

Preda, Marian; Dobos, Cristina; Grigoras, Vlad

Research Report

Romanian pension system during the transtition: Major problems and solutions

Pre-Accession Impact Studies II, No. 9

Provided in Cooperation with:

European Institute of Romania, Bucharest

Suggested Citation: Preda, Marian; Dobos, Cristina; Grigoras, Vlad (2004) : Romanian pension system during the transtition: Major problems and solutions, Pre-Accession Impact Studies II, No. 9, European Institute of Romania, Bucharest

This Version is available at:

<https://hdl.handle.net/10419/74620>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

European Institute of Romania

Study no. 9

Romanian Pension System during the Transition: Major Problems and Solutions

Authors:

Marian Preda, Professor - coordinator

Cristina Dobos, Ph.D. Candidate

Vlad Grigoras, Ph.D. Candidate

Acknowledgements

This report is the result of the common effort carried out by a team of three members. Though there are sections where it could be argued that one particular member made a major contribution, the discussions, observations and comments made during the editing process make this but a team effort indeed.

We wish to thank the European Institute in Romania (EIR) for its support, and we wish to thank Mr. Nicolae Idu, in particular, who is a brilliant project initiator for supporting the establishment of various centres for European Studies, part of which Bucharest University's Centre for European Studies in Social Policies and Workforce Occupation is – a centre that we are proud to be part of.

We received special support from the Project team that we felt so close to throughout this endeavour, in particular, from Mrs. Gabriela Dragan, Project Co-ordinator. We would like also to thank Mr. Marius Spiridon, the person in charge of our Project. Both of them provided us an useful and efficient partnership, and a pleasant one both from an intellectual as well as human stand point. We thank them ever so much as well as we thank the other team members.

It is customary to thank all “interest group” members for having read the research paper we sent out to them and, in particular, to all those who came up with pertinent suggestions during our meetings.

This study would not have been published, had it not been for the EIR's Scientific Council's endorsement, which is why we extend our gratitude to its members for their contribution in the publishing of this report.

EXECUTIVE SUMMARY	4
1. INTRODUCTION	10
2. CURRENT FACTORS UNDERSCORING THE PENSION SYSTEM'S EVOLUTION.	11
3. THEORETICAL CONSIDERATIONS CONCERNING SOCIAL INSURANCE.....	17
4. A DESCRIPTION OF THE ROMANIAN PENSIONS SYSTEM'S EVOLUTION	19
5. MAJOR PROBLEMS FACING THE ROMANIAN PENSIONS SYSTEM	28
6. POSSIBILITIES FOR REDRESSING THE PENSIONS FUND.....	34
7. THE INTRODUCTION OF ALTERNATIVE PENSIONS (PILLIONS II AND III) AND THEIR POSSIBLE CONSEQUENCES.....	42
8. THE IMPACT OF INTEGRATING THE ROMANIAN PENSION SYSTEM IN EUROPE	55
9. CONCLUSIONS AND RECOMMENDATIONS.....	60
BIBLIOGRAPHY	70

EXECUTIVE SUMMARY

Economic, social and demographic processes characterising this latter period (ageing, active population reduction, the macro-economic problems affecting the countries undergoing transition etc.) that are likely to accentuate in the following decades, alter social protection issues affecting the elderly population and, in particular, the issue of administering pension systems, most efficiently in quite a significant way as they represent a challenge for both developed countries and countries undergoing transition.

For Romania, this problem is made worse by the alarming delay with which the reform process gets underway. The delay is mainly due to the wrong decisions taken, the lack of vision and coherent strategies in this area. In a context such as this, further to the major problems challenging all former communist countries that registered an economic decline and a subsequent loss in the size of their workforce (i.e. the very one who sustains the pensions system through contributions), Romania is further confronted by gaps in its pension system, gaps which refer to pillar I i.e. privately administered occupational and voluntary components that are still at the design stage – a stage which is some years off implementation and even further away from its intended effects. Moreover, phenomena encountered in other countries undergoing a period of transition (or, even Western countries, during past decades) such as anticipated retirement and the lowering of the real average retirement age or budgetary support for the first pillar, were much more accentuated in Romania's case and they have led to an exaggerated increase in the number of pensioners and to a constant lowering of the average real age of retirement.

The present paper describes the framework in which previous or, anticipated changes occurred in the likelihood that they would be repeated in the future – a structure that is the basis for conceiving a coherent and efficient policy in the pension area.

The pension systems world-wide (at various development standards, political experience, governance systems etc.) are confronted by a crisis that is likely to become critical in the years to come.

After 1989, countries in Central and Eastern Europe were confronted with an increasing imbalance between available resources and those needed for ensuring pensions. This imbalance was mainly caused by the following factors:

- A decrease in economic activity and the consequent rise of unemployment – both of whom resulted in a decrease in the number of contributors;
- An escalation of the dependency rate via an increase in the number of pensioners as a result of anticipated retirement rush at the beginning of the nineties (viewed as a means of reducing unemployment);
- The contribution collection mechanism's partial inefficiency correlated with an increase in both tax avoidance and informal sectors of the economy;
- Huge inflationary pressures that resulted in pension benefit's erosion.

Benefits' erosion and the insufficient updating linking of earnings as well as inequity of the allocation and updating-linking mechanisms produced grave inequities between persons with equal real contributions paid at different times.

Reforming the Romanian pensions system after 1990 was therefore an obvious necessity and for this to occur, two types of measures were undertaken:

- Short-term, emergency measures such as, adjusting benefits via repeated updating-linking in response to their deterioration under inflationary pressures;
- The proposed reform means, in the long run, the pension funds' separation from the central administration's state budget (a process undertaken not only in Romania but in other countries too, from Albania to the Czech Republic, Hungary and Slovakia) as well as prolonging the period of rate disbursement and making anticipated retirement ever more difficult a proposal (i.e. the reform achieved via the new Law which was applied only from 2001 onwards).

Until 2001, when the new Law came into force, the system's financial problems were only partially resolved, mostly with ad hoc solutions that lacked any long-term strategy, which was further cause for grave inequities in the system.

As a result of inefficient policies, the Romanian pension system was confronted after 1989 with extremely difficult problems:

1. ***The inequity of calculating pension benefits for people retired at different moments in time;***
2. ***Delaying reform and legislative instability;***
3. ***The decrease in the number of contributors*** – from around 8 million in 1990 to approximately 4.5 million currently, which causes grave concern for the future financing of the pension system;
4. ***The alarming increase in the number of pensioners*** (from 3.5 million in 1990 to 6.11 million in January 2004);

The increase in pensioners' numbers occurred via the following avenues:

- Via including ***pensioners from the agricultural sector*** (approximately 1.7 million – a figure which was subsequently reduced to 1.512 million in January 2004) in the general system of pensions;
- Through the countless numbers of people taking anticipated retirement – a measure accepted by the previous 14 years' various governments;
- By means of an artificial increase in the number of retirement claims on the basis of being disabled – most of which were at best suspect and at worst sheer fraudulent – that went undetected hence the entitlement was not made void due to the ***control and sanctions deficit***. Currently, **805.000 persons (13% from the total number of pensioners) are retired on the grounds of being disabled**. Most surprising is the **high percentage of people retired due to a grade II disability (73%), as compared to the percentage of people retired due to a grade I or, grade III disability**. Anticipated retirements and retirements into pension on the grounds of being disabled have led to an **average real retirement age of approximately 52-53 years, between 2001 and 2003**.

5. **Reduced collection rate** (certain employer's – especially from the public sector – failure to pay due contributions);
6. **The failure to declare real earnings;**
7. **The reduced pension insurance coverage rate for the active population;**
8. **Delaying the introduction of complementary solutions to parametric reform** (Pillions 2 and 3 of the privately administered pensions).

Practically, due to the diversifying needs of an ever-growing population, there is a need for **a new balancing act for the pensions and other social insurance ratio vis-à-vis other expenses (i.e. the “satisfied” demand for pensions/other rights)**

This can be done in two ways:

- 1) Increasing the allocated resources (system inputs);
- 2) Reducing outputs (pension requests, pensioner numbers etc.).

Analysing the Romanian pension system in view of its forthcoming EU accession, the EU Commission underlined a series of problems that need to be addressed to make the system compatible to European standards, such as:

- The reduced degree of collecting contributions;
- The system's financial crisis;
- The small GDP percentage allocated for social insurance;
- The system generated inequalities;
- The system's limited capacity to facing EU social insurance system's co-ordination;
- The new Pension Law only partially allows for the transfer of rights and benefits;
- The need for strengthening and developing targeted institutional administrative capacity.

Romania must take into account *EU common regulations* concerning rights and benefits' transfer between EU member states (regulations which it should align itself to at the moment of accession), as well as the *EU pension systems evolution tendencies* as mentioned at the Lisbon meeting (that are ostensibly presented here).

Starting from the national context – and notwithstanding Romania's EU accession imperative – in view of all the significant elements that will be revealed in this paper, we made a series of **recommendations**:

- Drafting a medium- and long-term strategy for the elderly population – the main component of the pension insurance system – as soon as this is possible;
- Introducing a computerized database of the retired persons in the pension system;
- Installing a monitoring, analysis and policy making system in the pensions sphere;

- Introducing certain *parametric measures* such as, improving the input and output system indicators:

Vis-à-vis the “**entries**” component:

- *Increasing the number of contributors to the system;*
- Increasing the number of people legally employed via pro-active policies, investments and through the maintenance of the minimum wage at its lowest possible level;
- Increasing the number of contributors through drawing people who work in the agricultural sector or, those working as free professionals to contribute to the pension system;
- For the Romanians leaving to work abroad with proper working contracts, it ought to be made a compulsory requirement that they contribute either to the pension systems in the countries of destination (for those leaving for EU countries, their pension rights could be transferred subsequently) or, to be made a compulsory requirement that they contribute to the Romanian pensions system (for countries where there are no such pension transfer arrangements);
- Promoting the principle of active ageing by stimulating (in other ways than only through the retirement points system) people who have reached the age of retirement to continue working. Women should also be the focus for such pro-active policies to entice them to keep occupied in paid employment;
- As long as the Romanian workforce keeps migrating to other countries and the economy keeps picking up (sustained economic growth will eventually produce visible effects) it ought to be considered that immigrants could become pension system contributors if legally employed;
- In the long run, **a demographic policy based particularly on stimulating the birth rate to ensure the future contributors to the system;**
- Increasing the rate of collection is a must and can be improved via continuing the privatisation process as well as through measures for stimulating financial discipline;
- Already increased percentage contribution to the insurance fund (31.5%, 36.5% and 41.5%, respectively) cannot be raised anymore and ought even to be reduced to lessen the financial burden;

Vis-à-vis the “**exits**” component:

- **Reducing the number of pensioners** (hence the dependency rate, implicitly) via:
 - **Increasing the average real retirement age** – which is, at present, only about 52 years of age;
 - Equalling the retirement age for men and women (a compulsory condition in the EU – see the area of accession recommendations);
 - Restriction of anticipated retirements;
 - Reduction of the fraudulent retirements (especially the disability benefits).
- Increase the system equity and the reduction of truly flabbergasting pension amounts (too high!) through the recalculation of pensions for those who retired prior to the 1st of April 2001;

- Lowering the pension system's administration costs. It is paramount that an analysis of the administrative costs is carried out.
- The ratio between *minimum pensions*, the *Guaranteed Minimum Income* (GMI), the *Unemployment Benefit* and the *Minimum Wage* must be carefully thought through and harmonised. Thus, it is not normal to co-exist pensions smaller than the GMI. Furthermore, the minimum pension ought to be smaller than the Unemployment Benefit or, the Minimum Wage not to constitute a further incentive to early retirement.
- The introduction of a *social pension* (small yet, bigger than the GMI) for all those who contribute at least the minimum length of contribution, such as free professionals, self-employed in agriculture, etc. would resolve many of the problems undermining the pension system.

