

## CHALLENGES IN THE FINANCIAL MANAGEMENT OF THE PUBLIC PENSION SYSTEM IN ROMANIA

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**Abstract:** *The paper presents the impact of tax measures beginning in 2016 as regard to the frequent increase of the gross minimum salary, reduction of social insurance rates, the increase of the country's average gross incomes, as well as to changing the social insurance contribution support by employees only. The implementation of the governmental plan to move from a deficit budget strategy of public social insurance to one with a surplus budget, in the context of significant non-supplementation of the number of taxpayers, represents a crucial factor for new challenges of the financial management of the public pension system in Romania. The results are planned to be seen by 2021 and consist of the continuous increase of the minimum and average nominal pension value, in the context of modernizing the system and eliminating inequalities between different categories of retirees covered by the new pension law.*

**Keywords:** *Public Pension; Retirement Pension; Social Security; Budget Systems.*

**JEL Classification:** *G22; G20; H30; H55; H61.*

### 1. General background of public pension system in Romania

In order to ensure the material and financial needs throughout the lives of the population exposed to known social risks, the Constitution of Romania stipulates in Article 47 that “[t]he state shall be bound to take measures of economic development and social protection, of a nature to ensure a decent living standard for its citizens... Citizens have the right to pension...”

With this in mind, the aim of the social security system in Romania, in the words of the authors of the book *Public Finance* is the following “public social security are meant to play an important role in maintaining and increasing the living standards of citizens” and the public pension system is an essential building block (Văcărel et al, 2007).

The right to social security is guaranteed by the State and is exercised based on the statutory regulations regarding the unitary public pension system which is organised and managed with the help of all major players in the economic, social and even political life, based on the following principles:

- The principle of uniqueness: the State organises and guarantees public pensions system based on the same rules of law for all participants in the system;
- The principle of obligation: private and public persons are required to take part in the public pension system, and the right to social security is exercised correlatively with the fulfilment of obligations;
- The principle of contribution: social security funds are created based on the contributions owed by those who participate in the system (Grigorie-Lăcrița, 2005).

- The principle of equality is to be ensured to all participants, tax payers and beneficiaries, based on non-discriminatory treatment for all persons of the same legal situation regarding their rights and obligations;
- The principle of social solidarity: participants to the public pension system assume mutual obligations and are granted the same rights to prevent, limit or terminate social security risks;
- The principle of allocation: according to it social security funds are redeployed for payment of obligations that are to be assigned to the public pension system.

The public pension system is strongly influenced by both the negative effects of the present demographic shift and its future change which constitutes a fundamental factor regarding foreseeable medium-term and long-term mutations especially as far as the number and the structure of the beneficiaries of the system are concerned with regard to the increase of life expectancy and the degree of the ageing of population as well as the decrease of the working population and that of birth rate. Eurostat estimates that by 2070 in Romania life expectancy of men at birth will have increased by 12 years, i.e., to 83 years and 6 months, and that of women by 10 years, i.e., the average age will be 88 years and 3 months, which indicates the need of an adequate medium-term and long-term strategic management in order to ensure the sustainability of the public pension system in Romania as well as that of the alternative/complementary ones tailored to the needs and interests of the involved persons, the beneficiaries, insured persons, employers, etc.

## **2.The management of the public pension system**

The aim of the Romanian Government in the 2017-2020 Governing Programme is “[t]o increase the living standard of every citizen of Romania [...] an inclusive labour market and reduce inequalities through promoting coherent and realistic public policies which are to determine decent incomes devoid of discrimination.”

The strategic objectives in the area of labour and social justice target:

- employment growth of the working population to 70% until 2020 that would be able to sustain the growth of a competitive economy based on the annual growth in revenues, increase of gross minimum salary as well as the alleviation of shortage of jobs and the asymmetry of the income curve
- implementation of an adequate, equitable, and sustainable pension system which in 2021 is to reach an average turnover of income of circa 36.6%, which is to ensure decent and equitable living, non-discrimination, as well as the equality of opportunities for retirees in accordance with the principles established in both national and international applicable legal regulations.

Awareness and correct appraisal of economic, financial, social, as well as political phenomena and processes renders it necessary to improve the present management of public pension system which through its actions should perform so as to meet the expectations of population to increase living standards as it is highlighted by the authors of Management, ADVENS as well: “Management is one of the essential factors that explains why a country is rich or poor” (Farmer, R. 1988 in Nicolescu & Verboncu 1999).

The main objective of the management of the public pension system must be sound organization and operation of the system which is to be able to ensure the financing of the system and the ensure insured persons/beneficiaries of the system the ability to exercise their rights and obligations in order to reach and maintain a decent standard of living in the present as well as in the future.

