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Difficulties in Romania's Public Pension System

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Abstract: Most European Union countries are facing with major problems regarding their public pension systems. Romania has large difficulties in its public pension system, of which we consider the most important is the large number of beneficiaries and the small number of contributors, that determine a huge social insurance budget deficit. The development of private pensions represents an opportunity to enhance the pensioners' living standard. This paper focuses on revealing the difficulties in the Romania's public pension system and making recommendations regarding the improvement of the system.

Keywords: social insurance budget, public pension, private pension, social allowance for pensioners

JEL Classification: H55, J26

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1. Introduction

In the last two decades the Romanian pension system had various transformations. In the 90s in Romania were more than 8 million employees and less than 4 million pensioners and in 2012 were about 4.3 million employees and 5.5 million pensioners. According to National Institute of Statistics there were about 5.46 million pensioners and at the same time according to National House of Public Pensions there were about 5.30 million pensioners. Reading methodology of National Institute of Statistics we consider that it emphasizes in addition the pensioners that worked in: army, police, secret services, religious cults and justice, for whom the pensions are not paid by National House of Public Pensions.

In order to increase on long-run the revenues of pensioners, from 2007 Romania implemented the multi-pillar pension system consistent with the World Bank proposal. Thus, according to Dragotă and Miricescu (2009) in Romania coexist the public pension system and also the mandatory and voluntary private pension funds. Șerbănescu and Miricescu (2011) declared that the public pension system relies on solidarity among the young-age generation that pay social contributions and the old-age generation that receive pensions, while in the private pension systems each individual pays currently social contributions to receive future pension.

The paper is organised as follows. Section 2 analyzes the most significant indicators regarding the public pension system and Section 3 concludes.

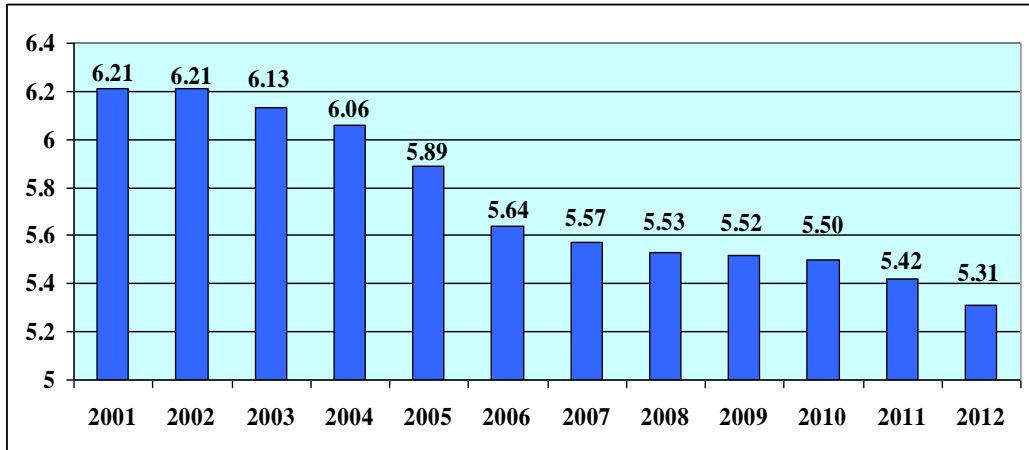
2. Analysing the indicators regarding Romania's public pension system

Our research will be performed on data from 2001 to 2012 available for Romania. All data used in our analysis were collected from July of each year, excepting the average monthly pension in whose case data were collected from December of each year.

The statistical data that we will study are originated from official sources as follows: National Institute of Statistics, National House of Public Pensions

and Ministry of Labour, Family, Social Protection and Elderly People. We will explain in deepness all the specific indicators.

