

Specific Aspects of State Social Security Reform in Romania

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Abstract: The National pension system, in the light of major economic and financial transactions that take place today, can be challenging, through the difficulties that they create and the solutions that they offer. This paper is a comprehensive study on the public pension system in Romania facing the current global crisis, based on local case studies in an attempt to identify the main gaps and to propose viable solutions. The obtained results are based on multifactorial analysis at local level, by personal processing of relevant data, the evolving activity collected from a county pension facility that meets the characteristics of the retirement pension system nationwide.

Keywords: public pension system; employment; social security; social security budget, pension reform

JEL Classification: G23, J68

Part II

3. The Analysis of the Public Pension System Based on Indicators - A Case Study from Braila County Pension House

The Braila County is part of the economic development in the South-Eastern region of Romania, its population represents about 13%. According to the existing data in 2005, the active population (of age) in the Southeast Region was 43.7% - slightly

below 45.5%, as it was the national average - and the region's employed population was 36.1%, and in Braila was 34%, also below the national average, 38.8%.¹

These features of the South-East area, as well as the developments in the local economy are reflected in the changes of values of some indicators of the public pension system at the Braila county's level, of which the first part of this article were analyzed quantitatively and qualitatively, the number of policyholders and the main beneficiaries of state social insurance budget, the developments and correlations.

3.1. State Social Insurance Budget Execution at Local Level

In Table 14 there are presented the budget execution data for the period 2006-2010. The necessary expenditures of the state social insurance system at the level of Braila County have exceeded the revenues each year, ending the exercise with a deficit. The deficit increases from one year to another and in 2009 it exceeds the revenues. We have identified as causes the average basis on modest tax at the level of the county, the disadvantageous ratio between the number of taxpayers and the number of beneficiaries, the coverage degree continues to decrease the social insurance system in the county and the decreased collection rate (Table no. 15).

Among individual policyholders there is a large number of people who pay late or no social security contribution. If the insured under contract may have their contract terminate automatically for non-contribution six months in a row, the debts of insurance policyholders must be pursued and repossessed. In late May 2010, according to CJP Braila databases, 1309 were provided with the contract, which reported back payments totalling 284,178 lei plus accessories totalling 9968 lei, and among policyholders with insurance declaration there were 1103 debtors, with a total debit of 1,290,082 lei, plus total accessories of 922,419 lei.

Table 14. Implementation of State social insurance budget at CJP Braila in 2006-2010
lei

Indicators	Years				
	2006	2007	2008	2009	2010 (1 st trimester)
Total revenue -, of which	185032966	220522350	290591432	313560610	70723199
Employer contributions, including:	124546054	145366077	191853846	197981169	47350964
- Social security contributions owed by	122604525	143566973	190301710	192810533	43844825

¹ OIR POSDRU SUD-EST Site, <http://www.fsесudest.ro/Prez-Reg-SE.pdf>

employers					
- State social insurance contributions owed by unemployed persons	1941529	1799104	1552136	5170636	3506139
- Contributions of policyholders	59484279	73611239	97634505	107152687	24975505
- Contributions due from policyholders	56555756	69361636	91623853	99499117	22601377
- Contributions of other policyholders	2928523	4249603	6010652	7653570	2394055
Reimbursements from social insurance contributions	0	0	0	0	-19927
Non-tax revenue	1002633	1545034	1103081	8426754	-1603270
Expenditure – total, of which:	286894085	361876061	529739448	631602626	168270556
Insurance and social assistance, including:	284701926	355989305	520132496	623525309	166302630
- Pensions and benefits for old age	280070781	351025109	513878599	616979430	164312892
- Social assistance in case of illness	36704	1303	0	0	0
- Social assistance for family and children	595545	44361	33950	0	0
- Aid for survivors	3998896	4918532	6219947	6545879	1989738
Personnel costs	1694050	1732363	3892743	2039544	488155
Expenditure on goods and services	493231	4093633	5602483	6189646	1536198
Capital expenditure	4878	60760	344281	0	0
Payments made in previous years and recovered in the current year	0	0	-232555	-151873	-56427
Surplus / Deficit	-101861119	-141353711	-239148016	-318042016	-97547357

Source: Annual Accounts for the implementation of state social insurance budget of the CPJ Braila