The challenges the financial management of the public pension system in Romania has to face, especially as a consequence of the fiscal measures initiated with the amendments to the Fiscal Code in 2016, are based on determining factors of evolution of the rights of beneficiaries; of the number of beneficiaries/retirees/the amount of the pension, as well as those ensuring the sustainability of the public pension system from a financial point of view; the change of number of insured persons/insured income/earnings; of the amount of state social security contributions; the developments in the labour market, as well as the influence of the mode of operation of the alternative/complementary pension systems, etc.

The management of the public pension system is provided by the Ministry of Labour and Social Justice as well as central government institutions under the ministry's authority, especially the National House of Public Pensions and the decentralized, county institutions under its authority in collaboration with the Ministry of Public Finance, Financial Supervisory Authority as well as other institutions with attributions in the field.

### **3. The evolution and current state of the major influencing factors of the public pension system in Romania**

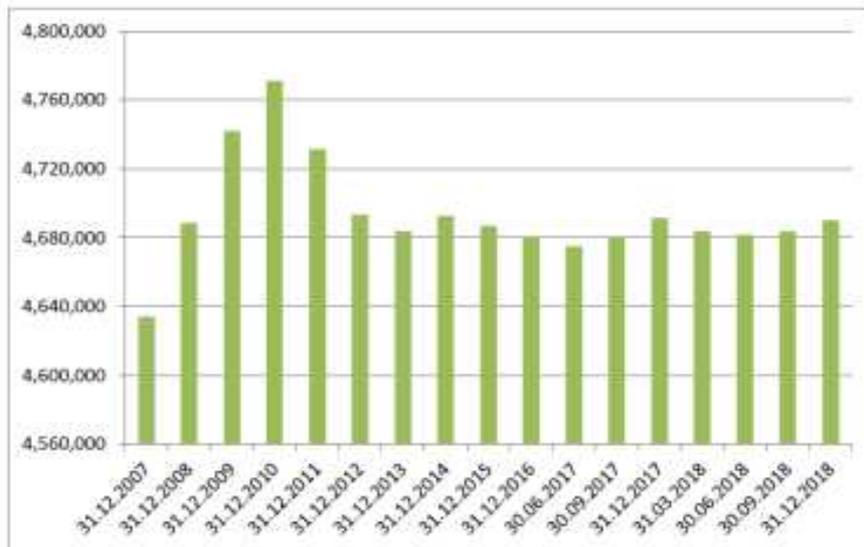
In the past years the following tendency has been noticeable: decrease of the total number of retirees showing oscillating changes in their typology: increase of number of normal retirements and decrease of retirement based on invalidity. At the end of 2018, the total number of retirees was 5,009,497 persons, 0.8% less, i.e., 39.204 persons less than in the corresponding period of 2017.

Of the total number of retirees, 4,690,199, i.e., 93.6% were state social security retirees, while 319,298 persons, i.e., 6.37% were agriculture retirees (Statistical Bulletin 2018, Pensions and state social security).

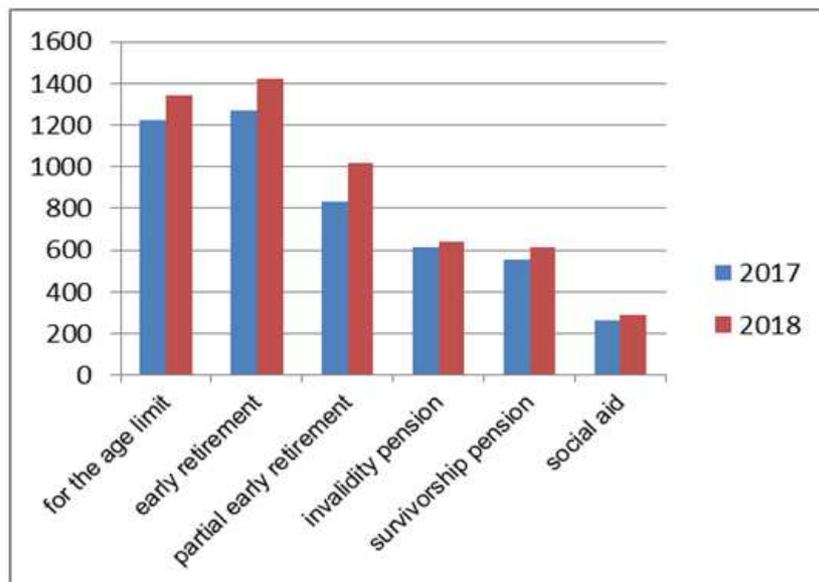
#### *Public social insurance retirees*

At the end of 2018, as compared to 2017, the total number of state social security retirees was smaller by 1,453 persons due to the decrease of the number of invalidity retirees and the increase of that of normal retirement. Average state social security pension was 1,180 RON, increased by 109 RON. Average old-age pension was 1,340 lei, with an additional 119 lei more than in 2017.

