raports concerning fiscal burden; is needed.

No matter the type of the reform and the chosen solutions, we must find all the important measures to equilibrate the system through the participation of the entire Romanian and European society.

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