SUSTAINABILITY OF THE PUBLIC PENSION SYSTEM IN ROMANIA. PROSPECTIVE EVALUATIONS AND ALTERNATIVES

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Abstract

The present approach intends to make an empirical analysis of the public pension system in Romania for the period 2007-2017 and of the current alternative systems, as well as to anticipate their evolution in the next 20 years in terms of economic and social sustainability at national level.

Key words: *sustainability, public pension system, alternative pension systems.*

JEL Classification: *D14, E24, G23.*

Introduction

The pension system issue in Romania has been a topic of debates over time, both in terms of how to create and allocate the necessary financial resources, and mainly in terms of its sustainability. Without intending a review of the main changes in the legal framework for the pension system, we shall try to present a few aspects regarding the evolution of the Romanian pension system in the post-accession period, in terms of monthly average pension, employees/pensioners ratio, as well as compared to pension systems in the other EU member states, in the context of the recent legislative proposal to amend the pension law and of the durability and sustainability of the social protection system for this segment.

Methodological considerations

From the methodological point of view, the present study is based on public information supplied by national statistics, through Tempo-Online database, as well as by EU statistics (Eurostat). In order to capture the main evolutions of the pension system, the results are presented mainly under table form, using statistical methods dedicated to comparison and dynamics.

We must specify that in the case of value indicators, for data comparability, these were transformed into euro, using the average annual exchange rate of the National Bank of Romania (NRB).

Results and discussions

Social security represents a set of mandatory norms providing monetary assistance for old age, illness or accident for people who are subject to a legal employment relationship or to other categories of persons prescribed by law, as well as to their heirs.

According to the current legal framework[54], in Romania, the social security right is guaranteed by the state and is exercised through the public pension system and other social security rights. Compared to the other EU member states, for which statistical data are available at EU level, in the year 2015, Romania ranked 16th in the 27 member states[55], with pension expenditure worth 12978.81 mil. euro, up by about 62% compared to 2007.

Compared to the EU average of 68329.03 mil. euro, the pension expenditure budget of Romania is about 5 times lower, the first positions being occupied by Germany, France and Great Britain, whose cumulated budget accounts for 46.5% of the total budget allocated to pensions in the Community (Table no. 1).

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[54] Law 263/2010 on the unitary public pension system, with subsequent amendments and completions.

[55] Except for Poland, for which no statistical information is available

Table 1. Evolution of pension expenditure in the EU member states in the period 2007-2015 (mil.euro)

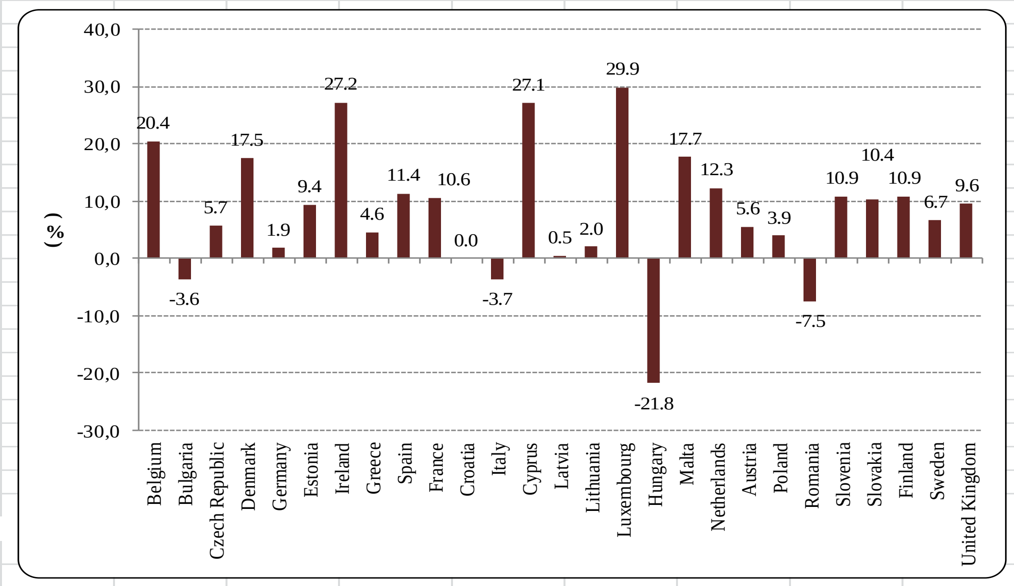
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Belgium	35705	38986	41140	42781	45261	46078	48280	49669	52010
Bulgaria	2109	2487	3075	3313	3365	3387	3610	3758	3905
Czech Republic	10468	12586	12897	13836	15034	15069	14738	14052	14571
Denmark	27335	28202	30061	30571	31602	32418	34743	37131	36749
Germany	302526	307492	314471	319889	322665	329506	335268	345117	358589
Estonia	927	1145	1253	1284	1298	1361	1430	1510	1660
Ireland	11217	12154	13006	13047	12985	13695	13985	13975	14354
Greece	28584	31798	33943	33485	33965	33783	30152	30644	31307
Spain	97207	102936	108719	113984	118358	122563	128866	132385	136337
France	254093	265885	276402	286242	298267	308489	318081	324820	330162
Croatia	:	4481	4651	4751	4651	4650	4738	4736	4769
Italy	225193	233935	243081	248679	254405	259934	265534	267631	271954
Cyprus	1051	1166	1240	1440	1559	1675	1773	1853	1917
Latvia	1116	1380	1563	1803	1746	1818	1863	1860	1881
Lithuania	1891	2397	2551	2368	2373	2526	2525	2544	2558
Luxemburg	3090	3274	3535	3681	3954	4221	4450	4624	4837
Hungary	10465	11619	10188	10582	10933	9284	9589	9441	9637
Malta	494	532	564	621	619	661	674	698	721
Netherlands	70336	72539	75492	78003	81579	84219	86464	88320	89649
Austria	37598	39480	41224	42773	44073	45941	47626	49254	50242
Portugal	21342	22709	23798	24565	25282	24466	26693	26984	26855
Romania	8039	10632	11121	11736	12066	11563	11963	12371	12979
Slovenia	3369	3591	3857	3996	4132	4088	4187	4200	4224
Slovakia	3983	4615	5324	5551	5730	6000	6249	6608	6793
Finland	19335	20052	21781	22812	23621	25027	26454	27489	27548
Sweden	38681	39968	38383	42771	46171	49837	52896	50765	51189
Great Britain	220511	201398	192748	209258	214329	242292	236118	259635	297488