Recommendations concerning the introduction of privately administered pensions

- Regardless of the reform type or, the solutions chosen, the premise that we ought to consider is that all forms of redressing the system implies high costs that are wholly supported by the population. Consequently, the first thing that must be accomplished is that **people are informed about the need for reform and its particularities**.
- Any delay in the introduction of pillars 2 and 3 will represent an extra burden on future generations (that will thus have to put up with smaller pensions, higher taxes and so on). Projections show that PAYG system reform may be a solution for balancing the fiscal deficit only for the next 10 years or so.
- Bearing in mind the problems encountered both in the case of only one pillar (PAYG systems) as well as those private fund-based entirely, the best solution for reform appears to be that of a multipillar system that can import the advantages of both. The main advantage is that of “diversifying risk-taking”.
- Facilitating better orientation for the ensured on the ever so complicated market where financial services are bought and sold so as to rationalise choice when purchasing imposes a standard presentation format for all the types of contributions and benefits and for those companies providing such services. Certain contributions are fixed, other proportional, some depend on the value of the fund etc. Moreover, they interact in different ways, which makes their purchasing a most difficult decision to take.
- With a view to introducing private pensions, it is imperative that the value of the contributions made towards such pensions increases rapidly otherwise, the funds' stability will be precarious.

Recommendations concerning the reforms needed from the accession perspective

Bearing in mind EU member states' reform plans adopted after the talks held in Lisbon, Romania ought to consider the following medium-term changes (similar to or, further to the measures proposed herewith):

- **Achieving state pensions budgetary financial equilibrium via:**

- ◆ Sustained economic growth;
- ◆ Increasing the workforce's total occupation rate (EU member states have set themselves the target of achieving by 2010 of a 70% (of the total work-able population) occupation rate for the men and 60% for the women for an economic growth averaging 3% of the GDP; this is intended to grow to 83% by 2045.
- **Increasing the occupation rate of the population aged 55-64 by 2010** (via delaying their retirement);
- Attracting workforce from countries undergoing economic development;
- Motivating women to enter (and re-enter) the labour market (after interruptions caused by their giving birth);
- Making the system more flexible to allow women to work while rearing children (stimulating fertility growth);
- Recognition as length of service of the period (2-3 years) interrupted for rearing her children;
- Continuing to raise the age limit for retirement and levelling retirement age for men and women at 65 by no later than 2020;
- Increasing opportunities for obtaining supplementary pensions thus reducing the pressure exerted on the public sector;
- **The private pensions system must take into account also the coverage of mobile** (from a territorial as well as a type of labour point of view) **employees**;
- **Increasing the coverage rate for individuals with at least one of the two pension systems available** (public/private);
- **Adopting EU regulations concerning benefit transfer between member states.**

1. INTRODUCTION

The pension systems experience a period of acute crisis worldwide. Many European Union countries and not only are facing huge costs – generally speaking, over 8-10% of the GDP only to keep above the waterline this social insurance component i.e. the one concerning the necessary income being awarded after exiting the labour market. Yet the situation becomes increasingly complex to manage in the foreseeable future. As regards the “inherited pension system’s peculiarities” as well as the factors unavoidably affecting this century (such as an ageing population hence the reduction of the active population or, macroeconomic problems affecting the countries in transition etc.) it appears likely that the budget needed to ensure pensions payment as a percentage of the GDP is going to double in the next 40-50 years.

The majorities of countries have already started national processes of reforming their state pension system or at least have envisaged such changes for the immediate future. Despite problems remaining unchanged, the apparent directions for change – though convergent at times – remain divergent. Ten years ago, the main path for reform that was discussed and implemented was mostly one of parameters i.e. the change in the age of retirement, the replacement rate etc. At present, there is an almost explicit consensus in Western capitalist societies: the transfer – at least, partially – towards the private sector represents the viability key for pension systems. Romania has yet to follow this trend and it cannot afford to delay this process for much longer.

On the other hand, the transition process, electoral interests as well as other objective or subjective factors created and maintained grave inequalities in Romania’s public pensions’ system.

Hence, this paper undertakes to describe the framework in which former as well as anticipated changes occurred and keep occurring still in order that we may eventually conceive the best and most coherent policy in the pension’s sphere.

2. CURRENT FACTORS UNDERSCORING THE PENSION SYSTEM'S EVOLUTION

The pensions system worldwide (at their different levels of development, political experiences, systems of government etc.) confronts a crisis that is becoming inevitably acute in the years to follow. There are certain main factors that have led to this generalised situation and these will be mentioned in order that the context in which changes occur is better understood so that firm action may underpin the pension system becoming more efficient.

1. The ageing population is the most important factor mentioned by specialists as the factor affecting the future viability of the pensions system (the effects of this process are but evident: a decrease in the value of contributions as a result of the reduction in the number of contributors, an increase in pension expenses due to the increase in the number of beneficiaries).

Demographic ageing is determined by two factors: the decline in the fertility rate coupled with an increase in the average life expectancy rate. Fertility rates suffered a rapid decline at the end of the sixties – a trend that was to be continued during the seventies and eighties. From that period onwards, the number of children born during the fertile life span of a woman remained virtually constant at levels of less than 2 children per woman. In Romania, this indicator suffered a strong decrease immediately after the revolution: from an average of 2.2 children/woman in 1989 to 1.3 children/woman in 1995 – a level that has remained almost constant.

As regards life expectancy at birth, this saw a continuous rise – from a figure of less than 70 years during the sixties, to about 78 years in 2000. As a result of such factors, the population structure changed – from a pyramidal shape structure in which youth represented a base that was much larger than the upper tiers of the pyramid to a rectangular pattern representation in which the percentage of the over 65s grew constantly (from 11% in 1960 to 16% in 2000). (Kinsella, Kevin et al., 2001)

Generally speaking, the rise in the pension's system expenditure is regarded mainly as a result of the changes in various countries' dependency rates. Yet, certain research studies show that the causal chain proposed is not necessarily the correct one. The following graph (Fig. 2) shows a cloud of dots representing the connection between the percentage of state pensions from the GDP, in 1995 (the horizontal axis) and the elderly population's dependency rate, in 1990, in OECD countries. The gradient of the regression axis shows the existence of a positive yet weak type of relationship with a high degree of variability vis-à-vis the pension's burden in various countries that cannot be accounted for though the demographic structure factors. Hence, an ageing population cannot be considered the sole explanation for the accumulated debts and the soaring state obligations for the payment of pensions (Disney, Richard, 1999:11).

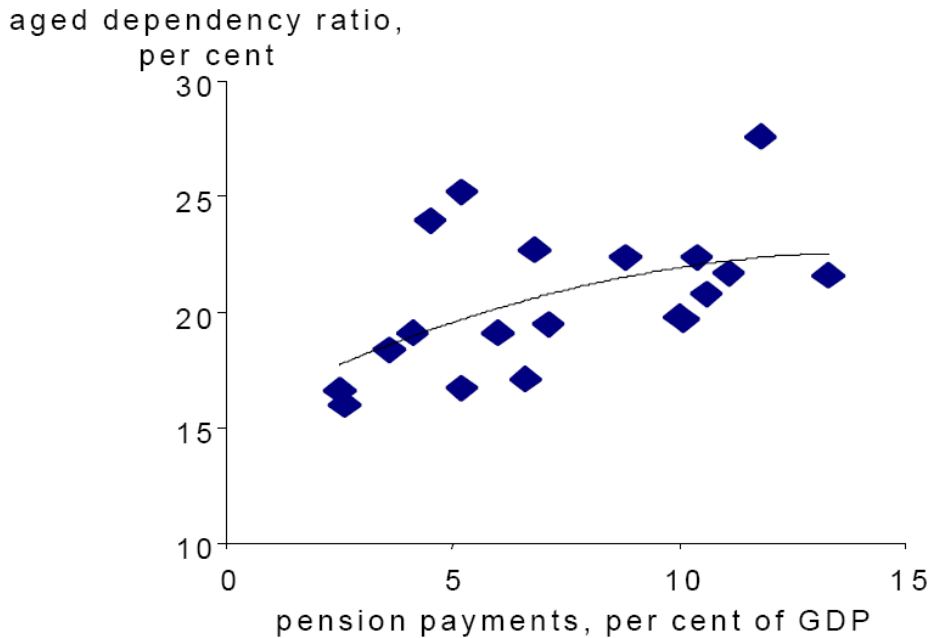


Figure 1 The dependency ratio and the state pensions payment as a percentage of the GDP, 1990-1995, in OECD countries, (Source: Disney, Richard, 1999:7)

Until now, the relationship between the elderly population's dependency rate and the percentage of pensions expenditure was not strongly inter-connected yet, this cannot be said to remain the same in the future: "It might be expected that a stronger (negative) relationship would be observed between future financial liabilities and projected changes in the weighted support ratio."(Disney, Richard, 1999:12)

Between 1990-1995, the pensions system began to include persons born between 1925-1930 whereas those born prior to 1925 continued to receive pensions too. These persons were, in a significant proportion, either insured for short periods of time or they were uninsured. Following generations that entered the labour market during the economic boom between 1950 and 1970 would have accumulated a significant number of points to ensure they received a decent pension.