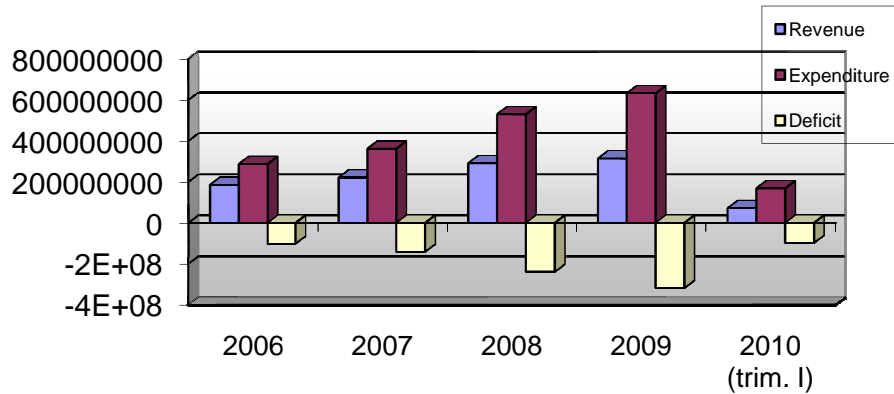


Figure 5. The evolution of revenue, expenditures and of state social security budget deficit at CJP Braila during 2006-2010

CJP Braila

Table 15. The collection degree of social insurance contributions owed by the employers and the insured

Indicator	Years				
	2006	2007	2008	2009	2010 (trim.I)
Revenues from employers under the CAS budget execution (lei)	122604525	143566973	190301710	192810533	43844825
Income owed by employees according to CAS reports (lei)	133839065	161035439	207617480	220381907	51945731
Cashing the CAS employees according to the budget execution (lei)	1941529	1799104	1552136	5170636	3506139
Revenue owed to CAS employees according to nominal records (lei)	2347213	2072506	1955023	6937756	3128622
Cashing CAS employees under budget execution (lei)	56555756	69361636	91623853	99499117	22601377
Income owed from CAS employees according to reports (lei)	63771069	78648733	102326818	112268752	26399073

Collecting degree CAS employer (%)	91,6	89,2	91,6	87,4	84,4
Collecting CAS collection unemployed (%)	82,7	86,8	79,4	74,5	112,1
Collecting CAS employee (%)	88,7	88,2	89,5	88,6	85,6

Source: C.J.P. databases Braila, own calculations

3.2. The First Developments in the Local Private Pension System

Concerning the participation of policyholders to Pillar II, we rendered in Tables 16, 17 the evolution of the number of "valid" participants, those for which transfers were made for mandatory private pensions. The number of participants per month is oscillating, whereas the contribution to the payment of Pillar II is conditioned by the presence of the insured under the nominal statements made by employers. The coverage degree of the mandatory private pension system, calculated as a percentage of the "valid" participants to Pillar II in the total number of policyholders who were registered in CJP Braila (Table 2 rd.1 + rd.6 + rd.8) is below 60%. The value of coverage degree has a modest increase from one year to another because of the new number entrants under Pillar II, by law, is annihilated by the number of people for which the contribution cannot be transferred, because it is no longer in the category of insured in the public category.

Table 16. The evolution of insured in Braila county to ensure that contributions are paid to Pillar II

Year	Months												
	January	February	March	April	May	June	July	August	September	October	November	December	Average
2008	-	-	42793	43282	43242	45036	43983	44222	44919	44788	44624	44588	44148
2009	42977	43869	43837	43802	44033	43901	43553	43672	43872	43423	43310	43024	43606
2010	42924	43335	43212	:	:	:	:	:	:	:	:	:	43157

Source: C.J.P. Databases Braila

Table 17. Evolution amounts transferred to Pillar II for policyholders in Braila County lei

Year	Months											
	January	February	March	April	May	June	July	August	September	October	November	Average
2008	-	-	784458	851206	834640	919572	930541	903511	911681	1007262	981548	1062502
2009	974414	986410	1022537	975595	956727	958107	976527	959824	950572	977405	915838	681370
2010	1145641	1172452	1193706	:	:	:	:	:	:	:	:	:

Source: C.J.P. Databases Braila

Table 18. Average number of policyholders for which the contribution was paid to Pillar II according to their age

(persons)

Year	Age categories	
	up to 35 years including	over 35 years
2008	26963	17185
2009	25081	18525
2010	22892	20265

Source: C.J.P. Databases Braila for 2010, data from the first quarter

Table 19 The degree of covering Pillar II

(%) policyholders of Pillar II of the total number of insured

Year	Degree of Coverage
2008	55,4
2009	56,6
2010	57,3

Source: C.J.P. Databases Braila for 2010, data from the first quarter

3. Conclusions and Solutions having a Local and National Impact

Reforming the pensions in Romania has been a long process of transformation and optimization passing through several stages of regulation, amending and supplementing or repealing certain provisions that intended to be the foundation of a sustainable pension system, which meets the requirements of society and the EU objectives.

