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## Article

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## The importance of health status for the financial sustainability of the pension system. A case study of Romania in the context of the EU

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### Abstract

*Based on the need for a prosperous economy, it is important to increase the quality of life of the active population in particular, but also of the inactive, in order to reduce the consumption of free and/or reimbursed medicines. In this regard, social security and protection systems need to consider improving working conditions, expanding the network of medical services, creating medical, social and professional recovery systems, continuously improving the material and medical situation of people, in order to increase the time of productive activity. This study aims to analyse the evolution of pension categories in Romania for the period 1990-2018, as well as the correlation between health and financial sustainability of the pension system, with an emphasis on healthy life expectancy. In order to develop the case study, the authors consider the evolution of this system in the last decade in Romania, following the average number of people retiring early, as well as people receiving disability pensions.*

**Keywords:** economy, health, financial sustainability, pensions

### Introduction

The need for individual and collective security has always existed, and people, since ancient times, have begun to ensure both their own protection and that of those in their care against events such as famine, pandemics, or other types of danger. One of the main elements that contribute to the creation of optimal living conditions, by ensuring the strict necessities of people's lives, is social protection, which completes the social infrastructure.

Social protection, also called social security, is part of the area of the social economy, based on social policies. The term “social security” was first used in the United States as the title of a law

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passed by Congress, the Social Security Act of August 14, 1935 (Ghimpu *et al.*, 1998, p. 8). Retirement initially appeared as a form of social protection, given the existence of welfare in the state; with roots in antiquity, by including the elements of protection in Roman law, the authors notice the appearance of the first forms of social protection between the thirteenth and fourteenth centuries, when, nearby monasteries were built social assistance settlements for the poor, old and sick. The concept of social protection was first introduced by Galbraith (1982) who defines the policy of protecting disadvantaged groups of the population, through measures aimed at aligning them to a decent standard of living. In this sense, the most urgent measure is considered to be “the provision of the right of those who cannot find a job to ensure themselves a guaranteed or alternative income” (Galbraith, 1982, p. 59).

One of the most important concerns in the European Union is the social policy issue, namely its financial sustainability and in this regard, the Member States and the European institutions are constantly working for a complex approach to this issue and the modernization of social protection systems. So, they respond positively to the requirements of a flexible and dynamic economic and social system.

We focused on this topic because the pension issue is an important matter for any state because it directly affects the economy. This article aims to highlight that one of the biggest challenges facing virtually all nations is the economic and fiscal turmoil in the public pension system, caused by the demographic change of their population. Society is interested in the workforce, avoiding to consider the fact that without healthcare securities they are in danger of faster exhaustion due to hard labour, thus, as a consequence, the state will have to pay a high amount of money for the medical care and, at the same time, not benefit from the workforce of the active population. All these points of view publicly expressed and debated can contribute to the careful prospecting and understanding of the role of the state in all sources of well-being but also to the analysis of the impact that state decisions have on the labour market in general.

The research methodology is based on the qualitative analysis, mainly the analysis of the specialized literature, in the idea of highlighting the evolution of the implementation of the pension system, as well as the financial sustainability of this sector.

The authors also relied on quantitative analysis to analyse the evolution of pension categories in Romania. For the qualitative analysis, the authors consulted the literature, respectively books and articles, and the necessary data for the quantitative analysis were collected from the Romanian National Institute for Statistics and The European Commission: [www.insee.ro](http://www.insee.ro), [www.ec.europa.eu](http://www.ec.europa.eu).

## 1. Main stages of the pension system evolution

Retirement initially appeared as a form of social protection, of the social economy, in view of the existence of welfare in the state; with roots in antiquity, by including the elements of protection in Roman law, the authors notice the appearance of the first forms of social protection between the 13<sup>th</sup> and 14<sup>th</sup> centuries, when nearby the monasteries social assistance settlements were built for the poor, old and sick.

At the European level, starting with 1948, it was allowed, the introduction of sickness pensions, which represented financial aid granted to people unable to find employment. These pensions were granted to both those employed as well as to those unemployed, without distinction. From 1958 to 1962, the Law on Social Protection and Pension Plans required the granting of sickness pensions on the basis of annual sickness records; decisions to grant this type of pension were taken by the Department of Labor and Social Protection. Since 1962, this system has been changed, with crimes such as embezzlement, giving and taking bribes for pensions (McGill *et al.*, 1996, pp. 30- 32).