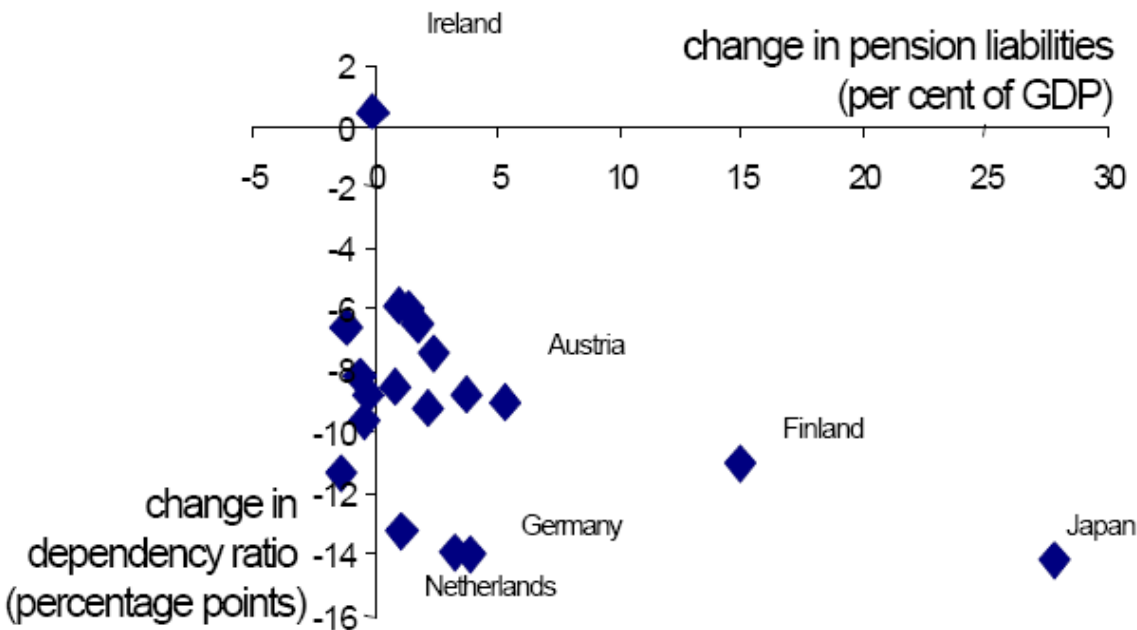


Figure 2 Dependency ratio variance and pension liabilities variance, 1995-2030.

(Source: Disney, Richard, 1999:7).

This relationship would become ever stronger as predictions on demographic evolution are far from encouraging. If we are to look at the world population in 40 years time, the percentage of the over 60s will increase by 9%. In developed countries, the situation is even more dramatic: the rise in the elderly population (over 60s) will be 13% (from 19% currently to 32%).

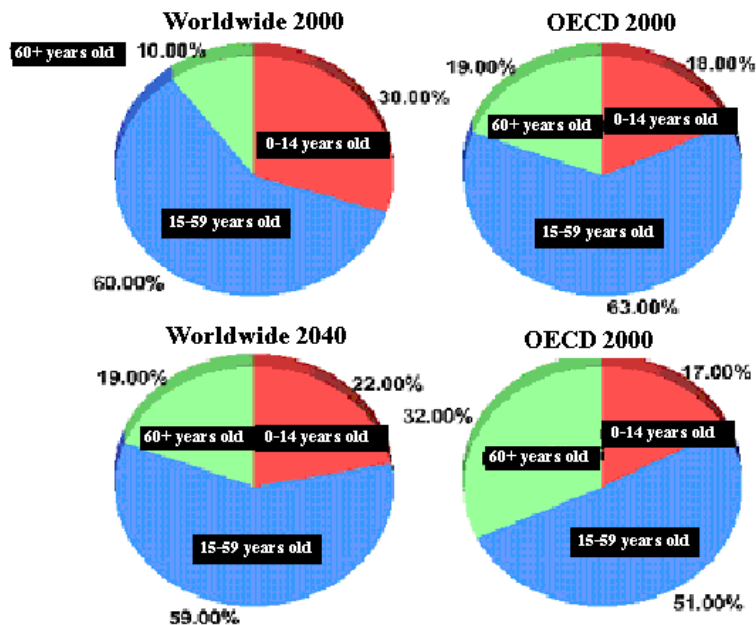


Figure 3 Population Structure Evolution, (Source: Schwartz, Anita, Pension Basics: slide 21)

On the other hand, even if ageing was considered to be a problem specific only to developed countries, ageing will become acute in Eastern Europe too over the next few years.

2. The second factor that may explain the current financial deterioration of the pensions system is generated the **initial stage of the pension system**.¹ According to the specialist's recommendations on the life cycles of the state pension's programmes, during the first years following the introduction of pension system, contributions ought to be accumulated and invested on the premise that pensions payment will continue to be based in the future mainly on contributions and less on central budget transfers. "Although some public pension programmes did initially accumulate funds... foresight played little part in pension policy from the start... Many governments decide to pay benefits out of the system to existing people reaching pensionable age even though such people had paid little or nothing in to the programme." (Disney, Richard, 1993:13) Richard Disney justifies the generous generation's redistribution via the fact that elderly persons had, by that time, gone through two world wars and a "cataclysmic" recession. The effect was compounded through its devastating implications as policies destroyed "policies destroyed any notional link between contributions and pension payments across generations, and thus any form of fiscal responsibility within the programmes." (Ibidem: 13)

It is interesting to note that though many countries introduced private pensions while underlying their importance, the percentage of income generated from public pensions rose vis-à-vis the private system, especially due to the more and more generous benefit formulas that drove to the increase of replacement rates (Rother, P.C., Catenaro, M., Schwab, G., 2003: 4).

East European countries' communist inheritance was particularly in the area of social security even by comparison with developed nations. In all ex-communist countries, the state was extremely generous with pensioners as it offered an extremely high replacement rate (sometimes reaching the 80% mark) with negative economic repercussions that are manifest even nowadays. Social security mechanisms had a negative impact, not only through the replacement value but also through the low retirement age due to the laxity vis-à-vis early retirement in terms of the advantages offered to certain categories of employees (i.e. those who worked in an extreme working environment could retire into pension at the age of 45, for instance). Yet, maybe the most important consequence of this inheritance is that of the popular expectations to receive a decent state pension regardless of the size and length of the contribution to the system.

2. **The decrease in the elderly participation on the labour market** – represents another factor that explains the need for reform both in countries undergoing the transition as well as in those countries that find themselves at a more developed stage (where the largest part of expenses originates from contributions). "Current employment rates for men aged 60-64 are under 20 per cent in France and the Netherlands, around a third in Italy and Germany, and around half in Australia, New Zealand, the United Kingdom and the United States. Japan has the most 60-64 year olds in jobs: around three-quarters." (Disney, Richard, 1994: 14) Remarkably, this situation is the result of a lengthy process of early retirement. Thus, between 1960 and 2000, the effective retirement age in the EU fell by over five years under the age of 60 (Rother, P.C., Catenaro, M.,

¹ Most pensions systems reached maturity (presupposing the full introduction of a universal social security system) after 1945, though many countries in Europe and Latin America developed pensions programmes even between the two World Wars.

Schwab, G., 2003: 4). The consequences of this reduction were covertly compensated by an increase of the married women’s participation on labour market.

On the other hand, the elimination of a significant part of the active population from the labour market was, at times, a voluntary policy on the part of certain states. The economic recession that took hold at the end of the eighties coupled with the profound changes that occurred in Central and Eastern European countries as well as the former Soviet Union resulted in the ex-communist countries’ drive to pension elderly yet, able to work persons in order that youth was employed for alleviating unemployment. Yet, the end result was that of bringing the whole pensions system into a state of acute crisis. Evidently, increasing early retirement represented a double burden on the pensions system: it lowered the number of contributors while it concurrently increased the number of pensioners.

3. **Prediction** errors. Richard Disney noticed the fact that governments failed to predict either the increase in life expectancy at birth nor the fact that fertility rates will continue to fall and was rhetorically asking himself whether such mistakes were “due to sheer incompetence or were politically motivated”. Much of the fertility and life expectancy rate projections tend to predict a future stabilisation at levels close to the replacement rates.

	Circa 1900		Circa 1950		2000	
	Men	Women	Men	Women	Men	Women
Austria	37.8	39.9	62	67	74.5	81
Belgium	45.4	48.9	62.1	67.4	74.5	81.3
France	45.3	48.7	63.7	69.4	74.9	82.9
Germany	43.8	46.6	64.6	68.5	74.3	80.8
Sweden	52.8	55.3	69.9	72.6	77	82.4
Hungary	36.6	38.2	59.3	63.4	67	76.1
Czech	38.9	41.7	60.9	65.5	71	78.2

Table 1 Life expectancy at birth, 1900-2000 evolutions

Source: UNDIESA 1988, Siampos 1990 and the US Census Bureau, 2000.

The specificity of the type of reform needed is given by other elements that must also be taken into account.

1. **Macroeconomic stability** is one of the main factors that may influence the direction in which pensions may be reformed. Many countries often adopt a strategy of “sustaining” pillion 1 with pillions 2 and 3 (private pensions – compulsory and voluntary). Yet, when financial uncertainty is high, inflation is rising and the state interferes aberrantly in the economic order, private pensions systems may not necessarily be a safety element (in fact, there are specialists who demonstrate the exact opposite).

2. **Globalisation**, the global economy tendencies, international and trans-national migration represent but phenomena that change and will continue to change the vision on social security systems. This is a question we must not fail to answer – how it is possible to make various pension systems compatible or, how can an individual living for ten years in a country that has a PAYG system survive in a country that has a private pensions system?

3. Last, but not least, we wish to remind as a reform-initiating factor, the **World Bank recommendations** (adopted by other international organisations). Their philosophy even if

sometimes fails to be validated by certain social contexts, represents an important action factor and crucially, a direction that is sometimes compulsory for developing countries.

3. THEORETICAL CONSIDERATIONS CONCERNING SOCIAL INSURANCE

After half a century long communist period we became used to the maximal state that was expected to assume responsibilities on behalf of its citizens and their afferent social problems. In order that we reconsider the relationship between individual and the State's responsibilities vis-à-vis ensuring people (i.e. the elderly, in our case) against risky situations, certain specifications concerning the historical perspective on the State's involvement in the social protection of its citizens, ought to be made.