In December 2018 of the total number of state social security retirees, 45.49% had pension not exceeding 1,000 RON, while the average state social security pension represented 23.90% of the average gross salary (4,938 lei), i.e., 39.91% of the net average earnings (2,957 lei), lagging behind the demands of 45% from social partners.



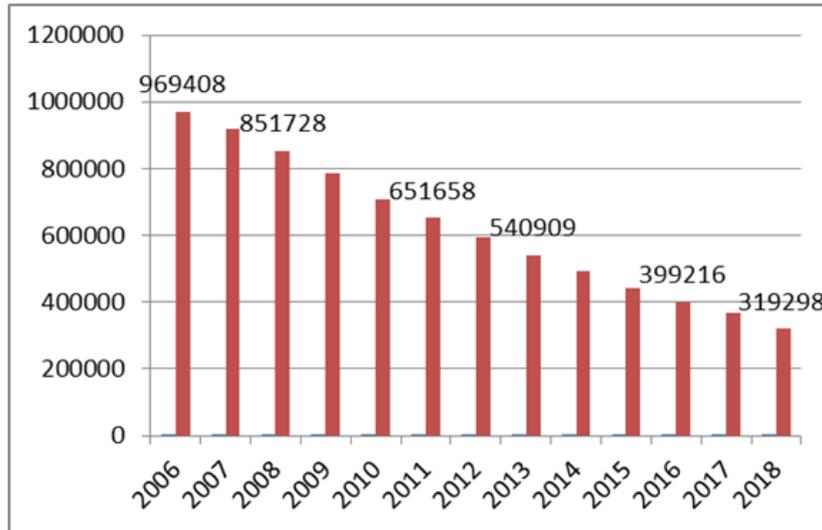
**Figure 1.** Evolution of state social insurance  
Source: Statistical Bulletin 2018, [www.mmuncii.ro](http://www.mmuncii.ro)



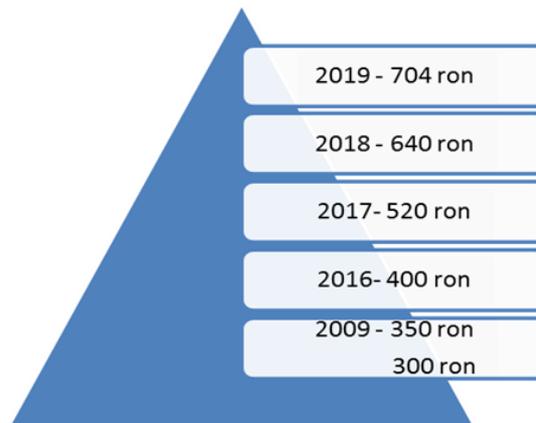
**Figure 2.** The evolution of the average pension by categories of retirees  
Source: [www.cnpp.ro](http://www.cnpp.ro), own edited

The number of retirees from the agriculture sector has been decreasing for the past two decades and continues to do so. At the end of 2018 it presented the following structure: of the total number of 319,298 retirees, 91.73% are retirements due to old

age, 0.41% are invalid, and 7.86% have survivor's pension. The average pension was 487 lei, while that for old-age was 510, which is 47 lei more than in December 2017.



**Figure 3.** Retirees from the past social security system for farmers 2006-2018  
Source: [www.cnpp.ro](http://www.cnpp.ro) , own edited



**Figure 4.** The minimum social pension between 2009 - 2019  
Source: [www.cnpp.ro](http://www.cnpp.ro) , own edited

The number of persons to receive minimum social allowance (former minimum social pension) has witnessed a significant increase in the past 10 years due to mainly having attained low parameters of factors that are taken into consideration

when establishing the amount of pensions, thus: low level of earnings/taxable earned income, retirement contributions inferior to retirement benefits up to date. Since the introduction of the minimum social pension between 2009 and 2019, the amount of this benefit has been constantly increasing:

At the end of 2018 the total number of insured persons was 5,151,127 people, of which 43,649 people had social insurance contract, and the average gross income was 4,512 RON. (National House of Public Pensions)