Figure 1. The number of pensioners in Romania (millions)



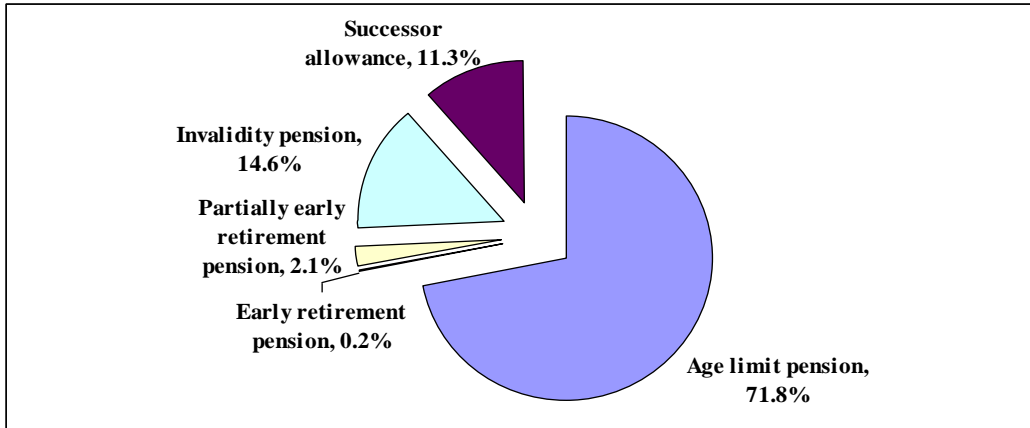
Source: our own findings based on data from the National House of Public Pensions

We find in figure 1 that the number of pensioners in Romania decreased from a maximum of 6.21 millions people in 2001 to a minimum of 5.31 millions people in 2012. Compared with 2001, the number of pensioners in Romania had a decrease of 0.9 millions people at the end of 2012. In our view, these evolutions are due to the increase of retirement age: (i) in the case of men from 62 years in 2001 to 65 years in 2015 and (ii) in the case of women from 57 years in 2001 to 63 years in 2030. In our view, the increase of retirement age by 3 years in the case of men and by 6 years in the case of women is performed gradually. Thus, according to data from the National House of Public Pensions, the number of new incoming pensioners decreased in 2011 by one third as compared to 2010, as a result of: the increase of retirement age and to more stringent conditions regarding access to partially early retirement pension and to invalidity pension.

We find in figure 2 that in July 2012, the share of each pensioners category in Romania from the total number of public pensioners was around: (i) 71.8% for age limit pension, (ii) 14.6% for invalidity pension, (iii) 11.3% for successor allowance, (iv) 2.1% for partially early retirement

pension and (v) 0.2% for early retirement pension. We notice that the second highest share was for invalidity pension. Tănăsescu et. al (2007) considered that invalidity pension was used as an alternative solution to unemployment.

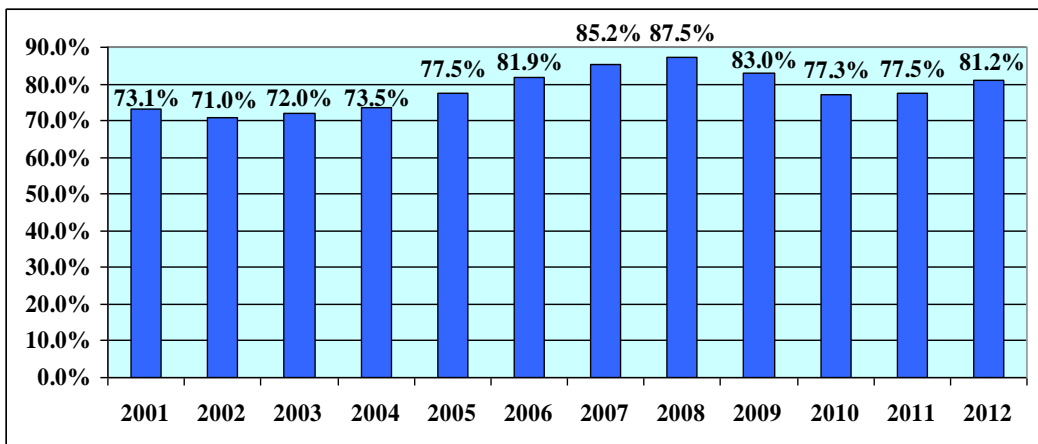
Figure 2. The share of each pensioners category in Romania



Source: our own findings based on data from the National House of Public Pensions

In order to determine how many employees support a pensioner in Romania we calculated the old age dependency ratio.

