MEASURES AND FACTORS WHICH LED TO THE INCREASE OF THE NUMBER OF RESOURCES FOR FINANCING THE PUBLIC PENSION SYSTEM

Tuţă Loredana
University din Piteşti Faculty of Economic Sciences Bulevardul Republicii, Nr.71, Piteşti, Argeş lrdntt@yahoo.com 0746286172

Public pensions represent the most costly component of the social protection system from most of the countries, including Romania. They involve significant financial flows which represent around 12% from GDP for the EU countries and represent a significant part of the public budgets which are continuously under pressure due to the modifications registered by the more general framework of development, such as economic growth, evolutions on the labour market, inflation etc. Moreover, the demographic aging and the migration represent other important challenges for the financial sustainability of the social protection systems, in general, and of the pension systems, in particular.

Key words: financing, financial sustainability, contributions to the social security system

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1. The public pension system. Problems regarding financing

The social solidarity principle underlay at the base of the Romanian pension system, principle that led to a system presently known as being financed by the *principle of repartition* (*Pay-As-You-Go – PAYG).* Such solidarity assumes the will of the working population (usually employees) to dispense with a part of their financial means in order to be raised in a common fund which shall cover the social protection needs (by social security benefits) of the previous generations. In essence, this financing principle consists of the payment of the compulsory social security contributions of those who really work or made on their behalf (payments made by employers) in order to create funds from which pensions(old-age, disability and offspring) are presently paid.

In order to identify and understand a part of the financing problems that the Romanian pension system has faced, it is important to specify some measures which had an important impact on the financing capacity. Such measures, which had a deep conjunctural character, can be classified into two main categories. One *category* includes the measures that led to the high growth of the number of beneficiaries. They mainly refer to: a) construction elements that in time led to the modification of the comprehension (covering) sphere and to the extension of the categories of beneficiaries, and b) measured that facilitated the retirement of a great number of employees as a result of the restructure requirements from the economy, especially in industry, massively at the beginning of 1990, but also subsequently, as an alternative to the unemployment.

The other category includes the measures by which they tried a relaxation of the tension regarding the covering of costs. In this category, one can include mainly the measures that concerned: a) the modification of the social security contribution rates, and b) the externalisation of some schemas (such as the one for the agricultural pensions or the one regarding social protection of children and families).

2. The problem of financial sustainability

At the beginning of 1990, there were several pension schemas, as they were inherited from the old regime: the state social security pensions (the most comprehensive one, covering the civil employees); pensions of some small professional groups, such as writers, lawyers, priests (others than the Orthodox ones), craftsmen; pensions for military staff, for disabled persons, widows and war veterans; pensions of the members of agricultural cooperatives. These schemas had their own rules of eligibility, of calculation of the pension level, of financing and administration. Also, at the beginning of 1990, there was a separate fund for complementary pension based on a contribution (first of 2%, then it raised up to 3% of the employees) paid by the employees (a form of financing by capitalization) which was considered at the pension calculation, by adding it to the basic pension obtained from the state social security system. This fund was later on abolished. Beginning with 1990, there were taken a series of *measures that modified the architecture of the pension system, as well as the financing sources, having effects on the modification (usually for the growth) of the number of beneficiaries whose pensions were supplied from the state social security fund.* During 1992-1993, into the schema of the state social security system, there were integrated some smaller sized schemas, such as those for writers, plastic artists, priests and craftsmen, due to the financial difficulties those funds had faced. Subsequently (in 1998), out of the same reasons of dramatic decrease of their own financing resources, the pension schema for agricultural workers – which kept its own rules of access and calculation of pension – was integrated into the public pension system from the financing point of view. That meant that, during 1998 and 2005, the expenses for the agricultural workers pensions were financed from the resources of the social security budget, for a number of 1.6 – 1.7 million persons, decreasing toward the end of the period (about 1 million persons in 2006). Since 2006, the agricultural workers pension schema was financed from the state budget resources. Such measures resulted in the significant growth of the number of beneficiaries and of the resources demand. Thus, the number of retired persons who received pensions financed form the state social security system doubled during 1990 and 2007.

Table 1. The evolution of the average number of social security retired persons in Romania during 1990-2007

-thousands of persons-

	1990	1995	2000	2005	2006	2007
Total[1], excluding agricultural workers, from which	2380*	3600	4359	4750	4780	4794
- Age limit	1713*	2568	3087	3146	3142	3153
- Disability	193*	433	609	827	866	882
- Offspring	474*	599	653	652	641	630
From total, state social security retired persons	2380	3358**	4246	4611	4633	4643
Agricultural workers	985	1597	1751	1292	1005	932

[1]Include state social security retired persons, coming from the Ministry of Defence, The Ministry of Administration and Interior, The Romanian Intelligence Service, The State Secretariat for Cults and The Social Security House of Lawyers; *from the state social security system; ** year 1994

Source: INS/UNICEF, Social Trends, Bucureşti, 2001, pg. 161 (for years 1990-1994); INS, The Statistical Annual of Romania, edition 2001, pg. 161; edition 2003, pg. 167; edition 2006, pg. 287; edition 2007, pg. 306 and edition 2008, pg. 344.