The first social insurance has a rather short history lasting 133 years as the first pension laws have an even shorter one of only 115 years.² Up to that moment in time, *the State assumed no responsibilities whatsoever for the protection of its citizens – as they and their families were the sole responsible for the situations of risk they faced such as old age, illness or industrial accidents.*

The introduction, for the first time, of social insurance by conservative reformers such as, Von Bismarck and Von Taffe who, between 1871 and 1891, introduced the insurance laws in Germany. The initiative was hardly a humanitarian one that was devoid of political motivations. The two main scopes were in fact pertaining to class politics that had major inferences in social stratification:

1. What was being sought after was but the accentuation of the social division apparent between different categories/classes of employees through the institution of laws and privileges that were different from one group to the next.
2. Tying the individual's loyalty directly to the monarchy and/or the central authority of the state. (Espring Andersen, 1990)

It is interesting to note that initially, the pension system's coverage was most reduced in that only a small part of the population (and an even smaller part of the elderly population) was covered hence insured for pension's benefits for two main reasons:

- On the one hand, the percentage of salaried employees vis-à-vis the rest of the population was small (as the only categories covered were civil servants and industrial workers);
- The retirement age was unlike what we could imagine nowadays in that it was 70 years,³ and only later it was reduced in Europe towards 65 and even 60 years of age.

Chancellor Bismarck remains the promoter of the first laws in the area of social insurance that coincided with the modern state's involvement in the social protection of its individuals, based on a contributory model. It is worth mentioning that though many countries – mostly European – followed Germany's lead, other countries – notably the US, Canada and Australia – introduced such laws only much later on (see Pierson, 1991).

² The first such laws introduced in Germany were: the Insurance against Industrial Accidents (1871), the Health Insurance (1883), the Pensions Insurance (1891) – which France had already introduced 2 years earlier.

³ Bismarck himself was 76 years of age when he introduced in 1891 the Pensions Law in Germany

Social insurance constitutes *the social security system's component whose main objective is to compensate through financial or services benefits the impossibility of obtaining salaried income in certain risk situations (temporary or permanent working incapacity, old age, unemployment etc.) confronting the insured.*

The social insurance system is based on the collection of resources (funds) from the insured in the contributory system and the benefits/insurance premium's distribution towards those facing the insured risk situation or towards their family members, in accordance with the terms of their insurance contract.

Social insurance can be public or private. Alongside social assistance, social insurance constitutes the social security system. The principal requirement for any social insurance system is that it is constituted via its two components i.e. the state's social insurance system and the social assistance system into a social security safety net that can protect citizens against all social risks. The thorough and complementary measures for social assistance and social insurance are but essential conditions for ensuring that no social category is vulnerable regardless of the situation it is facing.

Contrary to non-contributory social assistance benefits, social insurance benefits such as pensions, unemployment benefits, industrial accident insurance, health insurance etc. are of a contributory nature i.e. they are awarded only on the basis of a prior contribution of the beneficiary into a particular fund.

The social insurance benefits quota is determined by the amount and the duration of the contribution as well as by other elements relating to social equity (intra- and inter-generations solidarity). If for a certain type of risk, an "actuary basis" can be established i.e. the likelihood of the insured event happening can be calculated, private insurance can also be established to complement state insurance. This is the case for the private pension funds and health insurance. If public insurance budgets are administered separately from the state budget, the state is obliged to guarantee the insured rights and consequently, regulate and control the functioning of such funds. Social insurance private funds are also regulated and controlled by the state with a view to protecting insured rights.

4. A DESCRIPTION OF THE ROMANIAN PENSIONS SYSTEM'S EVOLUTION

4. 1 THE PENSIONS SYSTEM BEFORE 1989

Romania has a long tradition in the social insurance as the first forms were introduced in a modern regime as early as the twentieth century. From this point of view at least, we can compare ourselves with developed Western states in that we were among the first four European nations to have introduced at that moment in time a compulsory insurance system.

In 1918, *there were already three insurance laws up and running*: a Romanian law (the 1912 Nenitescu Law, which insured maternity, illness, old age, industrial accidents benefits) operating in the old Kingdom of Romania, a Maghiar Law operating in Transylvania and an Austrian one operating in Bucovina (I. Marginean in Elena Zamfir, Ilie Badescu, Catalin Zamfir, 2000). The Nenitescu Law introduces for the first time in Romania the compulsory insurance principle for accidents, ill health, maternity, invalidity for corporation employees. The employee, the employer and the state paid old age contributions equally. The age limit was 65 and the minimum period for contribution was 23 years.

The system became unified in 1933, through the Ioanitescu Law. The insurance system's management was undertaken by both state and owner yet, negative elements in that law meant that people working in the agricultural sector were excluded from its provisions as much as were excluded old age pension and unemployment benefit. During the fourth decade of the twentieth century, it can be said that the urban, active population in Romania was comprehensively covered by social insurance. (I. Marginean in C. Zamfir, 1999)

The type of state insurance system in Romania that has endured the passing of time from the inter-war period until today is of a PAYG type, with the costs for current pensions being covered by the currently active generation with the cycle likely to be continuing in the future.

As soon as the communist regime came to power, all public or private funds became included in the state budget via the Law number 10/1949. Social insurance after 1949 begins to form the basic pillar for social protection, in Romania as unemployment and social assistance benefits are no longer recognised. Consequently, the fund gets allocated a high percentage of the costs for social protection while the funds expenditure is centred on catering for pensions (old age, invalidity, descendants) and other benefits (awarded for ill health, death, maternity). It can be argued that between 1949 and 1989, Romania sets the foundations for a modern system of social insurance, with comprehensive coverage and various benefits for employees – all of which represents but a positive stepping stone, furthering the system that had been inherited prior to 1989.

Through the 1949 law, the old age pension percentage from the actual wage was between 50-80%. In 1954, incentives for early retirement as well as indemnities for hazardous working conditions are introduced. The calculation base used is the monthly gross income earned over the previous 12 months, with a certain financial ceiling added to it. Employers, all of which are state

units, pay contributions. By 1959, housewives and people working in agriculture are also included. The compulsory nature of the requirement to work that existed prior to 1989 as much as the obligation employers had of paying social insurance contributions led to the population being covered in a high percentage. A high employment rate and an equally high contribution collection rate led to the system functioning without financial glitches. Social protection was offered exclusively to employees and those assimilated as such. Between 1968 and 1972, the fund's rising costs led to changes that were needed so that a balance was obtained in the sense of minimising the percentage used to cover pension requirements. (Tufan, 1997)

Through the 1977 Law, certain fundamental changes occur. Thus, the length of service is raised by 5 years – which brings it to a total of 25 years for women and 30 for men. Furthermore, disability pension benefits severely decrease while a pension for peasants working in former Collective Farms or for those who had not been collectivised is now introduced.

One of the minus points of this Law is the fact that people working in agriculture are severely disadvantaged vis-à-vis people who work in the industry both in terms of the retirement age as well as in terms of the length of service needed for retirement (workers had a lower retirement age compared to other people, like Collective Farms members whose length of service was calculated on the basis of the number of norms rather than the years of service) as well as the benefits they received. Thus, separate insurance systems occur for artisan's collectives, cults, lawyers, artist's unions, the military, people working in agriculture and police employees. (I. Marginean in C. Zamfir co-ord., 1999)

After 1977, compulsory contributions to the system amount to 14% of the employer's salary funds – as employees contribute only 2% to the supplementary pensions fund (between 1986-1999 the percentage gets up to 3%). The insurance fund for agriculturalists is financed via contributions made by agricultural cooperatives (8% of the global production's value) – the retirement age in the agricultural sector being 65 years for men and 60 for women (Tufan, 1997). The eligibility conditions for people working in agriculture suffered alterations after 1989 yet, the benefits they can draw have continued to stay at a very reduced level.

For integral pensions, *the legal retirement age* was 57 (55 on request) for women and 62 (60 on request) with the required length of service being 25 for women and 30 for men – such eligibility criteria lasting from 1977 until the new law, which appeared in 2000. For difficult working conditions, lengths of service indemnities were awarded concurrent with a reduced retirement age (right which have remained the same today).

Pension benefits during the communist period were situated at a level comparable with salaried earnings the sole exception being the pensions received by people working in the agricultural sector, that were extremely low. In 1989, the vast majority of people were covered by a pension system that functioned without major financial hiccups in conditions of a relatively low dependency ratio: pensioners – active population.

4. 2 THE PENSIONS SYSTEM AFTER 1989

Though based on the size of each citizen's contribution, the percentage being established proportionally, the PAYG system pensions (in flux) assumes a certain type of *redistribution* based on a social solidarity principle both between generations as well as between categories of

pensioners (I. Marginean, 1995, 1999, 2000). Owing to this redistribution (by setting a maximum ceiling for pensions, a minimum pension, a minimum contribution period etc.) certain contributors (especially those with big earnings) are disadvantaged and many would not contribute if they were not obliged to. This is the reason why the “pillion I” public pensions are present in all Western countries even if their importance has diminished somewhat in favour of private insurance.

However, the Social Solidarity Principle and the compulsory nature of contributions clearly fail to justify the relationship between the proportion of the contribution made (both in terms of percentage and duration) and the proportion of the pension becoming distorted. This is a regular occurrence in Romania for a number of years now via the completely inequitable way in which pensions have been calculated for those who retired before the 1st of April 2001.

After 1989, all Central and East European countries were confronted with a growing imbalance between available resources and those that were really needed to ensure services. This imbalance had the following causes:

- A reduction in the economic activity and an increase in unemployment that led to a reduction in the number of contributors;
- An increase in the dependency rate via the growth in the number of pensioners as a result of people opting out of employment into early retirement during the early nineties (with a view to a partial reduction in unemployment);
- The quasi-efficiency of contribution collection systems alongside the growth in tax evasion and the informal sectors of the economy;
- Inflationary pressures which resulted in pension benefit’s erosion.

Every one of these factors induced major financial imbalances as regards the necessary resources for the allocation of pensions. The erosion of benefits coupled with an insufficient index-linked augmentation of earnings as well as the inequity of the allotment mechanisms created major inequalities between people with equal real contributions yet paid at different periods in time.

Thus, the Romanian pension system’s reform became a necessity after 1990 and for this to occur two types of measures were undertaken:

- Short-term, emergency measures: benefits adjustment via repeated index-linked augmentation in response to their deterioration as a result of inflationary pressures;
- The proposed reform (realised via a piece of legislation passed in 2000 yet, implemented only in 2001) meant, in the long run, that pension funds were becoming separated from their actual administration from the state budget and the central administration (a process undertaken not just in Romania but in Albania, the Czech Republic, Hungary and Slovakia, too) while the contribution period was lengthened and early retirement was made an ever more difficult proposition.
- On the other hand, debates concerned supplementing the reform process with new pillions in the shape of legislative White Papers that would later be deliberated in Parliament (in the Czech Republic, Hungary, Poland and Slovakia, the legal framework for the introduction of supplementary private pensions had been introduced and they are now beginning to play an important role).

East European PAYG systems have been confronted by similar problems after the fall of communism. Thus, post-1989 discussions and all reform proposals had common elements in identifying the need for raising the age of retirement, increasing the contributions' period, linking benefits to earnings rather than to a flat base rate, introducing or proposing to introduce supplementary systems relating to the second pillion (occupational) or even to the third pillion (private) smaller replacement rates for short-term benefits (maternity, illnesses).

