

Ensuring the Security of the Population Through the Roumanian Pension System

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Abstract: The actuality of the subject is explained by the fact that in Romania, pensions are the main form of social insurance. The public pension system is based on the principle of solidarity between the generations, and the people who are in activity pay monthly social contributions, the state in turn paying the pensions of those who have left the activity through a redistribution mechanism. The role of the pension system is to transfer resources from the currently active generation to the retired generation. The aim of the research is to identify the benefits of the public pension system in Romania. The main research methods applied to the elaboration of the article are induction, deduction, analysis, synthesis, documentation and observation. As a result of the research, we consider necessary to develop a medium and long term strategy on pension insurance system, the existence of a computerized record in the pension system and the establishment of a system of monitoring, analysis and policies in the field of pensions.

Key words: pension system; types of pensions; contribution; social security

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Pensions shall be the method of returning the contributions paid during the contribution period, in the form of a share of the replaced income, determined on the basis of the country-specific calculation method, the algorithm and calculation formula set by law according to national and universal principles and criteria.

According to the Romanian language explanatory Dictionary, the pension is defined as the monthly amount granted to the persons who left production for old age or invalidity, as well as their survivors, in the cases provided by law¹.

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¹ Explanatory dictionary of Romanian language, available online at: <https://www.dex.md/definitie/pensie>.

two main calculation procedures must be taken into account: The determination of pensions and the updating of pensions. These are permanent procedures. The determination of pensions consists in the calculation of pensions for new entrants to the system through retirement, and the update is the procedure for adjusting pensions already set to current values.

Pensions are the main form of social security protection for citizens.

In Romania, the amount of State social security funds depends mainly on the size of the income of employed personnel, as economic operators and public institutions pay social security contributions in relation to these revenues. The sources for the formation of social security funds shall be:

- State social security contributions;
- Social security contributions due from private units based on free initiative;
- The contribution of employees and pensioners going to treatment and rest,
- The contribution for the supplementary pension,
- Other income.

As a result of the systematization of the author's conceptions (Bistriceanu Gheorghe D., 2002, p. 41)², and on the basis of the regulations in force, we note that the basis for determining the right to a pension is a number of principles, namely:

- 1) improving the pension-tariff ratio, that is to achieve a fair correlation between pension and wage levels; this principle promotes improved training for employees and increases the contribution to the country's economic and social development;
- 2) social equity, that is to say, pensions are determined in accordance with the contribution of each citizen to the economic and social development of the country, while at the same time achieving a fair balance between income from wages and pension benefits, so as to provide incentives for people working in various economic and social fields, cultural, etc., as well as achieving a fair share between different categories of pensions;
- 3) social solidarity, whereby participants in the public pension system assume each other's obligations and enjoy rights to prevent, limit or remove social risks;
- 4) social equality, which guarantees all participants in the public pension system, taxpayers and beneficiaries non-discriminatory treatment as regards the rights and obligations covered by law;
- 5) the money needed to pay pensions is made up of contributions from economic operators, institutions, employees, private entrepreneurs and citizens;
- 6) encouraging greater working age;
- 7) determining the amount of pensions on the basis, first, of existing conditions in the workplace;
- 8) the matching of invalidity pension and old-age pension;
- 9) the uniqueness of the pension shall be that a person may receive a single full basic social security pension; if the same person is entitled to two or more basic pensions, he may choose one of them at any time;
- 10) non-taxable pensions up to a certain level, According to which the pensions, at present, according to the fiscal Code approved by Law No 227/2015, as amended, starting with January 1st, 2018, a tax is paid which is calculated as a percentage of 10% for the amounts resulting from the deduction from the

² Bistriceanu Gheorghe D. *The Romanian insurance system*. Bucharest, Economic Publishing House, 2002, p. 41.

- pension amount of 2000 RON³;
- 11) the inwriting/the imprescriptibility of the right to a pension, whereby any person who fulfills the legal conditions for receiving a pension may at any time apply for a pension, for as long as it has elapsed since the birth of the pension, which does not lead to the disqualification of the pension for the future;
 - 12) the inaccessibility of the pension right, according to which the pension right cannot be transferred either wholly or in part; this principle is based on the human consideration that the receipt of the pension is a personal right designed to provide the pensioner with decent material and spiritual living conditions; however, after receiving the pension each month, nothing shall prevent the pensioner from donating part or all of his pension to another person;
 - 13) indexation, increases and rectification of pensions. Under the conditions of the inflationary process in the Romanian economy against the background of price liberalization, measures have been taken to index, periodic raise and recoralize all categories of pensions. Due to the high inflation rate, pension indexation and increases have not kept pace with price increases.