The invalidity pension was first introduced in 1966, in the United Kingdom, which was granted only to employed persons; however, no clear differentiation was established between the pension to be granted to persons who had suffered an accident during work and the rest of the persons suffering. In the 1970s, a number of retirement schemes were also designed to provide benefits to offset the additional costs incurred by people with disabilities in the form of income for careers. In 1971, a type of allowance was granted for people who had difficulty moving and who requested personal assistance. The 1972 Reform introduced the invalidity allowance, representing a sum of money in addition to the invalidity pension, granted mainly to young people. Also, in 1976, a care allowance was introduced for those who could not work because they had to stay home to care for a disabled relative (Banks *et al.*, 2011, pp. 6- 7). The transition to the Employee Retirement Income Security Act of 1974 (ERISA), a federal law that sets minimum standards for most pension plans and health plans voluntarily established in the private industry to provide protection to the suffering people, represented a reference event in the evolution of pensions, marking the transition to a period of much more active government regulation (Schieber, 2005, pp. 11- 50). In 1975, the conditioning of the invalidity pension from the previous employment was eliminated, offering, in addition, a benefit of 60% of the value of the pension for single men and women. In 1977, this type of pension was extended to married women who were “unable to meet their normal household obligations”, but with a lower amount than the invalidity pension for people who were employed. This type of pension was replaced

in 1984 to stop discriminatory attitudes against women. Subsequently, in 2001, it was eliminated (Banks *et al.*, 2011, pp. 6- 8).

In 1980, the number of sickness pensions was related to the income of the person during the period in which he was employed, the employer having the possibility to grant a private pension to employees who suffered an accident during work. Kruse (1995), in the article “Pension Substitution in the 1980s: Why the Shift towards Defined Contribution Plans?” (1995), compared the number of applications submitted for private sickness pensions between 1980 and 1986 to estimate the number of employers who provides such a pension, as well as the number of sick pensioners who were employed. His general conclusion was that, during that period, there was an increase in the files for granting the private pension in case of illness of the persons who were employed and thus contributed to the pension fund (Kruse, 1995, pp. 218 – 241).

Between 1983 and 1986, the status of “pay illness” was in force, meaning the possibility for people suffering from minor illnesses to be employed, for a part of the sickness pension to be covered by the employer, under the form of a private pension, from which the employee could benefit every month or which could be deposited in an account. Employers were also to receive certain facilities from the state, such as exemption from several taxes and duties. In this regard, Papke (1999), in the article “Plans Replacing Other Employer-Provided Pensions? Evidence from Panel Data” examines employers in the United States who offered a private pension to people suffering from various ailments, comparing employers' offers for this type of labour market retirees and the granting of private pensions between 1985-1992. The number of pensioners in employment and those who received such pensions was not significant (Papke, 1999, pp. 346-368). Papke *et al.* (1996) examine the patterns of substitution of pension plans in the period 1986-1990, using in the study 43 employers of people with various diseases. In this study, 45% of respondent companies indicate that the company wants another pension plan for people with mild illnesses. The survey also found that 17% of employers reported an increase in private pension applications from employees (Papke *et al.*, 1996, pp. 219- 239). In contrast to these findings, Ippolito and Thompson (2000) examine the “survival” rates for 249 private pensions under the program from 1987 to 1995. After a thorough monitoring they found that about 7% of plans were terminated (Ippolito and Thompson, 2000, pp. 228- 245).

The 1995 reform of the England allowance on invalidity allowance replaced the allowance adopted in 1972; thus, new applicants received a less generous and taxable pension, granted based on a diagnosis by a regional commission and not by a personal physician; these actions were aimed at stimulating and employing people. Since 1992, the living allowance for people with disabilities has remained in force only for people who became disabled before the age of 65, while the disability pension was kept for those over 65; this measure was adopted because the total expenditure on this

type of pension was the largest transfer to people with disabilities in the UK. According to Banks (2011), in the period 2006-2007, this type of pension accounted for 9 billion pounds, spending about 0.7% of national income; if we add the sum of £ 4 billion to assist disabled people who have not been employed and £ 1.2 billion to accompany people with disabilities, the cumulative amount is more than 1% of national income. Since 2008, a package of reforms has been introduced consisting of financial incentives both for people retiring due to illness, to return to their old job or to find another job, and for employers to hire retirees in case of illness, or to receive, in another position, former employees who have suffered an accident at work (Banks *et al.*, 2011, pp. 6- 8).