Despite declarations of principle, the process of effective rise in the age of retirement was postponed through the nineties because of problems such as increased unemployment and the pressure exerted by certain privileged occupational groups concerning the age of retirement. On the other hand, despite the agreement reached on the current PAYG system's ability to become financially sustainable (through raising the age of retirement, introducing ever more drastic eligibility criteria and improving contribution collection) the current crisis facing all PAYG systems based on the first pillion and the need to create new opportunities for the generations just entering the labour market must be taken into consideration.

One of the problems in changing the PAYG system is linked to the eventual support for change given by the electorate. The high proportion of voters reaching retirement age (or approaching that age) supports the preservation of the systems they benefit from.

During the 1990-2000 period, recurring amendments of the old pension law were carried out until the new law was approved in 2000 and implemented a year later.

As earlier mentioned, until the new law came into being, the system's financial problems were only partially resolved as they were addressed mostly in an ad-hoc fashion, without any long-term strategy hence creating serious inequities in the system.

We will now look at the main changes suffered by the pension's system after 1990 as a result of a number of problems occurring:

▪ **The devaluation of the real pension because of the inflation, despite successive index-linked augmentations**

Before 1989, pensions schemes were conceived so as they would function in a different social and economic environment to that of the nineties, as there was no rule that could be automatically applied to index-link pension benefits (prices were periodically adjusted which was subsequently followed by pension adjustments). After 1990, high inflation led to a deterioration of the pensioner's benefits. Consequently, the need for repeated adjustments was addressed via mechanisms that were created ad-hoc. Despite the use of this entire index linking, real pensions suffered a significant depreciation (by 1996, the real pension was only 60% of its value in 1990) (I. Marginean, 1999).

On the other hand, the communist regime's pension schemes were conceived so that they would preserve moderate differences between incomes. The rise in the differences apparent between income levels and the relatively small difference between the minimum and the maximum pension became a source of dissatisfaction for those with high incomes. This dissatisfaction exerted significant pressure on making the current schemes less re-distributive and more tied to earnings, which is what opens the road for supplementary pension's emergence.

▪ **The increase in the number of pensioners through early retirement**

In 1989, the retirement age in East European schemes was lower than that practiced in the West, with an average retirement age of 60 for men and 55 for women and a length of service of 25 years for men and 20 years respectively for women apparent throughout the former communist bloc (bar for Poland, which kept the retirement age at 65 and 60 respectively).

In Romania, until 2001, the following eligibility criteria remain valid:

- The age of retirement for men is 62 and 57 for women;
- The minimum length of service for men is 30 years and 25 for women (which meant that if the length of service was satisfied, retirement could proceed at an age of 60 for men and 55 women);
- Persons whose length of service is between 10-15 years and have reached retirement age are entitled to a pension calculated according to their length of service;
- Starting with 1991, the system becomes more flexible in terms of not discontinuing service in paid employment after the retirement age was reached. Thus, service could be continued after retirement age for a period of maximum three years;
- After 1991, there is the possibility to cumulate both pension and salary yet not in the case where pension is awarded due to early retirement, inheritance or becoming disabled. This possibility fails to entice people to delay retirement – which is something that would otherwise reduce costs;
- Those belonging to special groups of employment benefit from certain privileges relating to early retirement:
 - Those from group I (extremely dangerous conditions such as, mining etc.) may retire into pension after 20 years length of service or, upon reaching the age of 52 for men and 50 for women;
 - Those from group II (dangerous conditions such as, constructions etc.) may retire after 25 years length of service or, upon reaching the age of 57 for men and 52 for women;
- Women who have a longer length of service than 25 years and have more than three children and have discontinued working in order that they may raise them may retire into pension between one and three years earlier;
- Supplementary pension is 5% of the monthly wage of the ensured (all pensions are not taxed)

During the first years after 1991, early retirement that was used to cover unemployment led to an important rise in the number of pensioners.

- Through the law 2/1995 the period for early retirement is enhanced from 2 to 5 years hence, the number of pensioners rose by 30% between 1991-6.

Contribution rates in Eastern countries are comparable to those in Western countries yet, the dependency rate is much higher.

If in Romania there exist approximately 1.35 pensioners to every employee that contributes to the fund, EU countries are worried about a smaller rate of only 0.6..

The current situation is not caused solely by the ageing process as much as it is caused mainly by the large number of pensioners that would be considered as part of the active population elsewhere as well as by the large number of people who do not contribute to the system (either unemployed or, simply evading to pay taxes).

The Law 19/2000 meant the beginning of the system's reformation.

Firstly, the new law *restricted access to benefits* through: increasing (in theory) the retirement age to 60 for women and 65 for men (gradually, until 2013) and the length of service (30 for women and 35 for men), introducing a much more stringent control vis-à-vis awarding disability pensions, restricting early retirement (no penalties early retirement is permitted for an increased contribution duration at 40 for women and 45 for men). At the same time, the definition of dangerous work places is restrictive thus limiting the privileges obtained by certain groups in the past.

▪ **Changing the contribution**

After 1990, measures to increase contributions were adopted to keep abreast of the financial needs of the system as a result of the rapid increase in the number of pensioners. In 1991, contribution levels reached 20% from the salary fund. From 1992 onwards, contributions are set according to working groups to 25, 30 and 35% from the salary fund. Housewives pay 15%. From 1999, employers' contributions are set at 30, 35 or 40% respectively. Through the 2000 Law, contributions are kept at virtually the same level as they were in 1999, averaging 37% from the income, 2/3 on the part of the employer and 1/3 on the employee.

Subsequently, social insurance contributions' quotas in 2004 were as follows: 31.5% (normal conditions), 36.5% (difficult conditions) and 41.5% (special conditions). The *individual* social insurance contribution quota, beginning from January 2004 is 9.5% irrespective of the working conditions.

Between 1991-1994, the fund was in credit yet; it becomes overdrawn during the following years despite an increase in contributions, as state budget payments were needed.

▪ **The pension system's insufficient coverage of certain categories such as free professionals, peasants, black market employees and the narrow collection rate**

The system's capacity to control such problems is rather reduced currently. There is no indication of the degree in which those entitled to receive benefits fail to receive them or, at the opposite end, the amplitude to which the system is being defrauded by people receiving pension benefits without entitlement.

Another flaw of the system concerns the lack of coverage for undeclared private sector employees concurrent to their employers declaring smaller wages than they are actually paid with a view to reducing labour costs.

This notwithstanding, the new Law defines better the sphere it covers in terms of public sector benefits while it extends the group of beneficiaries (employees, free professionals, temporary i.e. with civil conventions employees and unemployed people).

▪ **Changes made to the laws covering pensioners from the agricultural sector**

The reduction in the agricultural sector worker's retirement age – which made it equal to that in other economic sectors – led to an increase in the number of pensioners in this sector. Between 1992 and 2000, disenfranchising Collective Farms and introducing voluntary pensions for peasants led to the loss of a financing source as the voluntary contributions were no bigger than 7% of the average monthly earnings. The basis for collecting social insurance contributions became ever narrower in the case of agricultural sector workers (economic agents working with agricultural/husbandry produce contribute between 2-4% to the pension fund).

▪ **Appearance in the social insurance fund and its separately administration from the state budget; disappearance of certain special funds**

After 1989, the social insurance budget gets separated from the state budget as the National Pensions and Other Social Insurance Benefits' Institution now manages the system's administration. After 1992, the two separate systems are included in the State Social Insurance System as only lawyers and the military maintain their own system.

▪ **Changes in the methodology for calculating the pension**

Until 2000, the pension quantum for age limit is determined as a percentage of the basic salary, which is differentiated according to the size of the wage and group of work as follows:

Group I – 58-85%

Group II – 56-80%

Group III – 54-75%

Through the new Law promulgated in 2000 takes place the introduction of a new methodology for calculating the pension via a points system. Monthly contributions are turned into points. The average number of points is multiplied by the value established by law for each pension point thus obtaining the value of the pension quantum. The new methodology takes into consideration the contributions made during each year of work. The value for each point cannot be more than 50% of the gross national average wage and the yearly number of points cannot be more than 5.

▪ **High administrative costs that may be reduced**

According to foreign experts (see later on), social protection system's contributions are fragmented in Eastern Europe, which leads to a rise in administrative costs. In certain Western countries, social and health insurance contributions are paid in the same fund thus reducing the implied administrative costs in sustaining two systems.

The payment of pensions via postal order at the beneficiary's domicile increases this indemnity's distribution costs. Consequently, Eastern European countries ought to use existent resources more efficiently.

Nicholas Barr (the World Bank, 1995) adopts in 1995 the following conclusions concerning the pension systems of the former communist countries in Central and Eastern Europe:

State pensions' reform in these countries is vital, as the costs of the current PAYG system will induce ever more accentuated financial deficits. What must be taken into account though is that both PAYG systems as well as those based on funds fail to resolve problems fully. If in the first instance, social pressure is put on pension quantum growth, in the second instance, as proved by the Latin American experience, problems stem from the fund's erosion due to inflation.

Reform ought to be as simple as possible. Financial markets operating systems and private pensions fund management require a high degree of operational expertise in terms of regulating the system. Yet, ex-communist countries are lacking the highly skilled personnel needed to operate in this type of business environment while they are further restrained by their limited institutional capacity. All of these make imperative the need for the pension system reform process to be as simple and straightforward as possible.

Private pensions require a well-organised regulatory system. Private funds' management raises complex technical problems that are hardly ever understood even by Western consumers. Thus, the issue of regulating funds and institutions are taken as granted in countries attempting to reform their pension systems though their volatility is proved to be an ongoing issue, as it has manifested in countries like the US or Britain after financial scandals relating to such funds

Private pensions require protection against inflationary pressures. Inflation is a threat equally present in the West though this is more acute in Eastern Europe, where the experience of financial markets remains limited. Hence the urgent need for state intervention as an underwriter that may offer both direct guarantees as well as index-linked shares. This type of intervention is based on the principle of horizontal equity: pensioners do not have to face inflationary pressures any more than employees do. Western countries' experience shows that social pressures are always strong in favour of the state intervening to guarantee such funds and pressures are even higher when funds are confronted by various difficulties.

Reform presupposes political options. Political decisions vis-à-vis the regulation and functioning of such funds raises a number of questions and principled options relating to: the measure of social solidarity, the measure of redistribution (minimal/maximal), the actors undertaking risks and risk-sharing (employee/fund/state), the degree of regulatory constraints placed on the system (i.e. how much freedom of choice does the employee have) etc.

