ANALYSIS OF THE ROMANIAN PENSION SYSTEM FROM AN EUROPEAN PROSPECTIVE

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The political, economic, social, cultural and especially demographic aspects have put their inprints on the pension, so that it should keep in mind the way they were built and are building the European social policies in general, and EU policy on pensions, in particular. In the private pension system, Romania has not only held the EU standards, but also objectives of other international bodies (IMF, World Bank), as it happened in other countries (Hungary, Poland, Bulgaria, Croatia) that have imposed their own model of pension scheme (pension scheme on the three pillars). Assessment of the Romanian pension system from an European prospective means to analyze as we extent closer to the EU. Thus analyzed overall objectives of the EU, although it is difficult to quantify precisely these objectives, we can say that in recent years, Romania has made sustained efforts to achieve coherent and effective policies on pensions, but there is still have a lot to be done to reduce the gaps and reach EU objectives on pensions.

Keywords: social insurance, pension reform, social security system, private pension

JEL Classification: Z/Z0

Since ancient times people took care to save a part of their material resources in order to overcome certain events qualified as social risks, such as sickness, maternity, invalidity, old age, accidents at work and occupational diseases, unemployment, etc. from this point of view, Social Security benefit, sickness insurance, family benefits for maternity, unemployment insurance and other rights are part of the social insurance scheme, and their organization and financing aims to meet the most urgent problems imposed by economic restructuring and the needs of various social categories.

The Social Security system is the most important component of the system of social protection and reflects the evolution of economic, social, political, and cultural demographics of a country in the context of globalization and integration. In this way, in recent decades the European Union has made sustained efforts to achieve coherent policies and effective in the field of social security benefits, but major changes in this complex mechanism are difficult to achieve, even more harder the stabilization of national insurance.

The issue of security coordination is stipulated since 1971 (Regulation 1408/71), but lately has been focusing more on the size of intraeuropeean communication and at the Lisbon European Council (2000), Stockolm (March 2001), Laeken (December 2001), Luxembourg (June 2002) Brussels (2002), etc. indended to find solutions in the field of social security. After the meetings in Lisbon and Stockholm, the Council give a first solution consisting in finding a balance in the ratio of employed persons and persons receiving social insurance benefits and in this respect, imposed "a study of social evolution for a long time period, giving attention to the sustainability of social security systems in their evolution in time until 2020 and over if necessary”[359].

Then, at the Brussels meeting was the issue regarding improvement and modernization of social protection systems and, in particular, disscutions about the establishment of a safe and sustainable social security system up to the following principles: provision of social security benefits that provide an adequate income for pople who withdraw from activity, the need for solid public finances, maintaining solidarity between and within generations, increasing the quality of social security benefit, growth of the rate of employment, promoting equality between women and men in the calculation of benefits by taking into account periods of activity.

359 European Commission’s report from Lisbon, pct.31.

After the meeting in Laeken in December 2001, the European Council made a successful synthesis of the strategy of social security schemes, setting 11 targets proposed by the Social and Economic Policy Committee. The 11 objectives can be divided into three categories[360]: adequacy of social security systems, financial sustainability of social security systems and social security systems that meet changing economic and social needs of individuals.

Adequacy of social sec. systems involve: 1) ensuring that older people take part in economic, political and social life (preventing social exclusion), 2) creating opportunities for all persons to participate in the public or private social sec. to ensure they aret preserving a standard of living after retirement, close to that part of the labor market, 3) promoting solidarity (inside and between generations).

Financial sustainability of social sec. systems involve: 4) growth of the rate of employment, 5) growth of assets (providing incentives for older people to remain in business even after retirement age), 6) creation of sustainable SS systems in the context of a solid fiscal public system that includs debt reduction; 7) adjusting benefits and contributions in a balanced manner; 8) ensure that public and private Social Sec. funds are effective, accessible, portable and secure.

Modernizing pension means: 9) a more flexible adaptation to the labor market and patterns career without prejudiceing coherence of taxes and labor market mobility of Member States, 10) to promote equality between men and women 11) Construction of schemes transparent and adaptive to changes.

Adequacy, sustainability and adaptability are the three pillars that pension reform must be based on. Pensions should ensure a decent standard of living for each country and to make possible the participation of older persons in political social and cultural life, and the community in which they live[361]. These are our objectives as EU members, especially in 2007 when Romania joins the other eastern European countries, adopting the pension system on three pillars.

At present, depending on the state reforms of their pension in the EU there are four categories of states[362]: 1) with private pension systems less developed and that are not intending to alter the existing situation, although it is a trend in this regard: Spain France; 2) states with evolved private pension systems that have always depended on these systems: Denmark, Netherlands, UK; 3) With public pension systems, “a pay as you go”, reformed by introducing Pillar II - mandatory pillar, financed from contributions in completing the unfinanced public system : Bulgaria, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovakia, Sweden; 4) traditional unfinanced social insurance Systems, sometimes with a minimum level of social insurance that switched to a private pension: Germany, Austria and Italy.