A study by Thorsen *et al.* (2015), “Sickness Absence in the Nordic Countries” clearly highlights a correlation between occupational status, socioeconomic status, and the absence or presence of certain conditions. Thus, the more physically or mentally demanding the occupation and the lower the socioeconomic status, the higher is the predisposition for certain types of diseases. In this session, some countries apply different rules for the remuneration of employees affected by various diseases, depending on the status of workers: civil servants, managers, and doctors, for example, may benefit from longer periods of paid leave, compared to other workers. By contrast, workers in the industry usually have to deal with less favourable working conditions for their health. The study, based on data provided by the UK Office for National Statistics 2014, also refers to accidents at work and work-related health problems during 2013. The results of the named study show that there is very little difference between the management category and the workers on self-reported health problems caused by the nature of the work, 7.3% respectively 8.2%. In contrast, the study also shows that there are differences in the level of education and work-related health problems. For example, 52.3% of people with primary education report an occupational health problem, which results in sick leave, while only 40% of people with higher education have such problems. Data on the narrower categories of employment show that in the UK in 2013, care and health care workers lost 3.2% of their working hours due to various ailments, for which they need sick leave, and those in “basic occupations” 2,5%; on the other hand, there are managers and senior officials, who lost only 1.3% of their working time due to illness (Thorsen *et al.*, 2015, pp. 9-14). These results can only be considered as a partial explanation, as the employed population categories are very numerous.

**Table 1. The evolution of the pension system**

1935	Social Security Act
1948	Introduction of sickness pensions in Europe
1958 - 1962	Law on social protection and pension plans
1962	Amending the Law on Social Protection and Pension Plans

## The importance of health status for the financial sustainability of the pension system

1966	Disability pension was introduced in Great Britain
1970	Series of retirement schemes
1971	Type of allowance for people who had difficulty moving
1972	The 1972 reform introduced the invalidity allowance
1976	Care allowance for a disabled relative
1974	Employee Retirement Income Security Act (ERISA)
1975	Elimination of the conditioning of the invalidity pension
1977	Pension for married women who have been “unable to fulfill normal household obligations”
1984	This type of pension was replaced to stop the discriminatory attitude against women; in 2001 it was eliminated
1980	Private pension for employees who have suffered an accident during work
1983-1986	Wage disease
1995	The reform of England's invalidity allowance will replace the allowance adopted in 1972
1992	Disability pension maintained for those over 65 years of age
2008	Financial incentives for people who retire due to illness, to return to their old job or to find another job.

Source: authors' representation

## 2. The evolution of the pension categories in Romania

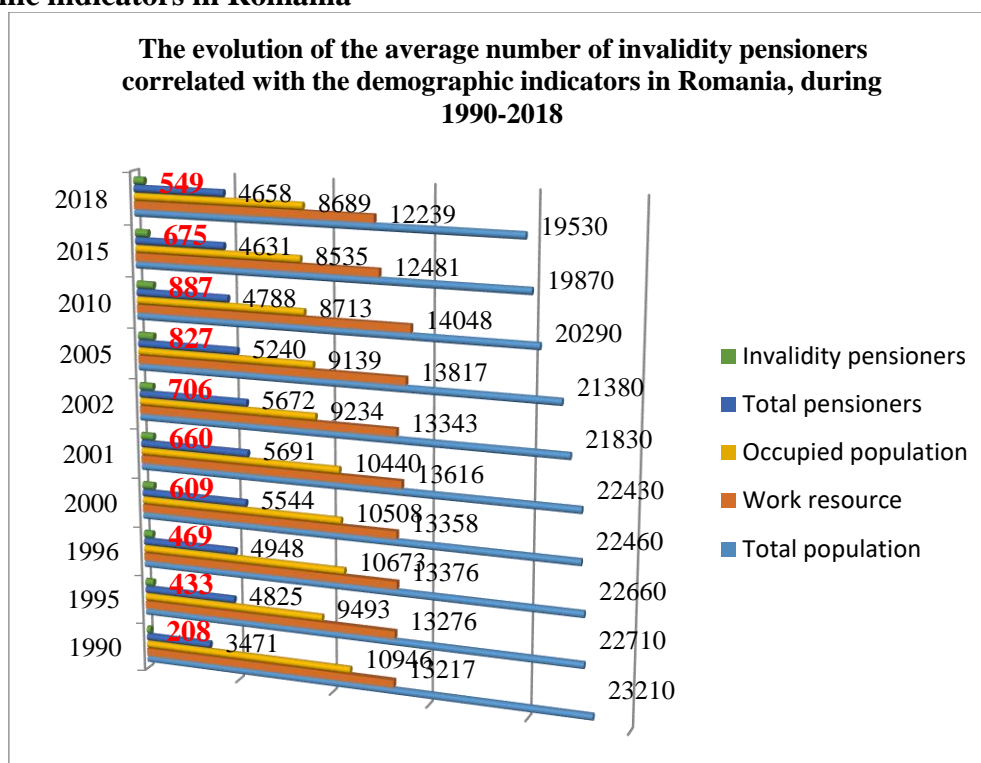
The Organization for Economic Co-operation and Development (OECD) published a study in 2010 in which it points out that low-skilled workers have a higher risk of becoming ill in retirement compared to higher-skilled employees. The study also proposes as a possible explanation for this phenomenon that the link between socio-economic status and education, has important repercussions on health, through unhealthy habits such as smoking, lack of exercise, alcohol consumption, and eating habits. Although the correlation between occupational status, socioeconomic status, and the presence or absence of disease is complex, comprehensive prevention programs, through behavioural therapy, rehabilitation, and employment, have been shown to be useful for the economy. In addition, identifying and monitoring health problems is essential to avoid retirement due to illness (OECD, 2010, pp. 23-34).