Another factor that led to the increase of the retired persons number, from the beginning of 1990 until the entry in force of the Law 19/2000, was related to the early age of retirement and to the possibility of anticipated retirement [60 years old (60, at request) for men and 57 years old (55, at request) for women]. The early age retirement was facilitated by the relaxing provisions concerning the retirement before the standard age, from which the persons included in the labour categories considered as very dangerous (first category) and dangerous (second category) benefited from. The ones included in the first labour category were able to retire after 20 years of work, the men at 52 years old and the women at 50. The ones included in the second labour category were able to retire after 25 years of work, the men at 57 years old and the women at 52. Moreover, an impressive number of persons retired during that period due to "medical reasons", and thus the number of disability retired persons was significant out of the total number of state social security retired persons, 18% in 2007.

The increase of the resource demand for financing the pensions from the state social security system and the serious difficulties related to a reasonable level of financing and supporting the public pension system led, within the pension reform started with the entry in force of the Law 19/2000 (since April 1st 2000) to the externalization starting with 2006 of the agricultural workers pension schemas (currently being financed from state budget resources), of the allowance for maternity leave and child care (also currently financed from the state budget) and of the benefits representing payments for medical leave (currently financed from the health insurance unique national fund).

The huge difficulties to face the rising resources demands for pensions and other social protection benefits led to the "initiation" of some measures meant to increase the collections of the state social security fund from which the pensions in the public system are paid. They were mainly based on the modification of the level of state social security contributions. The table 2 shows a chart of modifications in time of the contributions paid by employers and by employees.

Table 2. The size of the social security contributions for pensions and other social security rights

Date	Total (%)	Payer		Assessment base	Mentions
		Employer (%)	Employee (%)		
1990	14.0	14.0	-	Gross salary income	At the state social security fund
	2.0	-	2.0	Base salary plus seniority benefit	At the complementary pension fund
1991	20.0	20.0		Gross salary income	At the state social security fund
	2.0		2.0	Base salary plus seniority benefit	At the complementary pension fund
1992	25.0 (cat. III)	25.0	-	Gross salary income	At the state social security fund
	30.0 (cat. II)	30.0	-		
	35.0 (cat. I)	35.0	-		
	3.0		3.3	Base salary plus seniority benefit	La fondul pentru pensia suplimentară
1994	25.0 (cat. III)	25.0	-	Gross salary income	2% reserved and transferred to the Special health Fund (created in 1992)
	30.0(cat. II)	30.0	-		
	35.0 (cat. I)	35.0	-		
	3.0	-	3.0	Base salary plus seniority benefit	At the complementary pension fund
1999	30.0 (cat. III)	30.0	-	Gross salary income	At the state social security fund
	35.0 (cat. II)	35.0	-		
	40.0 (cat. I)	40.0	-		
2000 (1 July)	30.0 (cat. III)	18.33	11.67	Gross salary	At the state social security fund
	35.0 (cat. II)	23.33	11.67		
	40.0 (cat. I)	28.33	11.67		
2002 (1 Jan.)	35.0 (cat. III)	23.33	11.67	Gross salary	It is applied at a threshold equal to three gross salaries at national level
	40.0 (cat. II)	28.33	11.67		
	45.0 (cat. I)	33.33	11.67		