**Table 1:** Second-Pillar Private pensions

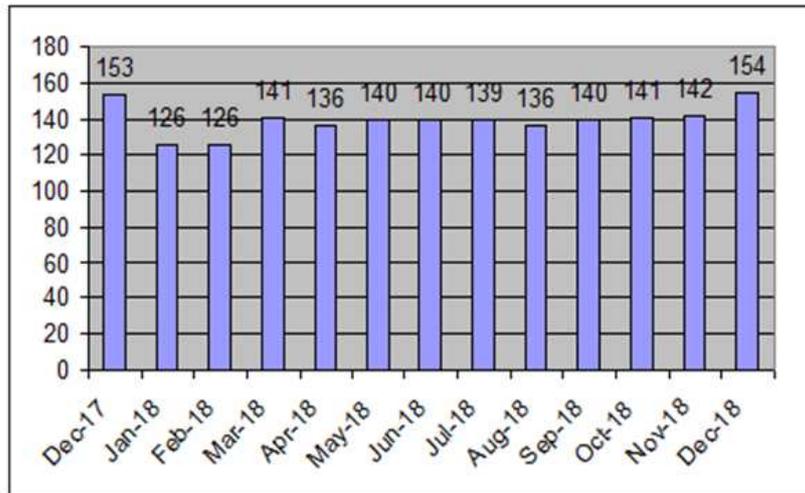
Year	Total	from which:	
		employer	employee
2001	35%	23.33%	11.67%
2002	35%	23.33%	11.67%
2003	34%	24.50%	9.50%
2004	31.50%	22.00%	9.50%
2005	31.50%	22.00%	9.50%
2006	29.15%	19.65%	9.50%
2007	29.00%	19.50%	9.50%
2008	29.00%	19.50%	9.50%
2009	31.30%	20.80%	10.50%
2010	31.30%	20.80%	10.50%
2011	31.30%	20.80%	10.50%
2012	31.30%	20.80%	10.50%
2013	31.30%	20.80%	10.50%
2014	26.30%	15.80%	10.50%
2015	26.30%	15.80%	10.50%
2016	26.30%	15.80%	10.50%
2017	26.30%	15.80%	10.50%
2018	25.00%	0.00%	25.00%
2019	25.00%	0.00%	25.00%

Source: [www.mmuncii.ro](http://www.mmuncii.ro), own edited.

The analysis of the social insurance rate in the period of 2001-2019 shows a tendency of decrease in the first period until 2009 when the rate grew by 2.30 percentage points, from 29% reaching 31.30% with 1.3 percentage points being sustained by employers, while employees bore 1.0 percentage point. Starting with 2014, following a period of 5 years of stagnation of National Health Insurance (NHI) contributions, a significant decrease is to be noticed both on the whole and the lower levels: a drop of 5.0 percentage points of NHI contributions, thus reaching 26.30% the NHI contributions for employees having been maintained at 10.5 percentage points. Starting with 2018, following fiscal measures, the NHI rate drops to 25.00% and is to be contributed entirely by the employee, while the calculation and payment of the amount remains in charge of the employer. In case of persons insured based

on insurance contracts as well as those with statement of assurance, the employer-employee cumulative NHI rate is to be applied.

The alternative/complementary system of II Pillar of Pension Funds under private administration influences the public pension system through handing over to insured persons who have joined the II Pillar of a rate of social security contributions owed to the public pension system in order for these funds to be managed in private system so as to achieve a high private pension. Following the introduction of II Pillar in Romania, its use shows an increasing trend, with a total of 7,274,865 insured persons at the end of 2018, i.e., 199,352 more persons as compared to 2017. Most participants in the private pension system are persons aged between 25 and 45, i.e., 4,975,345 people. (National House of Public Pensions).

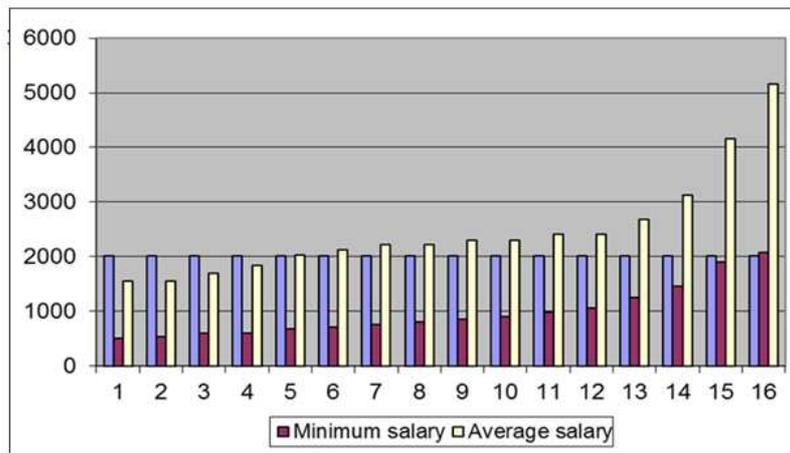


**Figure 5.** Average Euro contribution to II Pillar of the participants during, December 2017- Dec. 2018

Source: [www.cnpp.ro](http://www.cnpp.ro) , own edited

The evolution of average gross salary used to substantiate state social security budget.