In the European Union, the traditional classification involves three pillars: Pillar I pension-covered; Pillar II occupational pensions (related work), set by labor contracts, Pillar III individual provisions unrelated to occupation. World Bank, which has consistently shown concern for defining a more efficient system, supports a model of reform based on three pillars, which is combined responsibility of the three parts mentioned, and who was applied in Romania: Pillar I pension systems of public pay as you go (PAYG) public administat, DB (defined benefit), Pillar II pension systems administered by private type DC (defined contribution); Pillar III voluntary, privately managed systems, based on individual accounts.

At present, over 30 countries around the world have adopted multipilon pension systems on the bases recommended by the World Bank. Most are in Central America and South and Central and

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360 The Social and Economic Policy Committee, Quality and viability of pensions-joint report on objectives and working methods in the area of pensions, presented the report inalnirea European Council in Laeken in December 2001.

361 Fritz von Nordheim,”Securing adequate, Sustainable and Adaptable Pensions in an EU of 25”, presentation held at the Conference International Social Europe after enlargement-Convergenece, comparison and challenges, Universitatea din Ghent, mai 2004.

362 data provided by CSSPP (Supervisory Commission of Private Pension System), paper "Pension Systems in the European Union. Member of Central and Eastern Europe", 2007.

Eastern Europe (where 11 countries, including Romania, have a private pension multipilon system: Hungary 1998/1994, Poland 1999/1999, Czech Republic No/1994, Slovenia 2000/2000, Latvia 2001/1998, Bulgaria 2002/1994, Estonia 2002/1998, Croatia 2002/2002, Lithuania 2004/2004, Slovakia 2005/1997, Roamania 2007/2007)[363].

In Western Europe, private pension systems are different from the model of Eastern Europe. The model is the basis of private occupational pensions, offered and administered by the employing companies. Often, the practice came before a law - companies starting to offer "private pension packages" long before the area became officially regulated. Differences from the east, such as Romania, are multiple and complex. Not all European countries have schemes for private savings, although the public pension systems suffered from the same demographic issues.

Globally, more and more countries resort to private solutions to reform the public pension. The occupational pensions Model is very widespread in Western Europe, and is adopted by the United States and many other countries. The Differences between private pension systems around the world are even more complex than those on the European continent. Globally, total assets of private pension funds were about 20-25 thousand billion (trillion euros) in late 2008. Number of savings for old age in various private pension schemes exceeds one billion people.

In Romania, the pension system reform was delayed for 17 years, because it is a difficult process to achieve and to implement, the main problem being the deficit financing which is created by the shift from PAYG system - based on income redistribution, to the new system based on investment and savings. The first step in the direction of reform in the pension system was conducted in 2000 by the Law 19 for public pensions and other social insurance, which is first referred to the possibility of private pensions. Subsequently, in 2004, Law 411 was issued regarding privately managed pension funds. In June 2005 was published Emergency Ordinance Nr.50 which constitute CSSPP (Supervisory Commission of Private Pension System, in order to coordinate, monitor and control on the one hand, and on the other hand protect the interests of participants by ensuring the efficient functioning of private pension). This ordinance was followed by the publication of Law 204 on voluntary retirement in 2006.

Pillar I involves a state administrated public mandatory pension and represents the current system of state pensions, virtually bankrupt and unsustainable. the main objective for State pension is social protection, providing a minimum level of protection. It is estimated that this system under the state's administration could enter into a crack somewhere in 2050, if it will not be reformed. Employees contribute 9.5% of gross salary to the state and employers contribute 19.75% of the gross wage of the employee. In the calculation of state pension money that are paid by the taxpayers are imediatly gicento the pensioners, this cycle is ongoing (pay as you go). Currently the state pension is in a financial crisis and the pension is so low that the vast majority of pensioners are at the threshold of subsistence.

Since the mid-2007 and early 2008, Romania started to operate two new pension schemes: Pillar II mandatory pensions, privately managed and Pillar III of the private mandatory pensions, privately managed. Implementation was initially in 17.09.2007 and the collection of contributions in May 2008. Number of participants has increased steadily from 3.19 million in May 2008 to 4031 million in December 2008 and the assets amounted to 831895552.7 lei (about 208.7 million) at the end of 2008[364].

The purpose of privately managed mandatory pension funds, (Pillar II) is a private pension insurance, which supplemented the pension granted by the public sector, based on collecting and investing in in the benefit of the participants.The administrator of the privately administered pension receives the contributions, manages and invests the financial resources of the fund,

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363 Valeriu Frunzaru "Romanian pensions system. Chance of reconstructive or crash?" Economic Publishing House, Bucharest, 2006.