The Romanian society, after 1989, entered a process of transition from a multilaterally developed socialist society to a capitalist society, which presents itself as a democratic society, oriented towards the market economy. The process of transition from the political, economic, social, cultural model of socialist type to the capitalist one, can be achieved by the complex reformation of the whole society, in all fields. The end of the transition will mark the achievement of the state of normalcy in the Romanian society, recognized both in the national and in the international context. The transition, thus the modernization steps, involve certain costs, of great economic, political, social,

cultural impact, etc., and the costs of the modernization program produce different effects on the members of the society.

In Romania, retirees have a significant share in the total inactive population, although, after 2010, their number was on a downward slope, in 2019 registering 518 thousand fewer retirees compared to the number ten years ago, according to the National Institute of Statistics (National Institute of Statistics, 2020, p. 14).

**Figure 1. The evolution of the average number of invalidity pensioners correlated with the demographic indicators in Romania**

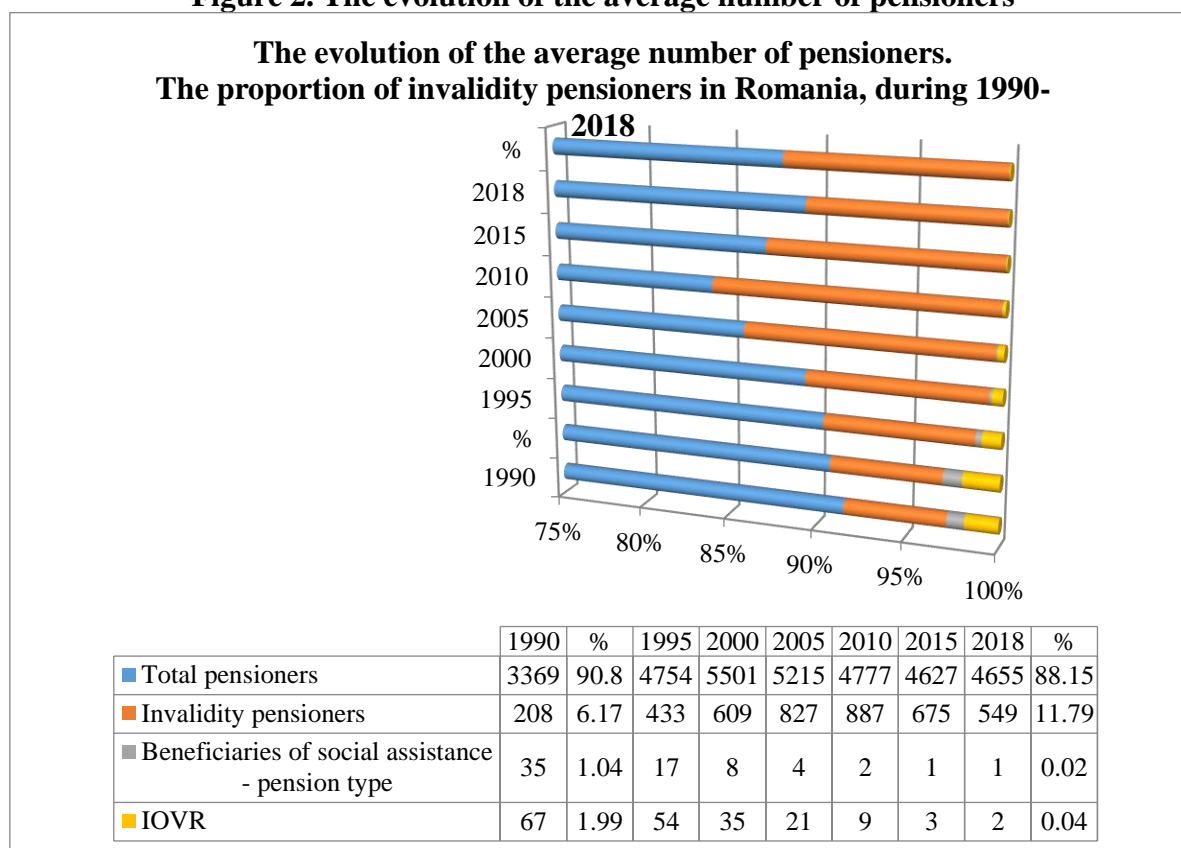


Source: authors' representation using data from the Romanian Institute for Statistics, <https://insse.ro/cms/ro/tags/comunicat-numarul-de-pensionari-si-pensia-medie-lunara>

According to statistical data (Figure 1), it can be seen that the total number of pensioners decreased during the analysed period. Between 1990-2015 the number of invalidity pensions increased significantly, but in the period 2015-2018, the number of this type of pensions decreased. Between 1990 and 2000, the sustainability of the public pension system was severely affected, as measures were taken which doubled the number of pensioners (reducing the average real retirement age), halved taxpayers in the public pension system, the increase social insurance contributions from 14% in 1990 to 35% in 2002 and the significant erosion of the pension/salary ratio. For the period 2001-2005, the implementation of a complex reform of the pension system has started; in 2005-2010, the multi-pillar pension system was implemented (pillar 1 being PAYG state pensions, pillar 2 of