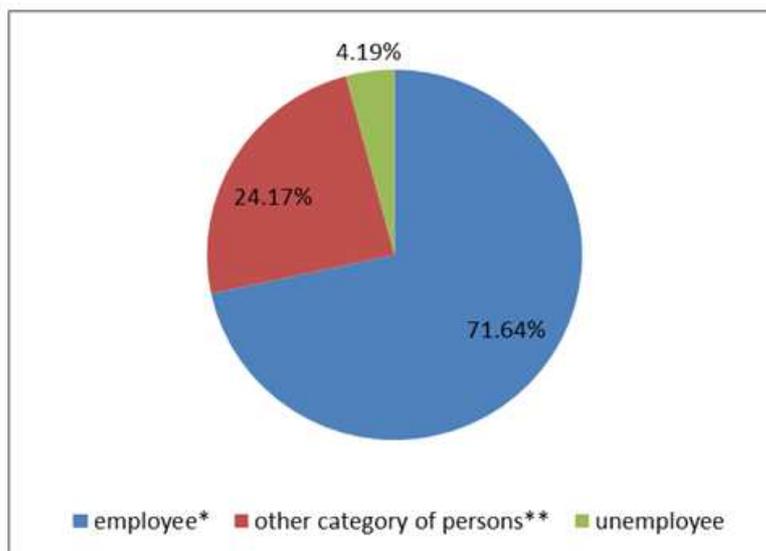
In 2019 the average gross salary used to substantiate state social security budget was 5,163 lei.



**Figure 6.** Evolution of minimum and average salary of country  
Source: [www.mmuncii.ro](http://www.mmuncii.ro) , own edited

*Employment rate of population*

In 2018 the working population of Romania was 9,069 thousand people of which 8,689 thousand were employed while 380 thousand were unemployed.



\*Including the armed forces and related departments as well as people who work in the informal sector and on the black market.

\*\*Other categories of employed individuals: owners, self-employed, contributing family workers and members of agricultural associations or cooperatives.

**Figure 7.** The employment rate of the population able to work

Source: [www.mmuncii.ro](http://www.mmuncii.ro) , own edited

In 2018 the employment rate of the population able to work (age 15-64) was of 64.8%, while the employment rate of persons aged between 20-64 was of 69.9% as opposed to the aim of 70% established in light of Europe 2020 Strategy. Unemployment rate decreased from approximately 4.9% to 4.2%, i.e., 0.7% less than the previous year.

#### 4. Conclusion

Having in mind the factors that influence the public pension system, the management of this system must have in mind continuous sustainability taking into account the following findings:

- In the course of 2018 proceeds from contributions to social security increased by 19.1%, exceeding by 1% the growth of the gross salary at national level due to the increase of the number of insured persons, mainly employees, and those with statement of assurance, while witnessing a slight decrease of insured persons based on insurance contract; to the increase of the guaranteed minimum income, to the gross average earnings mostly in the budgetary sector.
- The amounts transferred from the state social security budget to the II Pillar of pension were in total 7.1 billion lei which constituted 99.3% of the annual program estimated for the II Pillar of pension.
- According to the budgetary provisions for 2019, the state social security budget associated to the public pension system registers revenues of 71,662,090 thousand lei, while expenses are 68,761,379 thousand lei, expecting a surplus of 2,900,711 lei both in the case of commitment appropriations and budget appropriations. ( Law on State Social Insurance Budget for the year 2019)
- The financial sustainability of the public pension system is based on the increase of the revenues from state social security projected for the interval between 2017-2022 the main resource of which is the steady and significant increase of the gross domestic product from 856.7 billion lei achieved in 2017 to 1,261.5 billion lei in 2022, the projected increase being of 47.25% (National Commission for Strategy and Prognosis, 2019 Winter Prognosis).
- There are still perspectives for financing the II Pillar of Pension and the implementation of the new law on public pensions which through its amendments, especially the new algorithm for calculating the pensions, will surely achieve an equity and a superior level of benefits to all retirees and insured persons of the public pension system in Romania.

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