The implementation of reform presupposes institutional capacity development i.e. getting the specialists and the executive involved at the system design stage, computing registrations, distributions and all manner of calculations, issuing detailed regulations on the application of the Law all of which is done with a view to minimising the mistakes and the possible delays.

To conclude, the system based on funds cannot be conceived as a short-term solution for budgetary crises. The main advantages this system presents are that it improves capital markets operations, it offers the possibility for obtaining higher pensions (via increased contributions), it gives contributors an increased freedom of choice and ultimately, it makes the individual more responsible.

Though made as early as 1995, Nicholas Barr's East European pensions system's forecasts proved ever so true in the case of Romania and are relevant still. The State social insurance system must be reformed bearing in mind the system's characteristics and institutional capacities, the Romanian beneficiaries' profile as much as the Western and neighbouring countries' experience.

5. MAJOR PROBLEMS FACING THE ROMANIAN PENSIONS SYSTEM

In order that we analyse the Romanian system of pensions and other social insurance rights, at present, there appears to be a need for analysing its structure and interdependence between the system's "inputs" and "outputs".

The Romanian pensions system faced severe problems after 1989:

1. The inequity of pension's calculation for people who retired at different moments in time.

The pension's calculation was an utterly inequitable process that lasted until 2001, in the sense that it was computed differently for those retired into pension at distinct periods of time. The inequity compounded by the fact that this computation was dependent only on the contributions made during the best 5 consecutive years of the previous 10. This situation led to the emergence of "huge" pensions that were based on substantial contributions only for a period of 5 years alongside very small pensions owing to some very small wage packages by the end of their working lives or, due to retiring into pension before 1989.

The lack of political will apparent in the failure to generalise the new calculation methodology for all pensioners quickly (including those retired before the 1st of April 2001) creates a grave inequity between those pensioned before and after the implementation of the Law. The retirement at different periods of people with an equal length of service and profession – hence, an equal contribution effort – led to the appearance of completely different pensions based on the retirement period i.e. before 1998, during the period 1998 until the 1st of April 2001 or, after 2001. **It is therefore necessary that a detailed analysis of the influence played by the exact period of time during which people retired into pension is carried out, in the sense that it is recognised that time constraints had an unfair impact on the beneficiaries pension quantum and it is therefore imperative that all pensions are recalculated according to the same rules (or, at least, those pensions exceeding certain limits are recalculated according to the new Pension Law provisions).**

"The highest pension in Romania is ROL 109 million lei, an amount that is 42 times higher than the average pension which, at the beginning of January was established at 2,6 million ROL. According to the latest data provided by the National Pensions and other Social Insurance Benefits House (CNPAS) currently, of the 6.7 million pensioners only 1157 receive pensions in excess of ROL 10 million. Among these, there are ex-magistrates, ex-General Managers and ex-bankers. At the opposite end, there are 1.7 million pensioners who receive a monthly pension of between 200000 and 800000 lei. The smallest pension in the country is only 400 lei and the unfortunate beneficiary is Gheorghe Homoc, from Cladova, Timisoara. The fortunate beneficiary of the ROL 109 million, who is approximately 2660 EURO, is an ex-General Manager of a foreign trade enterprise."

Source: The Guardian, the 2nd of February 2004.

“Parliamentarians will receive pensions of between ROL 36 and 45 million. In great secrecy, work on the new White Paper on the Statute of the Elected was completed. This initiative will now be debated using the emergency procedure. Viorel Hrebenciuc, the leader of the governing Party, the SDP, argued that the “provisions of the proposed Statute ought to be implemented at the earliest”. According to the said Statute, those elected will receive special pensions, 18 monthly indemnities if they are not eligible for retirement, annual merit award as well as a 10% instant rise of their indemnity. The resulting pension will be awarded from an insurance fund managed by each Parliamentary Chamber, based on supplementary contributions paid.”

Source: The Guardian, the 2nd of February 2004.

2. Delaying reform and legislative instability

The new Law underpinning the Pensions and other Social Insurance Contributions (i.e. the Law number 19/2000) was voted and implemented after a relatively lengthy period a time after the Revolution though it was sorely needed from the beginning of the nineties. Moreover, it has been instantly and several times amended – which makes it so difficult to understand (and apply) – yet, it remains overall an equitable law.

3. The reduction in the number of contributors

The number of employees and implicitly, the number of contributors to the Pensions Fund fell dramatically from over 8 millions in 1990 to less than 4.5 million currently which contributes to the greatest crisis in financing the Fund. In certain sectors, there are few Pension Fund contributors such as, for example, in the agricultural sector where from a total of 2 million persons occupied there are only 50-60.000 contributors to the insurance system.

4. The alarming rise in the number of pensioners from a total of 3.5 millions in 1990 to 6.11 millions in January 2004.]

Please note in the following graph, the evolution in the number of pensioners:

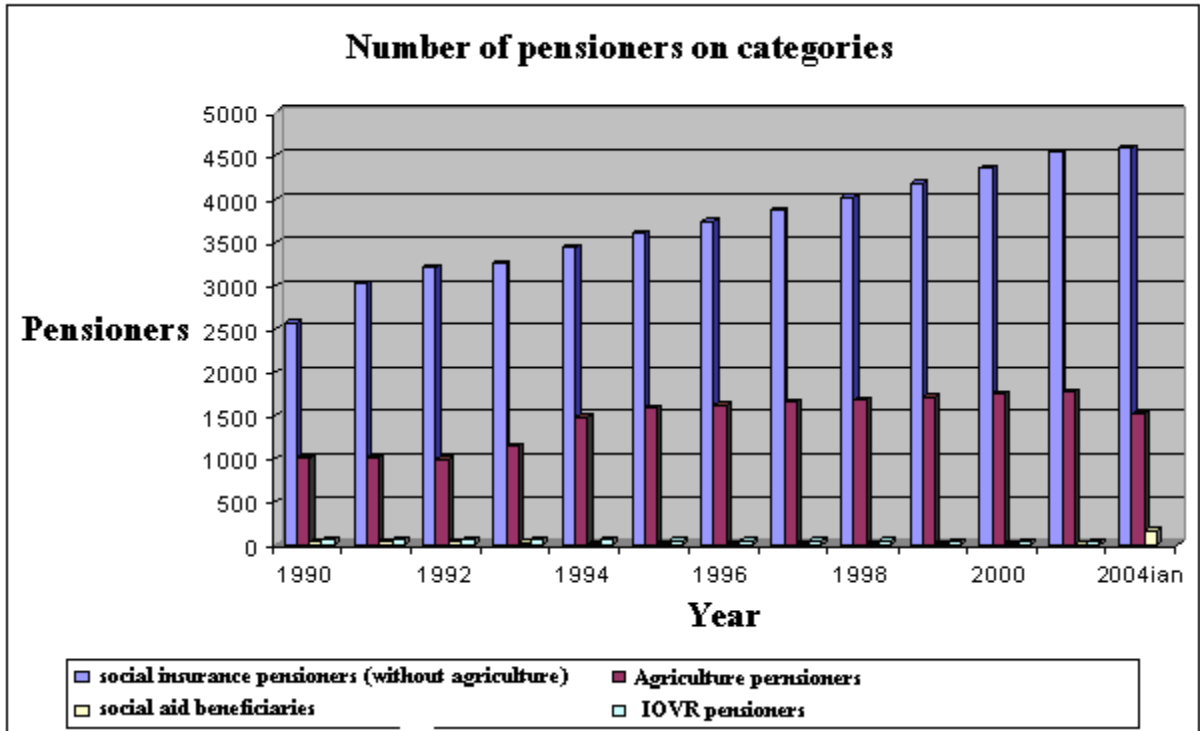


Figure 4 The change of the pensioners number on categories.

The rise in the number of pensioners was done in the following manner:

4.1 Through the inclusion in the general system of pensions of the pensioners from the agricultural sector (approximately 1.7 million subsequently reduced to 1.512 millions in January 2004).

4.2 Through the countless numbers of anticipated retirements into pension approved by the governments that have governed for the last fourteen years. Currently, 113.000 persons receive anticipated retirement benefits though cumulated numbers during the past fourteen years far exceeds that number. mare (after reaching the limit age for retirement, anticipated retired persons leave this pension category)

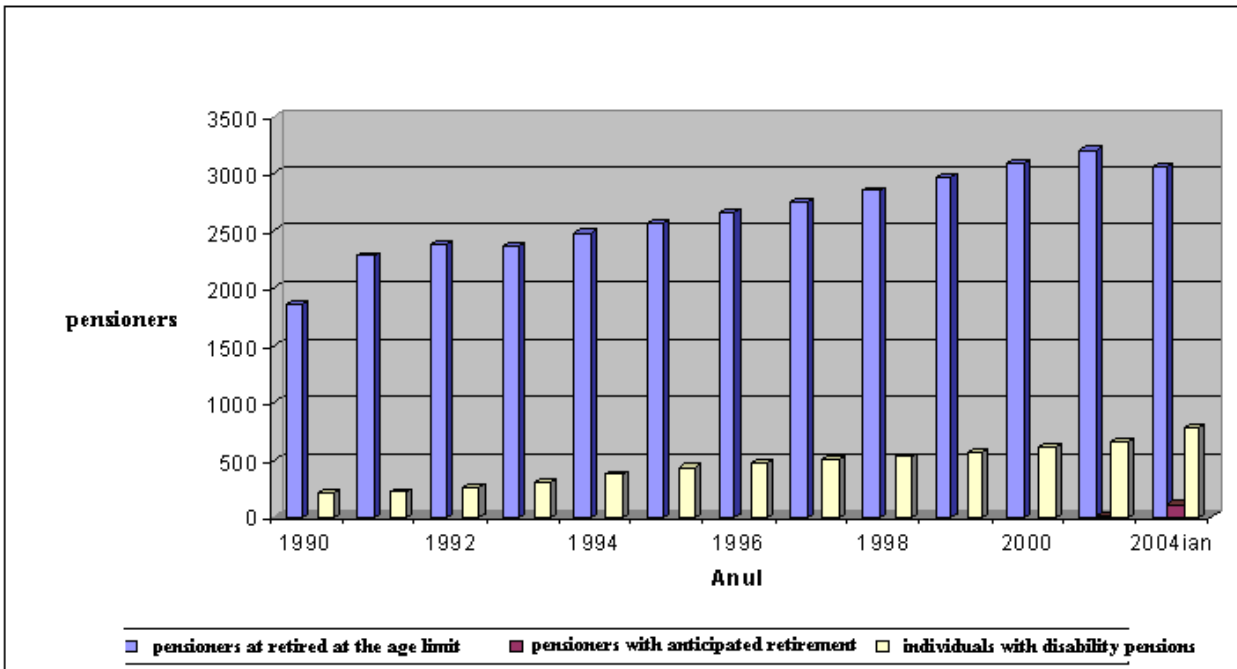


Figure 5 Pensioners (without agriculture pensions)