We consider that it would be necessary to take into account at least the following elements in each indexation of pensions: The real inflation rate compared to previous periods; the maintenance of a constant ratio between the average pension and the average salary; the updating of pensions on the basis of current salaries; establish a legal framework for automatic indexation of pensions when prices and inflation rates exceed a certain threshold; periodic correction of indexation coefficients. So far, with each indexation, pensions, as well as real wages, have always fallen behind price increases.

The Romanian state guarantees every citizen's pension right, regardless of sex and nationality, and provides material support through social assistance to people who are unfit for work and lack of means of existence.

State social security grants the following pensions: work and old-age pension; invalidity pension; early pension; partial early pension; survivor's pension.

In the case of pensions, the main method of estimation is the regression model based on influence factors, linked to the regulatory approach.

For the design of the regression model a first step is the analysis of descriptive statistics and histograms.

Between 1990 and 2010, the average social insurance pension (including farmers) was 176.5 RON and the median value was 72.6 RON. Against the background of an accelerated inflationary process since 1991, descriptive statistics do not provide an image of the real evolution of pensions for work done.

Social security pensions have increased linearly until 2006. In 2008, the pension increase for people who have completed pay placements in higher groups started. This year, the procedure for recalculation of pensions for retired staff was theoretically completed before April 2001. The recalculation procedure extended until the end of 2010 with the granting of rights under the legal limitation period of 3 years.

Between 2001-2010 the average social insurance pension had an average value of 396 RON, between a minimum level of 312 RON and a maximum of 778 RON.

Some statistical data on Romania's pension system for 2019 are presented below.

The average number of pensioners was 5157 thousand, down by 50 thousand compared to the previous year and the average number of state social security pensioners was 4672 thousand, down by 12 thousand compared to the previous year.

³ Act No 227/2015 on *The Tax Code* of 8 September 2015. In: *Official Gazette* of Romania, No 688 of 10 September 2015.

The average monthly pension (Determined by taking into account the pensions for all categories of pensioners - social insurance, invalidity, survivors, etc., paid by pension funds, including the sums paid to pensioners by the CNPP, the Ministry of National Defense, the Romanian Intelligence Service (SRI), the Ministry of Culture and the Lawyers' Insurance House) was 1292 RON, in the creation with 10.2% of the previous year's edition.

The average state social insurance pension was of 1247 RON, and the ratio of the average net nominal pension of the state social insurance for the old age with full pay (without tax and social insurance contribution) and the average net earnings were 48.4% (compared to 50.9% the previous year).

The average actual pension index compared to the previous year, calculated as the ratio between the nominal pension index for the calculation of the actual pension and the consumer price index was 105.6% (Figure 1).

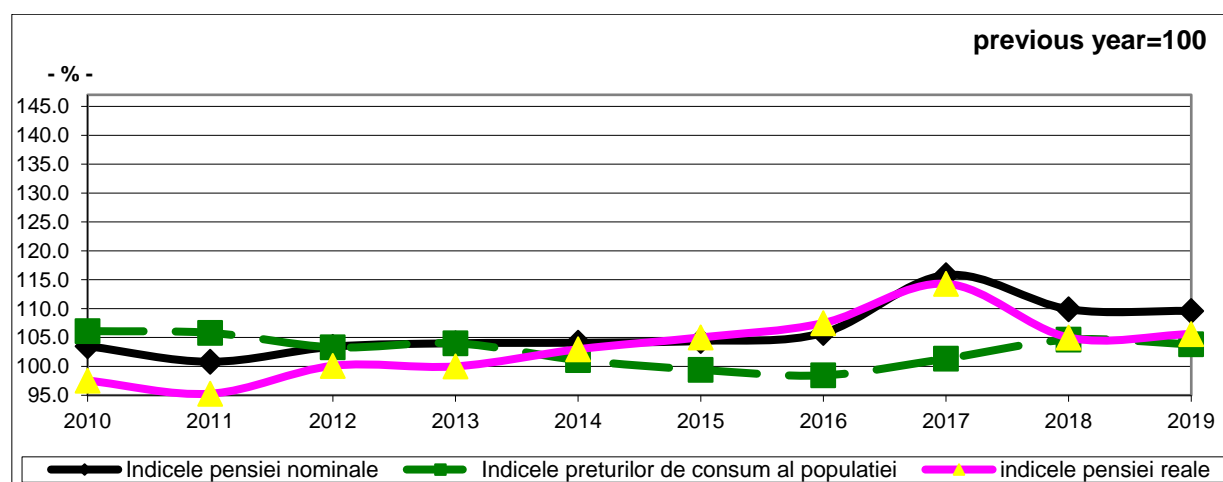


Figure 1 Evolution of the Nominal Pension Index and the Consumer Price Index in Romania in the Period 2010-2019⁴

The evolution of the average number of pensioners and the average monthly pension in 2019 compared to 2018 is shown in Table 1.

