

THE PROBLEM OF ADEQUABILITY OF THE PUBLIC PENSION

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The documents and analyses made at European level, as well as the studies of the specialists in the field, underline the fact that the financial sustainability should be made in parallel to the adequability of pensions. The promises of adequability can generate some risks for sustainability, and the priority given to the financial sustainability can deeply affect the access to and the getting of some adequate incomes from pensions in order to avoid the extension of poverty and of social exclusion among old people which sometimes causes great demands for social benefits claims and, consequently, causes unforeseen pressures over the sustainability of public finances.

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The financial sustainability, as a major problem of the validity of the pension system, is necessarily related to the necessity of maintaining an adequate level of pensions in time. Besides, the financial sustainability can also be achieved while reducing the pension level (following the public options of (non-) indexation related to the inflation or the salary rise, the change of the pension calculation formula etc. Such an option though cannot last as it contains the risk of extending the poverty among old people, generating new problem and social tensions. That is why the financial sustainability should be given priority in order to ensure the adequability of pensions.

In 2003, the European Commission Report concerning pensions underlined the interdependence between the financial sustainability and the adequability of pensions within some aging societies, and the need for comprehensive reforms in order to ensure some adequate pension systems, financially accessible and sustainable. In particular, the report appealed to the member states to improve the motivation of older persons to keep working, to strengthen the relation between contributions and pension size and to enhance the financing by capitalization in the public and private system, especially for the long-term implications of the increase of life span regarding the pension costs.

For Romania, the problem of adequability and of equity in the pension field is a very important one because the pension system represented a safety island for many of those affected by the economic reforms which made that, after 1990, the problem of adequability stay permanent. The level and evolution of pensions were affected not only by the decrease of the level of support (the ratio between the number of tax-payers and that of retired persons) and the difficulties of collecting the social security budget revenue, respectively the state budget revenue, but also factors such as inflation which mostly affects the lower level incomes; also, the application of some indexing methods, increment ones respectively, induced some important inequities in the system.

A series of inequities and irregularities, especially within the public pension system, were determined by the application of some different calculation formulas of pensions applied in different moments for those entitled to get a pension. That made that, in some cases, for similar incomes and work period and contributions, the difference was 2:1 order. The main used methods were the indexation ones related to the inflation rate and the increment of pensions in certain

moments. Also, there was the so-called “re-equalisation” meant to diminish the inequities accumulated in the system.

Starting with 2005, they proceeded to the recalculation, based on the yearly average rating regarding the whole career, recalculation achieved in several stages. The anticipated effect was to correct some inequities mentioned above, induced by the application of some different calculation formulas for persons with similar retiring conditions (seniority, level of wage etc.), but who retired in different moments of time. Here are some significant aspects to assess the degree of adequability and of equity of the pension system, focusing on the public pension system characteristics.

Actual average pension

During 1990-2007, the actual average pension of the state social security retired persons registered a continuous decreasing tendency until 2000, when it was 44% of the pension in 1990. After 2000, there was a slight boom and in 2007 the actual average pension from the state social security system was 83% compared to 1990 (table 1).

Table 1. Indicators of the actual average pension of the state social security retired persons and of the actual average wage

- percents -

	Average pension	Average wage	Average pension	Average wage	Average pension	Average wage
1990	100.0	100.0				
1991	74.3	81.5				
1992	63.1	70.8				
1993	56.3	58.9				
1994	55.0	59.1				
1995	61.4	66.5				
1996	63.1	72.7				
1997	50.3	56.2				
1998	49.2	58.4				
1999	47.2	57.,0				
2000	44,0	59.4	100.0	100.0		
2001	46,6	62.4	105.9	105.0		
2002	48,2	63.9	109.5	107.5		
2003	51,6	70.8	117.4	119.1		
2004	57,7	78.3	131.2	131.7		
2005	62,3	89.5	141.8	150.5		
2006	68,1	97.4	154.8	164.0	100.0	100.0
2007	83,6	111.8	190.1	188.2	122.8	114.7

Source: INS, The Statistical Annual of Romania 2008, pg. 265 (for wages); pg. 348 (for pensions).

The actual average pension had an almost parallel evolution to the one of the actual average wage and, in time, the differences between the two indicators increased. If the actual average wage increased in 2007 by 11.8% compared to the one in 1990, the purchasing power of the average state social security pension was over three fourths compared to 1990.