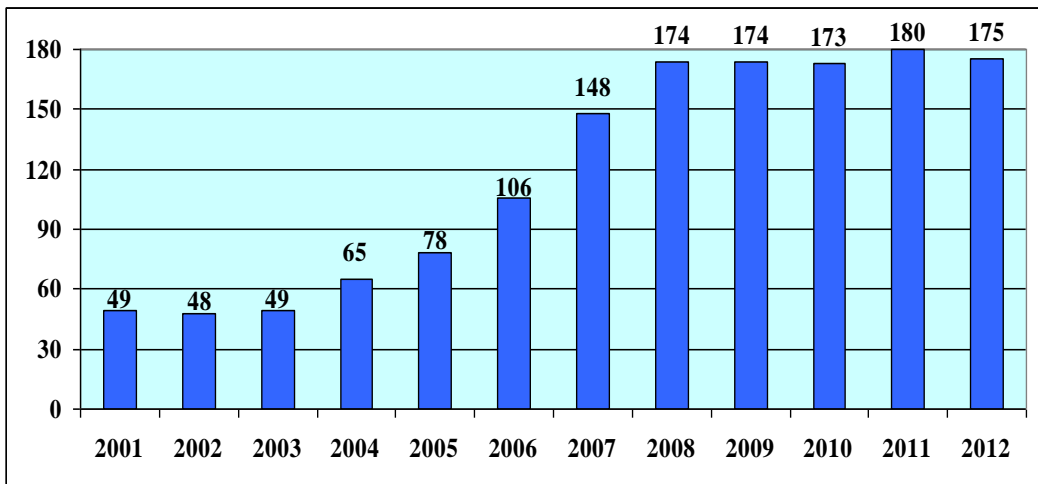
Figure 3. The old age dependency ratio in Romania



Source: our own findings based on data from the National House of Public Pensions and National Institute of Statistics

We find in figure 3 that old age dependency ratio in Romania increased from a minimum of 71% in 2002 to a maximum of 87.5% in 2008, reaching 81.2% in 2012. Compared with 2001, the index had an increase of 8.1 pp in 2012. The number of pensioners decreased faster than the number of employees. In our opinion, the increase of the employees' number is a real challenge for public decision makers in order to improve old age dependency ratio during the current period of time. Also, the increase of the employees' number is an opportunity to avoid as Tănăsescu et. al (2007) said that after 25-35 years the people who work on the black market or who do not work at all (...) they will be a burden for the social security system.

Figure 4. The average monthly pension in Romania (euro)

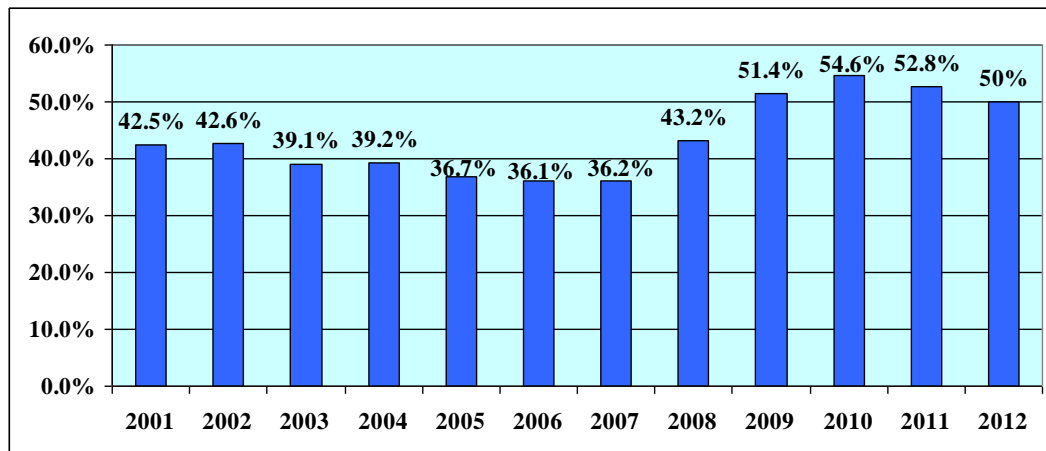


Source: our own findings based on data from the National House of Public Pensions