2004 (1 Jan.)	31.5 (cat. III)	22.0	9.5	Gross salary	It is applied at a threshold equal to five gross salaries at national level
	36.5 (cat. II)	27.0	9.5		
	41.5 (cat. I)	32.0	9.5		
2005 (1 Jan.)	31.5 (cat. III)	22.0	9.5	Gross salary	It is applied at a threshold equal to five gross salaries at national level
	36.5 (cat. II)	27.0	9.5		
	41.5 (cat. I)	32.0	9.5		
2006 (1 Jan.)	29.25(cat. III)	19.75	9.5	Gross salary	It is applied at a threshold equal to five gross salaries at national level
	34.25 (cat. II)	24.75	9.5		
	39.25 (cat. I)	29.75	9.5		
2007 (July)	29.0 (cat. III)	19.5	9.5	Gross salary	No threshold
	34.0 (cat. II)	24.5	9.5		
	39.0 (cat. I)	29.5	9.5		
2008 (1 Jan.-30 nov.)	29.0 (cat. III)	19.5	9.5	Gross salary	- No threshold - O deduction of 2 pp from the contribution paid by employees until 35 years old (optionally, 45) to a compulsory pension fund, privately managed (pillar II)
	34.0 (cat. II)	24.5	9.5		
	39.0 (cat. I)	29.5	9.5		
2008 (1 Dec.)	27.5 (cat. III)	18,0	9.5		
	32.5 (cat. II)	23.0	9.5		
	37.5 (cat. I)	28.0	9.5		
2009 (1 Jan.)	28.0 (cat. III)	18.5	9.5	Gross salary	- No threshold - O deduction of 2.5 pp from the contribution paid by employees until 35 years old (optionally, 45) to a compulsory pension fund, privately managed (pillar II)
	33.0 (cat. II)	23.5	9.5		
	38.0 (cat. I)	28.5	9.5		

Source: The Romanian legislation and MISSOC – different editions

The data concerning the modification in time of the contribution rates to the public pension fund point out that there was a financing "game" which meant the permanent growth of the level of contributions paid by employers, as well as the transfer to the employees of a part (a third) of the tax burden imposed by public pension financing. The peak for the total of state social security contribution was the year 2002 when it was registered the highest tax level (for salaries) generated by pension financing. After this date, they promoted some reduction measures of the pension social security contribution size, more accentuated for those paid by employers, from 30% (third labour category) in 1999 when the highest level of employer-paid contribution registered to 23.33% (cat. III) in 2002 and 18.0% in December 2008, modified to 18.5% in January 2009. For employees, the contribution decreased from 11.67% in 2002 when it registered the highest level to 9.5% at present. Also, starting with 2008, this contribution is reduced for employees until 35 years old (optionally, until 45) with 2 pp. [*pension point*] from the gross salary which is directed to the second pillar of the public pension system, privately managed and capitalized-based. Therefore, the social security contribution rate paid by employees to the first pillar of the public pension system, from which they pay the pensions of the current retired persons, is 7.5% for those until 35 or 45 years old (estimated at over 3 million persons), reducing every year by 0.5 pp. that will go to the second pillar until the level of contribution to this pillar reaches 6% (in 8 years).

If the measures of modification the contribution rates to the social security fund meant the increase of the incomes of this fund which should support the financing of the pensions to be paid, there were many situations where many companies registered arrears for contributions or, worse, they were exempt by the government from the payment of some arrears. Also, in the Romanian budgetary practice, the state social security budget was a part of the consolidated general budget which caused that in some situations from the incomes of this fund be financed some expenses which were not specific to this fund.

What it is shown in this paragraph leads to the conclusion that, at least until 2002, the accumulation of resources for pension financing was dramatically threatened, and the measures taken that led to the increase of taxation of the labour force generated many tensions. The main cause that made the decision makers to appeal to such measures was related to the breach between the (employee) labour force and the social protection system, to the fact that the economic restructure led to the loss of a huge number of paid work places, deeply affecting the financial sustainability of the public pension system.

The data in the following table show a dramatic decrease of the number of employees (from 8.0 million in 1989 to 4.7 million in 2007) and a significant increase on the number of retired persons (from 2.1 million in 1989 to 4.64 million in 2007) which led to the deterioration of the ratio between the persons paying contribution and the persons benefiting from pensions. During 1989-2007, the total number of retired persons increased more than double while the number of tax payers reduced to almost a half (table 3).

Table 3. Evolution of the sustainability rate in Romania

Ref. no.		1989	1995	2000	2006	2007
1.	Employee average number (mill. persons)	8,0	6,2	4,6	4,675	4,7
2.	Average number of state social security retired persons (mill. persons)	2,1	3,5	4,2	4,63	4.64
3.	Sustainability rate	3,8	1,8	1,1	1,0	1,0

Source: INS, The Statistical Annual of Romania, 2001, pgs.104 and 161; 2005, pgs.124 and 282; 2007, pgs.125 and 283, Statistical Bulletin no. 1/2008

Thus, the sustainability rate (the ratio between the employee average number and the retired person average number) decreased from 3.8:1 in 1989 to 1:1 in 2007, which affected negatively the capacity of the social security budget and the level of pensions and of pegs applied. This factor strongly influences the possibility of maintaining a convenient level of pensions, i.e. the living standard of retired persons.

Within those constraints, important tensions appeared in the pension financing, because the money collected from a smaller and smaller number of employees should be distributed to a higher number of retired persons, thus affecting the level of pensions, being maintained at a lower level.

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