The state social security system at the level of the analyzed county keeps the main features of the system at national level in terms of small number of insured compared to the employed population, the lack of effective tools to bring more insurers into the system, the frequency of early retirement, maintaining their age retirement at a low level, the presence of weak labour market of people aged over 60 years, the indiscipline of employers and insured to not pay their obligations to

the budget. They are the main factors determining the maintenance of a sub-unitary ratio between the number of employees and the number of retirees, considering only the pensioners that are paid from the state social insurance budget. 2005 year has brought an improvement in this report, outsourcing the benefits and shifting the task of state budget pension from the former system of farmers' social insurance. The improvement of this report continued in the years of economic growth, 2006 - 2008, before lowering again since 2009. This and the analysis of the number of taxpayers and pensioners, prove the link between economic development and improvement of input and output, and thus of the parameters of the state social insurance. The small degree of coverage of the population taken by the state social insurance system is recorded throughout the country and it has declined continuously, even in the years when employment has increased, because a large proportion of workers in categories other than employees have not paid off the obligation to ensure. Depending on further professional development, there are future potential "candidates" to the minimum income provided by social protection system. Their monitoring is impossible, since this would be done by a computer system that includes national database that does not exist at the moment.

If we relate the Romanian pension system to the 11 common objectives set by the EU Member States by adopting the open method of coordination, we can draw some conclusions about the evolution of public pension system's reform.¹

Objective 1, preventing the social exclusion, means providing a decent living style for the elderly. In the period 2003 - 2006, the poverty rate of pensioners has halved. However, approximately 46.6% of the retired of state social insurance have the amount of the pension under the average gross salary per economy, where we concluded that this objective was not achieved. This situation worsened in 2010, with the measures to reduce the amount of retirement benefits, taken by the Government.²

Objective 2 is to maintain the living standards after retirement, pensions, by accessing to public and/or private. The average pension of state social insurance is located below the gross minimum wage in the economy in 2008 and slightly exceeds the amount in 2009, it is below half the average of gross wage. In late 2007, some 955,000 retired of state social insurance (20.6%), the pensions were below the minimum net wage in the economy about 3.2%, i.e. approximately 150,000 people had pensions less than half the minimum wage, in September 2008 their number doubled. The replacement rate compared with average net earnings fell to 43% in 2002 to 38% in 2007, returning to a value of approximately 44% in 2009. In the EU, it is recommended the replacement rate of 50%, currently impossible to achieve in Romania because of the too high dependency ratio in the

¹ The idea of targeting the objectives was inspired by (Fiț, 2009)

² M.M.F.E.S., I.N.S. (2007). Romania: Raport de evaluare a sărăciei. November 2007.

public system. (Presidential Administration, 2009) Analyzing these data, this objective cannot be fulfilled.

Objective 3, promoting inter and intra-generational solidarity, is also questionable, given the demographic tendencies and projections for the coming years and also the continuing increase of the foreign debt.

Objective 4, the increase the employment rate is still far from being achieved, if we take into account the statistical data showing the decrease in the labour force and employment rates and the rise of unemployment. There is no immediate practical solution for this situation to improve, especially in the economic crisis that we are going through which had a major impact on unemployment.

Objective 5 refers to the extension of the active period. In legal terms the age of retirement has been increased and it will reach 60 years for women and 65 for men by 2014. Contributory periods have also been increased to 30 years for women and 35 men. But practically, the excessive early and disability retirement, many of them believed to be illegal, determine the actual average retirement age to be below to that provided by law, according to the data of various studies is of 54-56 years to less over 60 years. According to Eurostat, Romania is the EU country where the employment rate of people aged between 55 and 64 dropped the most from 2001 to 2008. Also, the employment rate of people in that age group in 2001 decreased from an average of 48.8% in 2001 to an average of 43.1% in 2009 (average over the first three quarters) while the 35-54 years age category for the same period, employment rates ranged from 76.8% to 74.8%.¹ Given these figures, analyzed in correlation with the number of early retirements, we cannot consider this goal being achieved.