We find in figure 4 that average monthly pension in Romania increased from a minimum of 48 euro in 2002 to a maximum of 180 euro in 2011, reaching 175 euro in 2012. In our view, on short-run this process led to enhancing the Romanian pensioners' living standard. On long-run enhancing the Romanian pensioners' living standard can be performed by developing the private pensions and also by increasing the effectiveness of taxation for social insurance contributions. According to Fiscal Council

the collection rate for social contributions ranged between minimum 59% and maximum 66% during the period 2002-2011.

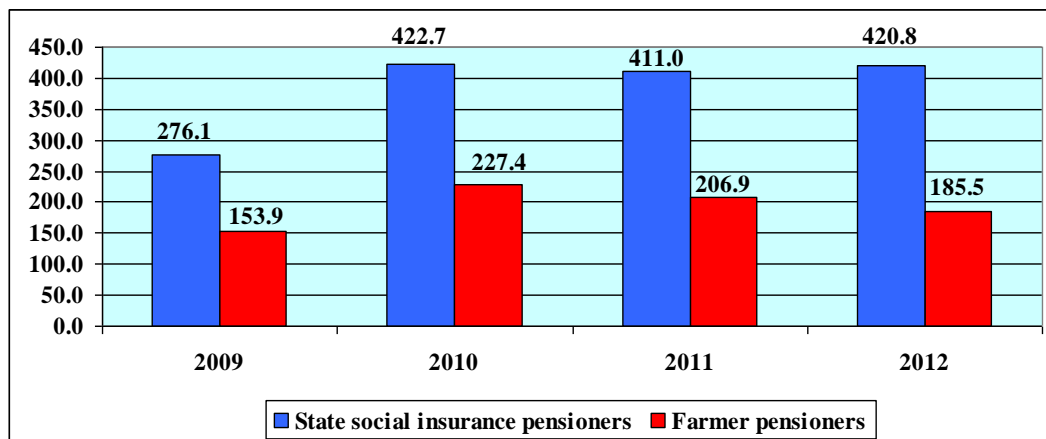
Figure 5. Net public pension as percentage of net average salary in Romania



Source: our own findings based on data from the Ministry of Labour, Family, Social Protection and Elderly People

We find in figure 5 that net public pension as percentage of net average salary increased from a minimum of 36.1% in 2006 to a maximum of 54.6% in 2010, reaching 50% in 2012.

Figure 6. The number of pensioners receiving social allowance in Romania (thousands)



Source: our own findings based on data from the National House of Public Pensions

Starting from April 2009 the minimum social pension had been established in Romania having the aim to reduce poverty and improve the living standard of the population. The minimum social pension was 300 RON between April 2009 and September 2009 and it is 350 RON starting from October 2009. The increase of minimum social pension by 50 RON determined the increase of the number of pensioners that receive it. Starting from 2010 the minimum social pension was called social allowance for pensioners. As Miricescu (2010) stated the public pension is calculated by multiplying the number of pension points by the value of the pension point, and it can not be lower than the social allowance for pensioners. The difference between 350 RON and calculated public pension is granted by the state budget.

3. Conclusions and recommendations

In Romania the living standard of pensioners is low, as in 2012 their revenues were about halves from the revenues of employees. We recommend that public authorities increase the collection rate for social insurance contributions, in order to increase the public pensions. We consider that pensioners' living standard can enhance on long-run by paying contributions to private pensions during the active period in order to receive future pension.

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*** Romanian Ministry of Labour, Family, Social Protection and Elderly People

*** Romanian National Institute of Statistics

*** Romanian National House of Public Pensions