privately managed pension funds, and pillar 3 of private voluntary pensions); introduction of the guaranteed social pension; the spectacular increase of the pension point and implicitly of the average pension in the years 2007-2009, which practically doubled in real terms. The decisions of 2007-2008 will have a dramatic impact on the sustainability of the pension system, given its structural weaknesses and the short- and long-term impact of the global economic crisis of 2008-2009. The period 2010-2011 focused on the sustainability of the pension system in the conditions of the financial constraints generated by the global economic crisis from the years 2008-2009, of the economic constraints specific to Romania, and the demographic structural constraints.

**Figure 2. The evolution of the average number of pensioners**



Source: authors' representation using data from the Romanian Institute for Statistics,  
<https://insse.ro/cms/ro/tags/comunicat-numarul-de-pensionari-si-pensia-medie-lunara>

According to the analysed data (Figure 2), the total number of pensioners decreased in Romania, from 90.8% in 1990 to 88.15% in 2018; thus, the percentage of disability pensions increased from 6.17% in 1990 to 11.79% in 2018; beneficiaries of social assistance-pension type decreased from 1.04% in 1990 to 0.02% in 2018; also, pensions for orphans and war widows (IOVR) decreased from 1.99% in 1990 to 0.04% in 2018.

According to statistics, in 2016, 14.7% of people aged at least 65 were at risk of poverty, meaning that they had less than 60% of the average income of the country where they live, compared to a percentage of 17.9% registered for the rest of the population. However, poverty rates differ from country to country, for example, from 5.7% in Slovakia to 40.2% in Estonia. On average, at the EU level, the poverty rate for people aged 65 and over was 16.5% in 2015, which shows that the average income of older people was 83.5% from the national poverty line (European Commission, 2020, p. 2).