The pension level remained non-adequate for most of the retired persons. Thus, the replacement rate (compared to the net minimum wage) in the case of the average social security pension (without agricultural workers) decrease from 44% in 2000 to 36% in 2007; for the average social security pension with the full contribution stage, the replacement rate maintained at the same level, about 58%, which supports the idea that the Romanian pension system favours the

achievement of the full contribution stage. the replacement rate for the state social security pension decreased from 43% in 2001 to 38% in 2007 (table 2).

Table 2. The average level of some pension categories and the replacement rate (compared to the average wage)

	Monthly average pension				Replacement rate for, %		
	The average social security pension ¹ (no agricultural workers)	The average social security pension ¹ with full contribution stage	The average state social security pension	The average net monthly wage earning	The average social security pension ¹ (no agricultural workers)	The average social security pension ¹ with full contribution stage	The average state social security pension
	ROL						
1995	88108	111714		211373	41.7	52.9	
1996	126842	160886		321169	39.5	50.1	
1997	259947	328994		632086	41.1	52.0	
1998	400489	515865		1042274	38.4	49.5	
1999	688799	914456		1522878	45.2	60.0	
2000	937170	1238051		2139138	43.8	57.9	
	RON						
2001	104	176	131	302	34.4	58.3	43.4
2002	133	222	163	379	35.1	58.6	43.0
2003	156	265	187	484	32.2	54.8	38.6
2004	204	339	232	599	34.1	56.6	38.7
2005	246	404	267	476	33.0	54.2	35.8
2006	298	469	311	866	34.4	54.2	35.9
2007	380	609	399	1042	36.4	58.4	38.29

¹Include the state social security pensions, the pensions of the Ministry of Defence, of the Ministry of Interior and Administrative Reform, of the State Secretariat for Cults and of the Social Security House of Lawyers.

Source: INS, The Statistical Annual of Romania, edition 2001, pgs. 132,164; edition 2008, pgs. 266, 345.

The agricultural worker pensions (1292 thousand persons in 2005, 1005 thousand in 2006 and 932 thousand in 2007), although they increased significantly lately, they remained at a very low level (RON 88 per month in 2005, RON 159 per month in 2007) compared to their needs. Besides, the current pension system in Romania does not have a minimum pension level as a tool used by many European countries in their policy to ensure decent incomes to retired persons.

One of the most relevant aspects that can define the adequability in the pension field is the dimension of poverty for old people. Besides, prevention of social exclusion is the first objective established at the EU level in the pension field within the application of the Open Method of Coordination. The accomplishment of this objective supposes the assurance of the conditions for old people not to find themselves under the poverty threshold and to be able to enjoy a decent living standard, to be able to benefit from economic wealth in their country and to actively participate in the public, social and cultural life.

The data show that the poverty rate for old people in Romania slightly increased from 17.1% in 2000 to 18.8% in 2007. Also, the worst situation is for the single persons of this age category. The poverty rate for retired persons is lower than the one estimated at national level and for the

persons of 65 or over, that means that the pension system plays a positive role in easing the economic situation of old people.

To prevent the occurrence of some problems related to the decrease of adequability to ensure a decent living standard to old persons, three possible ways were established.

One is related to the extension of work life. It is considered that the early retirement – by anticipated retirement schemas, awarding of unemployment benefits or disability pensions – should be reviewed dramatically. At the same time, for the retired persons to get higher incomes it is necessary to be offered opportunities in order to stimulate them to remain in the working activity over the retirement limit age or to combine the incomes from pension with incomes from part time jobs of other activities.

Another direction is the increase of the role of privately-administrated pensions within the total of pension incomes. We hope that, in the future, the provision of private pensions through occupational pensions or private insurances play a more important part, although the public pensions shall remain the most important pillar of a national pension system.

Finally, the adaptation of the pension systems to the evolution of the individuals' needs is considered as necessary. It is about taking into consideration the diversity of the occupation models (part time workers, temporary work, freelancers, generally less covered); also, the evolutions regarding the economic and social role of women and men, in the sense of facilitating the reconciliation of the family and work responsibilities of the two partners and of stimulating the greater participation of women on the labour market, having effects on their pension level.

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