Only in the period 1995-1999:

- the number of pensioners rises by 13% from 5.25 millions to 5.94 millions
- during the same interval, the population over 55 rises only by 0,4%
- the proportion of pensioners in the overall population rises from 23,1% la 26,4% (the number of pensioners over 55 years old)
- the number of retirements for age limit rose by 19%

Source: Ioan Mărginean, 2000

4.3 Through an artificial rise in the number of disabled (pensioned “due to illness”, in popular terms) many of which are suspect if not outright fraudulent yet, go undetected hence not annulled due to the **control and sanctions deficit** in the insurance system. **Currently, 805.000 persons (13% of the total number of pensioners) are retired for being disabled. The high percentage of the grade II disabled (73%) remains surprising.**

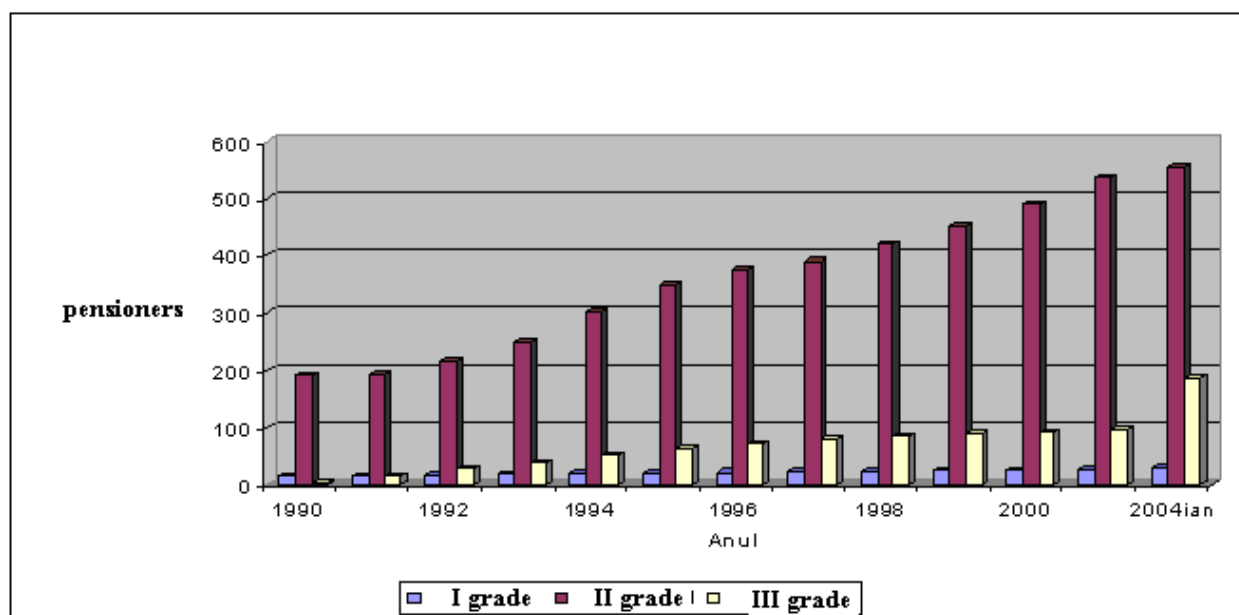


Figure 6 Different kinds of disabled pensioners (without agriculture pensioners)

4.4 Anticipated retirements and retirements on the grounds of being disabled led to a **real average retirement age around 52-53 years, between 2001-2003**, computed from the retirement real age average of between 50-51 years for women and 54 for men.

In Romania, there are large numbers of young pensioners – a fact confirmed by the following statistical data:

Source: the National Pensions and other Social Insurance Benefits House, December 2003

	Bulgaria	Czech	Hungary	Latvia	Poland	Romania	Slovenia	Slovakia	
GDP per inhabitant vis-à-vis the purchasing power standard parity, 2001	5706	13752	13455	7840	9406	5620	16830	-	
The Pensions Fund as % from the GDP, 2002	-	9.2	10	-	14	7.3	-	7.6	
The population on age groups as a % from the total by the end of 2002	0-14	14.6	15.6	16.1	16	18.1	17	15	18
	15-24	13.9	14.1	13.7	15.1	16.9	15.6	14	16.6
	25-59	49	51.4	49.4	46.9	48	48.2	50.9	49.5
	60+	22.5	18.9	20.8	22	17	19.2	20.1	15.9
The percentage of pensioners from the population	29.9	25.6	30.2	26.6	23.9	21.5	-	22.3	
Life expectancy at birth, in 2002	Men	68.6	76.1	68.26	65.4	-	67.61	-	69.9
	Women	75.3	81	76.56	76.8	-	74.9	-	77.6
Life expectancy by the age of 65, in 2002	Men	13	13.93	13.04	12.1	-	13.32	-	13.3
	Women	15.6	17.16	16.79	18.1	-	16.01	-	16.9
CANSTAT, Statistical Bulletin, 2003/1, Bucharest, 2003, the National Institute for Statistics									

Table 2 Social and economic indicators on different countries

*Starting from 01.02.2003, average pensions do not contain health insurance

5. The reduced rate of collection (the failure to pay contributions by certain employers, especially those from the public sector)

On the whole, the average pension quantum became smaller in its relative value also due to the big state enterprise's (as well as those working in the underground economy's) failure to pay due contributions for their employees. **The pension system's collection rate is most reduced (in 2001 it was only 77%) – a fact that gravely affects the chances for pensions to augment.** The fact that *contribution rates for the employer are maintained so high against such smaller ones on the part of the employee (though it is exactly the opposite in other EU countries) makes it possible for state enterprises to continue to fail to pay their due contributions while it makes it even more difficult for individuals who do the same to be sanctioned accordingly.*

6. Failing to declare real earnings

Another major problem affecting entries into the pension system concerns the issue of the **declared wages**. Though it is difficult to verify this claim with precise figures, **the large number of insured persons whose declared wages packages correspond to the national minimum wage** makes it likely for other undeclared earnings to be one of the main reasons why contributions are so low.

7. The reduced rate of pensions coverage for the active population

Currently, less than half the active population is insured (under 5 millions from a total of approximately 10.5 millions) which is a factor likely to generate long-term problems. Of pensions will benefit, in 25-35 years from now, only those currently insured yet, those working in the “black market” economy or those currently unemployed (a significant number) and who are not part of the State Insurance system upon reaching the retirement age will burden the Social Insurance system by claiming from the public funds, the minimum guaranteed income or, other forms of social assistance.

8. Postponing the introduction of parameter complementary solutions (i.e. the introduction of pillions II and III, of privately administered pensions)

Supplementary pension systems and privately administered occupational pensions (**pillions II and III**) which, unfortunately, have yet to be introduced will likely be implemented shortly (see the White Papers on Supplementary Pensions and on Occupational ones). Such types of pensions will be accessible only to those able to capitalise significant funds in that sense and, in particular, to those with higher incomes while it will fail to be a viable solution for current pensioners nor for those who will retire in the next few years or for those currently insured who have small earnings.

6. ALTERNATIVES OF REDRESSING THE PENSIONS FUNDS

6.1 ALTERNATIVES OF PARAMETRIC REFORMS

If we refer to the Public Pensions System in Romania, it can be argued that the current computation methodology is a lot more equitable than previous ones that used as a basis for calculation “the best consecutive five years in the preceding ten in service”.

According to the current legislation, if we synthesise the somewhat complicated provisions of the said law into a mathematical formula (as was the case in the White Paper from which the formula was subsequently discarded), the result will be a formula for discussing various possibilities for changing the parameters.

The theoretical formula for the calculation of the pension

$$Pq = \{[(GaiY/GamY)/Cp] \cdot Aq \cdot Fq\} \cdot Ppv$$

Where, Pq = Pension Quantum

Gai = Gross Average Income of the insured person for the year “y”

Y = the year in which the subject worked

Gam = National Gross Average Income for the year “y” as communicated by the National Institute for Statistics

Cp = Completed Contribution Period

Aq = Access Quotient (according to the type of pension, i.e. inheritance pension, the degree of disability etc.)

Fq = Flexibility Quotient (modifiable quotient by 0,3% for supplementary months of service worked after the age of retirement by 3,6% per year)

Ppv = Pension point value

Restrictions: $GaiY/GamY < 5$ (the number of annual points is maximum 5)

$30\% GamY < Ppv < 50\% GamY$

Observation: though annual points are computed from the monthly number of points, the formula is destined for the potential for intervention upon variables analysis hence its use of yearly points and income points rather than monthly points as a start-up.

6.2 A FEW THEORETICAL CONSIDERATIONS ON THE BALANCE OF IN-FLUX PENSION FUNDS (PAYG)

The simplest type of reform for in-flux pension funds, which is mostly applied on a short-term basis as it anticipates and computes, in a compulsory way, other types of measures is the parametric reform – where only the pensions system’s parameters are altered.

For an in-flux pension system, the stylised scheme for awarding pensions (Chand, Sheetal, Jaeger, Albert, 1994: 4-5) (bearing in mind budgetary and occupational structure constraints) is as follows:

$$(1) Nc(Rc*Gam)=Np(Rr*Gam)$$

where: Nc – the number of contributors (employees)

Rc – the rate of effective contribution to the pension system

(now, in Romania, r=31,5% from the Pensions Fund for normal working conditions)

Gam – the gross income which is the base for calculating the contribution

Np – the number of pensioners

Rr – the replacement rate

For Romania, another quotient ought to be added in the shape of the contribution collection rate (Cc) that reduces entries into the system since, in 2002, for example, only about 80% of the total contributions amount were effectively paid and have thus entered the pensions system.

$$(1') Nc(Rc*Gam)*Cc=Np(Rr*Gam)$$

According to the equation (1), PAYG system benefits and expenditures must be balanced at all times. Consequently, the balancing contribution rate for such a system is defined as:

$$(2) Rc=Rr(Np/Nc)$$

where: (NP/Nc) represents the pensions system dependency rate

Two things that must be added to the second equation (2) are significant for the following debate on the parametric reform options for the PAYG system.

Firstly, in order that the ageing phenomena's distinctive conjecture is underlined concurrent to the labour market's evolution and its influence on financing the PAYG system, we will mark with an **X**, the proportion of pensioners from the active population's total (Nc*) and with a **Y**, the proportion of pensioners from the elderly person's total (Np*).