Source: Eurostat, 2018.

In is true that pension expenditure essentially depends on the number of pensioners and age of retirement, as well as on the programs dedicated by each member state for maintaining in employment the people who, although have reached the age of retirement, can remain in employment under certain conditions.

As regards the number of pensioners, in the year 2015, in Romania, this decreased by 7.5% as compared to 2007, which is a similar situation to that of Bulgaria (3.6%), Italy (3.7%) and Hungary (21.7%). Except for these four member states, in the remaining member states, the period 2007-2015 is characterized by a noticeable increasing trend of the number of pensioners by percentages ranging from 0.5% (Latvia) to 30% (Luxemburg) (Figure 1).

Figure 1. Dynamics of the number of pensioners in the EU in the year 2015 as compared to 2007 (%)



Source: Calculations based on Eurostat data, 2018.

Pension expenditure in Romania accounted for 8.1% in GDP in 2015, placing our country on the 22nd position among the 27 EU member states; only Estonia, Latvia, Malta, Lithuania and Ireland were below this level. At the opposite pole, with a pension budget of over 13% of GDP, we can find 8 member states, with an oscillation margin ranging from 13% (Netherlands) to 17.8% (Greece).

We must mention that in the period 2007-2015, the budget allocated to the pension system, as share of GDP, increased by 28.6% in Romania, i.e. from 6.3% (2007) to 8.1% (2017). Out of the 27 member states for which statistical information is available, as share of GDP, the most significant increase was found in Cyprus (80%), followed by Latvia, Greece, Spain and Estonia, with percentages ranging from 40% to 58%. It is true that these countries had the lowest shares of GDP allocated to pension expenditure, yet the significant increasing trend is due to the increase of the number of pensioners and of the average pension.

As we have mentioned before, the development by the state institutions of programs to support the maintaining in employment of persons who have reached the retirement age, or raising the retirement age, resulted in the diminution of the share of pension expenditure in GDP by percentages ranging from 1.7% (Germany) to 14.7% (Hungary).

Going down with our analysis from EU level to the national level, it should be noted that in Romania, the many changes in the legal framework for pensions in the last 27 years generated significant dysfunctions in terms of the value of pension and mainly of the system sustainability.

In Romania, the pension system is structured into 3 pension pillars, namely:

- *Pillar I* – Public pension system;
- *Pillar II* – Privately managed compulsory pension system, regulated by Law no. 411/2004 on the privately managed pension funds, with subsequent amendments and completions;
- *Pillar III* – Privately managed facultative pension system, regulated by Law no. 204/2006 on facultative pensions, with subsequent amendments and completions.

The non-correlation of wage policy with labour productivity, the inefficiency of social protection measures and the increase of pensions based mainly of subjective criteria, resulted in an inefficient public pension system both in terms of the formation and collection of due contributions and mainly of their distribution by categories of pensions.