364 CSSPP (Supervisory Commission of Private Pension System), date supplied on site available www.csspp.ro, accessible 12.03.2009.

calculates and pays the private pensions. Obligation to fund participation is for people aged up to 35 years being added those until 45 years.
Pillar II implementation does not involve any additional cost for any employee for any company. Basically part of lousewort that now go to the state will go to private companies, the option depending on each employee. First contribution will be 2% of the gross salary stated on the work card, and this percentage will grow to 6% until 2016.
Pillar III has already been applied on 1 May 2008. It Will be funded from additional contributions, being open, complementary to the first two pillars, and persons up to 52.5 years. A person can contribute to this system with no more than 15% of gross income and may qualify for a pension when is 60 years old. Minimum probation period for contribution is 90 months (7.5 years).
Participation will take place only at the request of employers or a union of a enterprise. Amounts for employees will be deductible in the limit of 200 euros / year. Specifically, someone who has an annual salary of 20,000 euros will pay tax only for 19,800 euros. Besides this amount, the employer may contribute voluntary with another 200 euros for each employee, and the money will be deducted from the annual tax return.
To have an overview of the implementation of the current pension system in Romania, we have developed a SWOT analysis, which emphasize quality, defects, opportunities and threats of the pension system on the three pillars.

Qualities +	Defects -
-no additional cost required, for the employee nor for the company; -everyone has the right to choose a company and if not satisfied with the choice may be transferred to another company; -law allows money to be invested in order to ensure a diversification of investments; -introduction of Pillar II will eliminate the pressure put on state social insurance budget; -it will influence labor market reform as a financing alternative for the labor market; -employees and employers will benefit from the deduction of tax applied to pension funds contributions, which will lead to improvement plans for the benefit of employees and labor relations; - It is expected an increase in pension income of up to 80% (compared to the current 35%); - extending tax incentives will encourage private savings or any type of savings; -sums deposited will not be lost if the policyholder dies before the pension date but will be left inheritance; -the amounts deposited in Pillar III are deductible by global tax-marking it attractive;	-the bill on pension funds and privately managed pensions contains provisions which penalizes investors by limiting both the sources of income for administrators, as well as participation in this system; -high-guarantee requirements, which involves all the final costs for the administrator; -vagueness of the law primarily in terms of the establishment of the Comitee that has a fundamental role in proper development of the system; -shortcomings on the legal constraints on the structure in the portfolio on how taxpayers' money will be invested; -economic instability will have negative consequences on the pension funds, financial companies are extremely sensitive to variations on inflation and other imbalances. If provided with a stable economic environment, managers will then have a high degree of prediction, meet business plans and have good monitoring performance and will increase the participants' confidence in reform implementation; an important element for success; bankruptcy-risk pension funds is quite high;
Oportunities	Threats
-in spite of some drawbacks many international firms have announced their	- Introduction of private pensions will generate budget deficits of state, quite high for a longer

intention to manage such funds; -a substantial income is expected; -these funds will be important sources of income; it will simulate growth by investing the accumulated amounts in the economy; it will create jobs and reduce unemployment; Population-savings will help to increase capital on the markets, assets can grow and mobilize to support the development of a large and long-term macroeconomic level; -Romania's accession to the European Union creates the premises of a stable long-term economic environment and in the pension plan this is favorable; -statistics of the National Commission for Prognosis confirm that the gross average salary nationwide is forecast to grow, between 2006-2010, with about 40%, from GBP 1130 to GBP 1670. Thus, for mandatory private pensions, population growth means revenue increase and opportunity contributions to the system in an accelerating pace highter than 0.5% / year, as provided in this law, while a voluntary retirement may benefit from increased rate of participation in this pillar; -in case of imbalances in the public pension system is good for public authorities to establish a reserve fund, to ensure financial stability of public pension money coming from privatization and the diversion of 50% of any surplus recorded in budget.	period. private pensions management invest more in government securities, that iz a safe investment but with little profit. In addition, the commission received by large management companies, make the real value of the amounts deposited to decline, not grow; - Management fees erodes savings and employees should be strictly limited by law. In Hungary, according to World Bank data, the costs of administration "swallow" about 50% of the savings of employees for a management of 30 years. Taxes seem small, but a small percentage can erode a substantial deposit in time. For example, a fee of 1% per year at a warehouse store can reduce it by nearly 20% over a life; - Aging population will affect private pension system. It is true that private pensions allow employees to have a profit growth, but involves many risks, because the instruments in which pension funds currently invest in - actions - are volatile; - Regarding the payment of private pension there is no discrimination between women and men. In the private system in Poland, women earn average pension, 25% less than men. The difference is motivated by four factors: 1. women life expectancy is higher, 2. salary is less 3. retirement age is less; 4.maternity legal child care is not a contribution; the pillar-III - deductions from income must be global capped at a certain level each year to not favor those with high incomes; - Initial framework may change later. For example in Poland, the law that regulates pensions Pillar II has suffered about 230 modifications sience the original form; - Changing the legal framework no longer provide initial transparency, supervision, control, safety and efficiency of pension funds at an acceptable level. There must be clear rules for consumer protection, accurate responsabilities for funds adminstrators and customer financial protection through wide access to the new pension system and a suitable replacement;

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