Table 1 The Average Number of Pensioners and the Average Monthly Pension⁵

	Average number		Average pension	
	-thousand people -		- RON per month -	
	2018	2019	2018	2019
TOTAL	5207	5157	1172	1292
of which, according to retirement level:				
Social insurance	5204	5155	1172	1293
of which, state social security	4684	4672	1126	1247
of which, social security by pension category:				
A) Age limit	3993	3992	1321	1453
B) Early retirement	21	19	1349	1511
C) Partial early retirement	88	92	1022	1179
D) Invalidity	550	514	641	671
E) Survivor's pension	552	538	647	710

⁴ Available online at: https://insse.ro/cms/sites/default/files/com_presa/com_pdf/pensii_2019r.pdf.

⁵ Available online at: https://insse.ro/cms/sites/default/files/com_presa/com_pdf/pensii_2019r.pdf.

Compared to the previous year, the average number of pensioners decreased by 50 thousand and the category of state social insurance by 12 thousand, while the average monthly pension and the average state social insurance pension increased by 10.2% and 10.7% respectively compared to the same year.

In 2019, social security pensioners have a majority share (99.9%) in the total number of pensioners. The state social insurance pensioners represent 90.6% of the total social security contributions. By category of pension, the number of old-age pensioners was mostly (77.4%) among social security pensioners. Pensioners in the pension categories — early and partially anticipated — represented 2.2%.

The total ratio between the average number of state social security pensioners and employees was 9 to 10; this ratio shows significant variations in the territorial profile.

The total number of beneficiaries according to the provisions of the Government Emergency Ordinance no. 6/2009, on the establishment of minimum guaranteed social pension (currently — social allowance), in 2019, was 1037,6 thousand persons, of which: 849.6 thousand people from the state social security system, accounting for 18.2% of all pensioners in this category; 175,4 thousand people from the former farmers scheme, representing 58.8% of the total; 12.6 thousand people from the military system, accounting for 1.8% of the total.

The average monthly pension increased slightly (+0.8%) in the first quarter of 2020 compared to the previous quarter.

In the first quarter of 2020, the average number of pensioners was 5133 thousand people, down by 7 thousand compared to the previous quarter; the average number of state social security pensioners was 4670 thousand people, growing with a thousand people in the previous quarter; average monthly pension (determined taking into account the amounts for pensions of all categories of pensioners — social insurance, invalidity, survivors, etc. — paid by pension funds, including the amounts paid to pensioners by CNPP, MAPN, MAI, SRI, Ministry of Culture and the National Identity and Lawyers' Insurance House) it was 1423 RON, in the creation with 0.8% of the previous quarter; the average state social security pension was 1374 RON, and the ratio of the average net nominal pension of state social insurance for the old age with full contribution service (without tax and health social security contributions) and average net earnings were 50.8% (compared to 51.1% in the previous quarter), the average actual pension index compared to the previous quarter, calculated as the ratio between the nominal pension index for the calculation of the actual pension and the consumer price index was 99.5%.

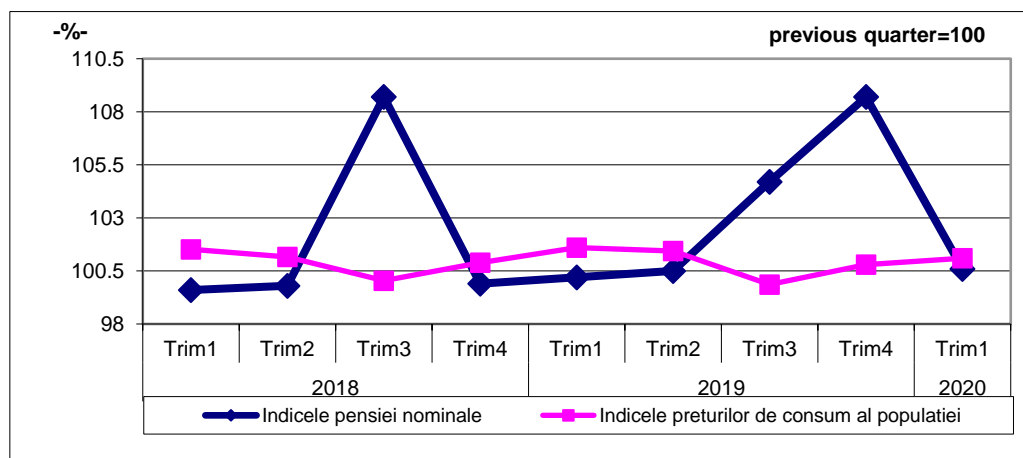


Figure 2 Evolution of the Nominal Pension Index and the Consumer Price Index Over the Period 2018-2020⁶.