Without analyzing the principles that the current legal framework provides in the organization and functioning of the public pension system in Romania (uniqueness, obligativity, contributiveness, equality, distribution, social solidarity, autonomy, imprescriptibility and non-transferability), it should be noted that in the period 2007-2017, in Romania, the pressure on the labour force has been significant, the number of pensioners / number of employees ratio being still larger than one.

Practically, this ratio evolved from 1.2 pensioners / employee in the year 2007 to 1.1 pensioners/employee at present. In this context, the evolution of the monthly average pension level is also worth mentioning. Thus, still far away from the EU average, the average level of the monthly pension increased over 11 years from 116.6 euro (2007, current prices) to 234 euro (2017, current prices) (Table no. 2).

Table 2. Evolution of average monthly pension, of the number of pensioners and employees in Romania, in the period 2007-2017

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2017/ 2007 (%)
Average monthly pension (euro, current prices)	116.6	155.3	161.7	170.1	177.7	173.5	182.2	190.3	200.7	211.1	234	100.8
Number of pensioners (thou.)	5745	5701	5689	5675	5589	5487	5410	5357	5306	5257	5228	-9.0
Average number of employees (thou.)	4885	5046	4774	4376	4349	4443	4444	4508	4611	4759	4946	1.2

Source: calculations based on Tempo Online database, 2018.

The pension system sustainability must be ensured by implementing certain specific measures, which should take into account mainly the economic evolution, the diminution of pressure on labour force, as well as their social impact.

Studies conducted to date[56] have attempted to make long-term demographic developments in the context of ensuring the long-term sustainability of the Romanian pension system.

From this perspective, it is worth mentioning that, according to the forecasts made, in the year 2040, the total population of Romania will be 20.3 million inhabitants, in a noticeable downward trend compared to 2007.

The same decreasing trend will be the other demographic indicators, namely the rate of economic dependence, the employed population or the fertility rate, with the opposite pole increasing the life expectancy.

Starting from the projection of both demographic and economic indicators, a simulation of public pension system expenditures was attempted up to the level of 2060. These projections were based on the Pension Reform Options Simulation Toolkit (PROST) model, which based on the methodology provided the ESSPROS (European System of Integrated Social Protection Statistics) and the variables taken into account (demographic, economic and pension-related variables) led to the following levels of pension expenditure (Table no. 3).

Table 3. Projections of the expediture with the public pensions (mld.euro)

	2020	2030	2040
Gross expenses with public pensions	9.21	10.25	11.63
Net expenses with public pensions	8.75	9.74	11.05
Contributions to public pensions	8.07	9.66	11.13

Source: *Long-term demographic change and sustainability of the pension system*

Last but not least, the public pension system should be reconsidered and grounded not on political, but on economic and efficiency arguments, also in the context of the existence of the other two essential pillars in the sector.

Practically, the political risk in building a sustainable pension system remains one of the most important determinants of the financial difficulties in the pension system. This is the case, for instance, of Pillar II of private compulsory pensions, which was considered a solution for solving up an important part of the social security budget imbalances.

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[56] Romanian Government, National Commission for Prognosis: „Long-term demographic change and sustainability of the pension system", Project cofinanced from Social European Fund, Operational Program "Development of administrative capacity".

In the context of the above-mentioned facts, the current draft pension law proposes the removal of the inequities between the beneficiaries of the system, i.e. between genders and for each type of gender, as well as between categories of persons who worked under the same working conditions and with a relatively similar level of pay, irrespective of the year of retirement. Practically, the state actions, through the reforms in the field of pensions, must contribute to the unequal distribution of the economic costs of reforms between different groups.

Conclusions

As part of the pension system, the public pension system in Romania is still facing a lot of problems, generated by the inefficient management of existing resources, both in terms of the way in which these are constituted and especially in their distribution over the main types of pensions.

In the context in which the essential resource in building the pension budget is represented by the social contribution collected from the labour force, the pension policy should be strictly correlated to the employment policy and to the social policy. The provision of social benefits as they have been provided until recently will not have the effect of encouraging employment and attracting additional funds to the pension budget, but will instead stimulate unemployment, with a negative impact upon the level of current pensions or of future pensions.

Without denying the need for a social support policy addressed to certain persons in difficulty, the budget allocated to social protection and to pensions implicitly must be reconsidered on sustainable basis, also in terms of implementing certain measures meant to stimulate employment even after the standard age of retirement.

Correlating the implementation of the social protection measures to those of economic nature and removing as much as possible the influence of subjective external factors (mainly political) will result in a better collection of the related contributions to the social security budget, the allocation of funds being necessary to be achieved in a fair manner between all types of pensions.

References

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* * * (2018): Eurostat database;

* * * (2018): Tempo-Online database, NIS;

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* * * Romanian Government, National Commission for Prognosis: „*Long-term demographic change and sustainability of the pension system*", Project cofinanced from Social European Fund, Operational Program "Development of administrative capacity".