The average number of pensioners in Romania, during 2019, was 5157 thousand people, decreasing by 50 thousand people compared to the previous year, according to the National Institute of Statistics. In comparison, the same period, the number of pensioners decreased by 11.0%, and for those of state social insurance by 0.3%. Social security pensioners hold the majority share (99.9%) in the total number of pensioners. State social insurance pensioners represent 90.6% of the total social insurance pensioners. By categories of pensions, the number of pensioners for old age is predominant (77.4%) among social insurance pensioners (National Institute of Statistics, 2020, p. 15).

### **3. The link between health and financial sustainability of the pension system**

Total healthcare costs should be approximately equal to the population's contributions, given that not all people who contribute to the system need healthcare. However, the costs for this sector have increased in recent years at rates that exceed revenue growth, a difference that is a prominent problem for many countries. The causes come, on the one hand, from the less healthy lifestyle of some people and, on the other hand, from the lack of investments in prevention. The key factor in this is low national incomes, which do not improve the lifestyle of each individual and also do not allow investment in a quality health system that can cover all the needs of the population.

The sustainability of this system refers to the existence of a fiscal and financial balance between income and obligations (and to the ratio between the number of workers/contributors and the number of pensioners/beneficiaries) within the pension systems. To be sustainable in the long run, public pension systems must be able to absorb the impact of the aging process without destabilizing public finances. Pension costs account for a large share of public spending; in 2013 they accounted for 11.3% of the Union's GDP, ranging from 6.9% in the Netherlands to 16.2% in Greece, and are an extremely important factor for the current and medium- and long-term budgetary situation. At present, in Romania, the share of pension expenditure in GDP is just over 7%, well below the EU average of almost 13%. The financial sustainability of Europe's pension systems faces the need to ensure adequate retirement income. The main objective of pension systems is to protect the elderly against

poverty, as well as to ensure conditions that allow them to enjoy a decent standard of living and economic independence in old age (OECD, 2015, p. 1). Thus, the financial sustainability of pension systems is an indispensable mean to this end.

Pensions have a significant impact on public budgets and the labour market, and these effects must be considered in public pension policies. The main objectives of these pension and retirement policies are: (1) to ensure an adequate income in old age while ensuring (2) the financial sustainability of this system and (3) employment for as long as possible (through incentives to supports the stability of the career path informal work, as well as longer professional life (European Commission, 2020, p. 1). Managing the challenges of an aging population requires pension reforms that (1) ensure a balance between contributions and entitlements; (2) reduce early retirement and (3) increase the retirement age (European Commission, 2020, p. 1). However, in order for any attempt to increase the financial sustainability of the pension system to be supported, these measures are not sufficient if they are applied separately and if the level of population's health fails to increase.

In the case of most Member States which increased the retirement age, this was linked to life expectancy, to increase the financial sustainability of this system; thus, thanks to the reforms already adopted or planned in most EU Member States, the medium and long-term sustainability of spending on public pension systems has improved significantly. However, in many EU countries, the financial sustainability of this system remains a cause for concern. Some countries may even face short- and medium-term sustainability issues. Six Member States (Belgium, Germany, Luxembourg, Malta, Slovenia and Slovakia) still face significant increase in spending on public pension systems (European Commission, 2020, p. 12). In this tension, investments in the health of the population might also contribute to the improvement of the pension system; thus, healthy people will be able to be employed, avoiding early retirement and a large amount of money spent on disability pensions. Such reforms would help the population to stay employed as life expectancy increases, along with retirement age. However, in the absence of a balanced state of health, there is an increasing risk of exacerbating the pressure on the health and social care system, as people will not be able to work until older retirement ages. In the EU Member States, where the costs of public pension schemes are declining (Croatia, Denmark, France, Italy, Latvia), the private pension scheme is expected to cover a large part of any gaps. On the other hand, developing cost-effective pension savings instruments continues to be a challenge in many of these countries.

In Romania, the public deficit has risen sizably, driven by current expenditure. The public deficit continued to increase, above the 3% of GDP Treaty threshold in 2019, driven by current spending. It is projected to widen further, in particular due to a 40% pension indexation scheduled for September 2020. As in previous years, the rules of the national fiscal framework have not been

complied with. A high public deficit and increasing ageing costs result in high fiscal sustainability risks. The economy continues to grow, albeit at a slower pace. Real GDP growth remained robust in 2019 at 4.1% on the back of private consumption, with investment providing support. Growth is forecast to ease to 3.6% and 3.3% in 2020 and 2021 respectively, due to weaker industrial production and a softening external demand (European Commission, 2020, p. 4).