⁶ Available online at: https://insse.ro/cms/sites/default/files/com_presa/com_pdf/pensii_tr1r20.pdf.

The entitlement to invalidity pension shall be granted to insured persons who have lost all or at least half of their working capacity due to accidents at work, occupational diseases and tuberculosis, normal diseases and non-work-related accidents.

The grant of invalidity pensions shall be conditional on the occurrence of at least one of those risks and, as a general rule, on the contribution period carried out in relation to the age at which the risk of invalidity occurred.

The amount of invalidity pensions shall be determined on the basis of the traineeship completed, the period of the contribution required and the type of invalidity in which the risk arising is classified.

There are categories of invalidity pensioners who have completed their full contribution period, but at the time the disability occurred they were not of age to receive the old-age pension with the full contribution period. Among these categories of pensioners, pensions shall be equal to old-age pension if they had been entitled to it. In the formula for calculating invalidity pensions, the legislator correctly provided for compensation for the potential traineeship that the insured could have undertaken if the risk of invalidity did not occur by awarding potential traineeship scores, differentiated by type of disability.

The average amount of invalidity pensions in 2005 was 230 RON for first grade pensions, 213 RON for invalidity pensions of grade II and 203 RON for invalidity pensions of grade III, corresponding to the average annual scores based on the current calculation algorithm, of pensioners of categories of insured persons with reduced potential stages.

At 2010 level, the average amounts were 559 RON, 564 RON and 548 RON. In 2018 the average value was 641 RON, while in 2019 it was 671 RON.

Early pensions shall be granted from the year 2011 no later than 5 years before reaching the standard retirement age to persons who have completed a statutory contribution period for the generation to which they belong. The only disadvantage of early pensions is the non-recovery of similar traineeships (army, studies, other similar traineeships), which is a minor “penalty” compared to the granting of the pension 5 years earlier.

The cessation of early retirement during 2010 was rewarded by the legislator by reducing the condition of exceeding the traineeship from an additional 10 years to 8 years above the standard contribution period. The comparative analysis of the data series by type of pension shows that this type of pension is just below the level of old-age and full-age pensions. At the 2010 level the average pension was raised to 980 RON as compared to 2005 when it had an average value of RON. In 2018, the anticipated average pension increased to 1349 RON and in 2019 it was registered at an average value of 1511 RON.

The partial early retirement pension shall be due, no later than five years before reaching the standard retirement age, to persons who have completed the full contribution period and to those who have exceeded the full contribution period by up to eight years. This type of pension shall be penalized from 2011, with a reduction of 0.75% for each month of anticipation until the conditions for transition to the old-age pension category are met. The level of the amounts of this type of pension of 696 RON in 2010 reflects the application of the percentage of progressive decrease from 0.05% per month (between 9-10 years of anticipation) and 0.50% per month of anticipation (for a traineeship exceeded by up to 1 year). In 2018 the partially anticipated average pension increased to 1022 RON, while in 2019 it was registered at an average value of 1179 RON.

The survivor’s pension shall be granted to the children and surviving spouse under the conditions laid down by law. The lower amounts of survivors’ pensions are explained by the fact that the maximum that the survivor’s pension can obtain is 50 % of the pension which the holder had or to which he was entitled. In 2010, the average survivor’s pension was of 396 RON, which places this type of pension over half of the average pension level in

the state sector which was of 744 RON in December 2010. In 2018 the average survivor's pension increased to 647 RON, while in 2019 it was registered at an average value of 710 RON.

In conclusion, we note that the redistribution mechanism is a set of rules and principles based on a basis and type of financing, a formula for calculating the benefits and for allocating the benefits according to them and national specificities and policies. The most known form of redistribution in Romania is inter-generational transfer of resources, being the main feature of public pension systems, which consists in the fact that current generations pay contributions for future pensions. At the same time, resources collected from employees and other insured individuals are not currently being stored, but are being converted into pensions for current generations of beneficiaries. In order to ensure the security of the population through the pension system, we consider it appropriate to draw up a medium- and long-term strategy for older people, to have computerized records in the pension system and to set up a system for monitoring, analysis and policies in the area of pensions.

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