Objective 6, insuring the financial sustainability of the pension system, would mean in particular the improvement of the collecting degree, reducing arrears. Since 2008 the budget registered growing larger deficits and the future projections are not more optimistic, if we consider the fact that the dependency ratio of people aged over 65 is in an accelerated growth. According to World Bank studies for Romania, by 2050 the revenues for pensions will reach only 3.4% of GDP, while expenditure on pensions will reach 9.6% of GDP. The current situation and future projections do not allow considering this goal achieved.

Objective 7, adjusting benefits and contributions in an equitable manner. Benefits and contributions in the public system in Romania are controlled by two key parameters, pension point, and respectively, the rate of contribution, both set annually by the state social insurance budget law; their changes may be annually established or even more frequently. The contribution rate to the state social insurance budget had a downward spiral during 2003-2008 and increased in two

¹ AMIGO Statistics.

consecutive instalments in January and February 2009 and the fundamental point of retirement has gone through many inconsistencies. Both methods of correlation and substantiating these parameters and their long-term tendencies are unclear, so that this objective is uncertain.

Objective 8 relates to ensuring an adequate and solid pension system from the financial point of view. In Romania there was created a legislative framework for the operation of private pension funds. Basic rules are common with other European countries which adopted similar systems. The short period that has elapsed since the system began to operate does not allow a foundation for future projections in terms of tendencies, thus this objective can only be considered fulfilled only from the view of insuring a legal framework for the operation of private pension systems.

Objective 9 of the EU, the creation of pension systems compatible with the requirements of flexibility and security on the labour market can be considered fulfilled, as far as providing the legal framework for the implementation of the current European regulations.

Objective 10 regards the revision of pension system in accordance with the requirements of equal treatment between men and women. At this time, this target is not reached and it remains unclear whether the new pension law, which will enter into force on 1 January 2011, will introduce equal treatment between women and men regarding the retirement age.

Objective 11 relates to the development of transparent, predictable, flexible and adaptable to new realities pension systems, these features should lead to increased confidence in the national pension system. From an institutional viewpoint, things are relatively solved in terms of involved structures and their duties, applying the model developed in collaboration with the World Bank in all European countries that have reformed their public pension systems. Regarding the parameters, the party that interest the taxpayers and beneficiaries the most, the developments are unclear and unpredictable. So that is why not even this objective can be considered fully achieved.

As a conclusion the objectives proposed to reform the pension system in Romania have not been generally achieved, even in terms of recorded data or that of public perception. According to our analysis we can conclude that most issues arise from unbalanced financial system, between revenue and expenditure widened in the context of global financial and economic crisis, poorly managed in our country.

Few feasible opportunities to increase revenue of the state social insurance budget would be:

- an increase in social security contributions, which were used over time, exceeding the levels in most EU countries, so it is an undesirable solution;

- an increase in tax basis of the contribution, that can be achieved by: increasing the number of employees by creating jobs or by increasing wages, but both require a solid economic growth and it is not a short term result; efficient identification of persons have an obligation to ensure; attracting new categories in the system; reducing the phenomenon of "illegal labour" or "in between" (including the declaration of a wage below the real one);
- an increase of revenue collecting degree;
- a demographic policy based on increasing the birth rate.

Ways to reduce costs may include:

- stimulating activity to old age;
- raising the retirement age;
- increasing the insurance length necessary for retirement;
- harden and a more strict control on the conditions within specific categories of employment;
- reducing the conditions for early retirement;
- the introduction of equity in Romanian pension system by law, in order to prevent granting privileges from the public money, the integration of special pensions system in the public system.

Also, for a better management of the computerized record system it is useful the introduction of general computerized records in the pension system and the creation of a system of monitoring, analysis and policy in the sphere of pensions, the establishment of national databases in order to have clear evidence of people that are required to ensure, the corroboration of social security system with other systems in the field of social insurance.

State social security system aims at providing the replacement income if it occurs in people's lives the disease, disability, old age, death. But it should not be considered as the only and most important tool to fight poverty. The most effective ways in line with the EU are to stimulate employment, to increase the degree of education and training the population, in order to guarantee a decent minimum wage.

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