In Romania, in order to benefit from the old-age pension, a person must have reached the standard retirement age and must have contributed to the public pension system for a certain minimum period of time. On January 1, 2019, the standard retirement age for women was 61 years and this will gradually increase to 63 years by January 2030; for men, the standard retirement age is 65. Also, in compliance with the specific conditions provided by law, reductions in the standard retirement ages are granted to politically persecuted persons, the blind and the disabled. Non-contributory periods, such as the period of granting the invalidity pension or the allowance for temporary incapacity for work, the period of taking full-time courses at a higher education institution (subject to graduation), the period of compulsory military service or the period during which a person was enlisted, mobilized or taken prisoner in war, are taken into account in the calculation of the old-age pension and the low standard old-age pension<sup>10</sup>.

From 1960 to the present, health care spending has doubled worldwide as a share of GDP. Thus, during the 1960s, the countries that recorded average annual health care costs of 3.5% per capita, in the period 1990-2001, the costs of these services increased by about 50%. The main causes of the increase in health care costs are medical technology, human resources in the system, treatment, price inflation and an aging population. Continued growth in health spending may be unsustainable, especially in light of current and projected budget deficits. In this regard, governments have sought appropriate solutions to finance increased health care costs, given the increasingly constrained collective resources (Paolucci, 2011, pp. 14- 15). Maintaining mandatory universal access to basic services, the continuous improvement of technical efficiency and medical staff, the low financial resources of the population, which leads to a less healthy lifestyle, as well as the dynamic nature of this type of services, are factors that contribute to the continuous increase of costs in this sector.

#### **4. The importance of active retirement for the economy**

One of the biggest challenges facing virtually all nations is the economic and fiscal turmoil on public pension systems caused by the demographic change of their populations. In this sense, we

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<sup>10</sup> Find out more at <https://ec.europa.eu/social/main.jsp?catId=1126&langId=ro&intPageId=4754>

encounter two major evolutions, responsible for the existence of this phenomenon; firstly, a constant improvement in healthcare and medical progress, leading to an ever-increasing life expectancy; secondly, the low fertility and the substantial decrease in the birth rate, which appeared in the late '60s. Both effects lead to a significant change in the age structure of the population, which has put increasing pressure on existing public pension systems in Europe. While the first effect increases the number of retirees, the second reduces the aggregate workforce and the number of taxpayers in the system. Although the consequences of these facts are observable today, they will become much more dramatic shortly. Therefore, a simple adjustment of contribution rates or pension payments could only change the burden between taxpayers and beneficiaries, but could not solve the demographic problem (Hillebrand, 2008, p. 2). Thus, the share of people aged 65 and over will increase dramatically about the employed population, between 15 and 64 years. In the European Union, the retirement rate by age is projected to rise from a current level of 24% to 49% by 2045, an increase that is much stronger than in the United States. Therefore, the share of targeted transfers from the working-age population to the elderly must double in the coming decades if future retirees are to do so to maintain their standard of living. However, for the reasons described above, it is unlikely that this increase in intergenerational transfers can be achieved by doubling contribution rates. Other measures need to be considered to address the consequences of demographic aging for national pension systems (Schludi, 2005, p. 15). One solution would be to employ retirees, but for this to be possible, they need a balanced state of health, which allows them to be employed until an advanced age.

In this sense, as early as 1870, the first forms of active retirement appeared, associated with the pensions paid by employers in the United States, in the railway field, due to the industry's concern about the continuous employment of retired workers. Thus, the railways initially redistributed older workers to nightguard posts or other jobs that minimized risks to public health or safety. Often, such reallocations have been accompanied by a pay cut, representing reduced responsibilities (Graebner, 1980, p. 14). In 1874, the first private retirement plan was established in Canada, in which retirees were still active; the plan aimed at maintaining an efficient workforce, encouraging older people to work, and withdrawing them from the workforce only if they were no longer able to perform light tasks. In 1875, American Express represented the first private retirement plan in the United States, which provided financial assistance to workers who were injured or could no longer be employed. In 1880, another active retirement plan was established by the state, as part of a comprehensive initiative on the well-being of workers, by keeping those in employment (Sass, 1997, pp. 18 – 30).

By the end of the 19<sup>th</sup> century, active retirement plans began to appear in education at Cornell University, Harvard, the University of California, and Yale University. In 1905, according to Greenough (1990), Andrew Carnegie, an American businessman and philanthropist of Scottish

descent, the owner of the “Carnegie Steel Company” trust, which brought him a huge fortune, concerned about the low salary of university professors, as well as in his old age, set up a free pension system for them, which he sponsored with \$ 10 million. In 1906, 52 universities were accepted under the umbrella of that system, to be underfunded and closed but served as a precursor to the future comprehensive active pension system for teachers, the Teachers Insurance and Annuity Association of America (TIAA), created in 1918 (Greenough, 1990, pp. 5 –16).

Active aging or active retirement is a necessity for economic and social progress. In this regard, the World Health Organization has launched, since 2002, the concept of "active aging" (World Health Organization, 2015, p. 4), with the stated purpose of stimulating people retired on the grounds of age to remain employed. This concept aims to optimize opportunities for health and safety, to improve the global economic situation. Thus, it is proposed to promote a healthy lifestyle, through programs to prevent the main causes of illness, which would allow individuals of retirement age to continue to be employed. Thus, the term “active aging” refers to the continued participation of older people in economic, social, cultural life, the ability to be physically active and to continue their work. Once retired, the elderly can actively contribute to the economy, and the goal of active aging is to increase the healthy life expectancy and quality of life of retirees, including those with disabilities. In this sense, the objectives of active aging strategies are to reduce the number of premature deaths; limiting disabilities and chronic diseases in the elderly, increasing the quality of life of the elderly, reducing the costs of health care, continuous development of social and health services, accessible, permissive, quality, ensuring education and lifelong learning for staff involved in social and health care (World Health Organization, 2015, p. 181).

## Conclusions

There is an interdependence between the health of the population and the costs associated with retirement; thus, on one hand a healthy person will be employed for a longer period of time and the number of disabled pensioners will also be reduced, which can mean, on the other hand, a longer period of pensions and higher expenses after retirement. In a democratic state, social protection is a fundamental element of state policies, because it prevents, reduces, or eliminates the consequences of events considered to be “social risks” on the living standards of the population. There is also a relationship of functional interdependence between economic and social functions; they follow, in their dynamism, a balanced report on the direction of development, accepted by society. The

implication of the individual in the economic activity of a state has a decisive influence on his participation in other spheres of social life and ensures his protection and social security.

Currently, an important topic of debate in all states is the issues related to the aging population, the rising index of diseases, respectively the financial sustainability of the pension system and health services, etc. These elements exert strong pressure on social protection systems, in particular, on their financing and, as a consequence, on the institutions involved in the social insurance activity. At the same time, several aspects related to the role and purpose of social protection in European countries is being discussed. The social protection system in Romania, in correlation with that of the European Economic Area, favours social inclusion, the development of social policies aiming at exercising equal opportunities in capitalizing on fundamental and specific rights, and regulates social pension insurance, unemployment insurance, health insurance, accidents at work and occupational diseases and on the provision of social assistance services, at the level of the standards designed and assumed.

Social protection, in all its forms, has become a major theme for employers, state institutions, employees, and all other factors involved in social actions, representing not only a fundamental element of social policy but especially its central objective. Social protection is manifested through a set of measures that follow practical, convincing directions, through concrete actions at the level of employment protection, employed population, protection against non-deterioration of quality of life, protection of disadvantaged social groups and the whole community. The economic content of social insurance is determined by the nature of production relations.

The sources of formation of funds associated with pensions are represented by the contributions paid by economic agents and employees, calculated by applying percentage quotas on salary funds in the case of employers and on gross salaries in the case of employees. Each country has a national policy in this regard, which establishes the way in which participation in the system is achieved, the range of benefits as well as the financing mechanisms of the system. In the current conditions in Romania, where the pensions of current pensioners are paid from the contributions of current employees, it is not easy to maintain a financial balance with the needs of the contributions, in such a fragile situation, in which the number of beneficiaries is increasing and the number of taxpayers is lowering. The solutions are limited, and the government has already tried almost everything: applying higher taxes on taxpayers (increasing the tax burden), reducing the real value of pensions, supplementing the pension fund with subsidies from the state budget. Thus, it can be appreciated the need to pay more attention to the role of the state in the formation of systems of labour protection, insurance, and social assistance, health care and training, employment stimulation, active prevention of labour reduction, labour market development, both quantitatively and qualitatively.

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