Secondly, so that our formula allows for the financing of pensions via budgetary transfers, we will introduce the term **Z** (the proportion of the total amount paid in the shape of pensions that is financed from the budget). Consequently, the balancing rate of contribution becomes:

$$(3) Rc=Rr(1-Z)(X/Y)(Np*/Nc*)$$

where: (Np*/Nc*) represents the elderly dependency rate

An example of the logic underpinning the rapport between the average wage and the average pension.

Considering that:

- Z = 0 (there were not state budget funds in the pensions system)**
- $N_p/N_c = 1,35$ (the dependency rate in the pension system hence, the number of pensioners for each employee)**
- Cc = 0,80 (the contribution to the pensions fund collection rate)**
- Rc = 0,315 (the pensions fund collection rate = 31,5% from the Gross Average Income)**
- Gam = (the National Gross Average Income)**

$$\text{Average Pension} = Rc * Cc * 1 / (N_p / N_c) * Gam = 0,315 * 0,80 * 1 / 1,35 * Gam = 0,187 * Gam$$

In other words, without State Budget financing at the 2002 collection rate, the average pension is **18,7%** of the **Gross Average Income**.

According to the Gross Average Income, certain simulations can be made. For instance, at a 200 Euro pension this would be approximately 37,4 Euro. For an average pension of 100 Euro, the Gross Average Income ought to be approximately 535 Euro.

It is therefore self-evident that the public pension system in Romania is dependent on the financial support from the State Budget.

Taking into consideration the above said, we can safely say that the **parametric reform** i.e. the reform carried out via modifying certain parameters in the system can be realised in the following manner:

Via **adjusting the contribution rate (Rc)** – which is the simplest measure that can be undertaken. There are certain limits possible though: firstly, in terms of equity and equality. Resistance to changing contribution rates may be encountered – both by those working for small or medium earnings (for whom social insurance contributions are much too high, anyway) as well as for those earning higher wages (yet, may still consider their contributions are too high vis-à-vis the benefits they receive). On the other hand, such a measure may have negative effects for the labour market, as employers prefer not to employ people rather than have to pay higher contributions to the State. “Nonetheless, at times raising the contribution rate may be a reasonable compromise as part of a package of parametric reform measures.” (Chand, Sheetal, Jaeger, Albert, 1999:9). In Romania, there already exists a process of reducing the contribution rate in order to stimulate the declaration of earnings and the enrolment in the pensions system (during the past years, the contribution had been reduced by 3.5% - from 35% to 31% for normal working conditions).

Adjusting the transfer rate from the Budget (1-Z) – when the system is in crisis, one solution is that of awarding certain amounts from the Budget to pay for pensions. Obviously, such a measure can only be short-term, to address unforeseen circumstances and must only be used in exceptional circumstances for fear of the indirect negative effects and the implicit alteration of the Budget structure as much as the concurrent political fallout that may occur as a result.

Adjusting the replacement rate (R_r) – is a measure that is used most often than not by most countries at present. This type of adjustment is done via: increasing the compulsory period of contribution, eliminating the advantages offered to certain social groups, adjusting earnings as a result of entering the labour market sooner or later, altering the index-related quotients etc. (Chand, Sheetal, Jaeger, Albert, 1999:9).

Adjusting the dependency rate (N_p/N_c) – is done through an increase in the compulsory contribution period via altering the retirement age, increasing the contribution needed to allow for anticipated retirement, changing illness-related retirement policies, increasing the control targeting irregularities etc. A possible measure also may be to increase the retirement age for women (equalling that of men) based on the fact that, on average, women participate far less than men on the labour market.

This notwithstanding, another component for reform must be added: making the administrative system more efficient, that would mainly constitute a cost reduction exercise as much as it would reduce administrative errors. The measures needed to achieve that are the following: contracting certain services out to specialised private firms, creating a properly functioning IT system that can safely compute information on every person in the system's database etc.

Achieving such measures is more often than not a necessity. Unfortunately, in most countries, such reforms have only been started whereas many have yet to start them though the need for “The need to undertake an early and long-lasting PAYG reform in view of population aging, and the instruments to be applied have been known for many years” (Holzmann, Robert, 1997:7). This is perfectly true in Romania's case also, where the pensioners numbers have grown constantly while the number of employees fell dramatically after 1990, the collection rate is reduced, fraudulent retirements into pension frequent (at least judging by the number of cases highlighted by the media) notwithstanding the growth in the number of retirements into pension due to an inability to work.

In Romania, not unlike other countries in the world, pension system reform was delayed not to speak of the fact that it has not been and it will not be radical due to the electoral interests apparent among politicians. The lack of political appeal for changes (“economic and fiscal gains are apparent when the responsible politician is no longer in service”) delayed their inception irrevocably. Moreover, politicians cannot “make a convincing commitment that the proposed “parametric” reform is a lasting one(i.e., it puts the scheme on a sound, long-term financial basis) and that they have no incentive to change the benefit/contribution structure for political reasons in the future. Given this credibility problem, individuals have an incentive to oppose a “parametric” reform from the very beginning.” (Holzmann, Robert, 1999:7).

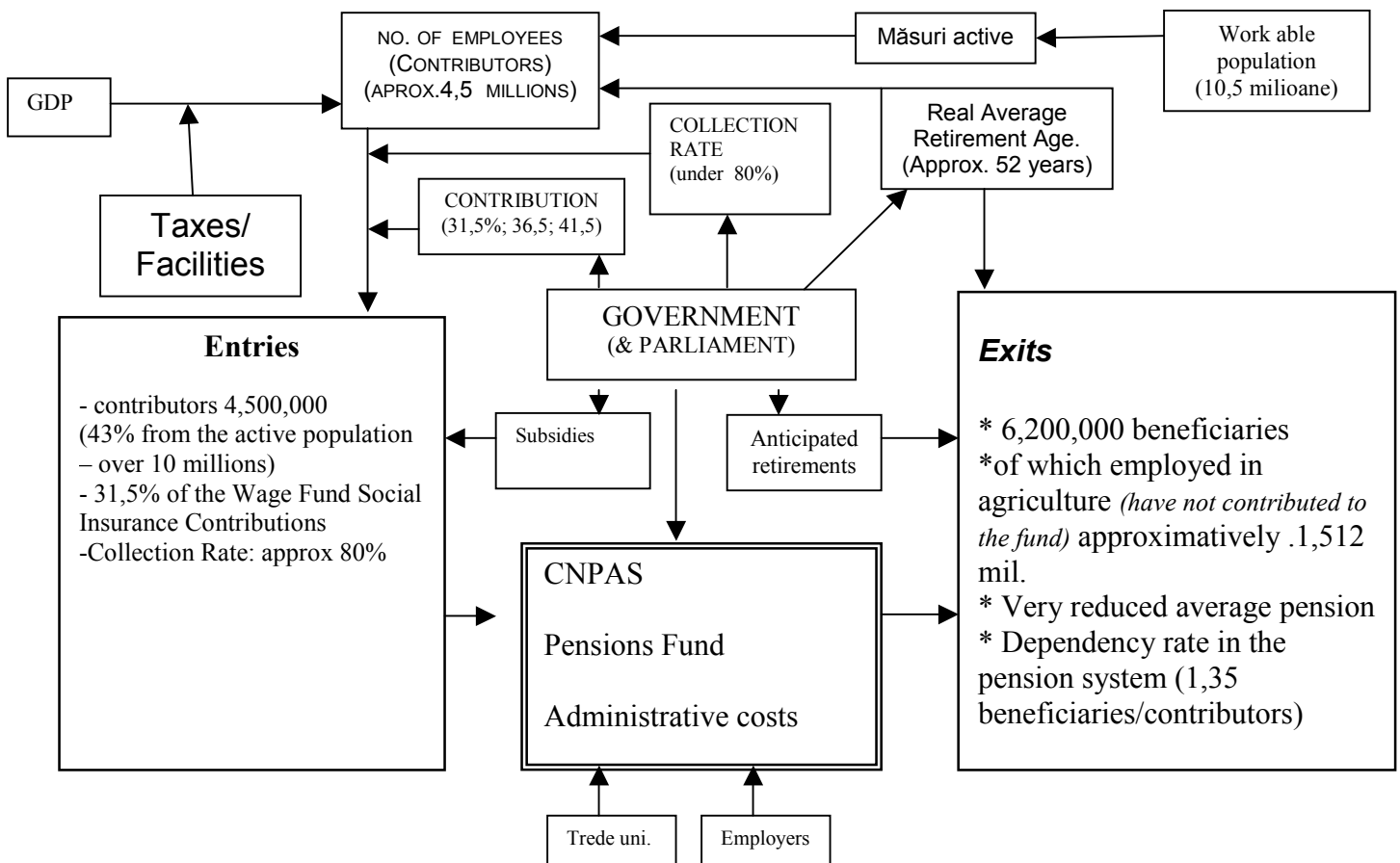
Certain countries have begun changing the PAYG system's parameters yet, they either gave up on the idea or, fought an “intense political battle” for preserving them. Holzmann offers the example of countries like Japan, France or, the Czech Republic, where there was a bitter dispute for keeping the age of retirement constant while in Germany, reform was postponed for a while when it was “decreed” that “the largest part of incremental PAYG reforms failed to resolve the traditional distortions of the labour market system where certain groups are subsidised while they are in direct competition” (Holzmann, Robert, 1997:7).

6.3 INCREASING FINANCING SOURCES FOR THE PENSIONS SYSTEM IN ROMANIA

Financing social policies requires certain short comments. Generally, social policies focus on the way in which the “governmental cake” is being used, divided and administered i.e. the social expenditure structure. The social policies’ efficiency issue i.e. the optimal use of the social budget has an important component that relates to a previous stage linked to the collection of resources. Certainly, the taxation (and the means for constituting the State Budget/the Social Insurance budgets) debates are well documented.⁴ We wish to add to that an attempt to systematise the way in which the social policies’ demand/offer is balanced/harmonised generally in any social system that can be applied onto the Romanian pensions system.

In order that possible measures that ought to be undertaken for redressing the public pensions’ system are analysed, we may consider the following organisational chart where interventions can be limited to its component elements:

The Social Insurance Pension System general chart in Romania



⁴ For social insurance and the financing of social policies theories, see Barr, 1998 and for Romania’s situation see Zamfir, C., Zamfir E. (co-ord.), 1995; Zamfir, C. (co-ord.), 1999; Marginean, 1995, 1999, 2000.

Practically, due to population increase and its ever more diverse needs, there is a need for a **new balancing act of the rapport between pension resources and other social insurance expenditure (demand “satisfied” by pensions / other rights) which can be done in two ways:**

- 1) Increasing allocated resources i.e. system entries
- 2) Reducing system outlets (pension requests, the number of pensioners etc.)

It is paramount that we seek ways in which these objectives could be fulfilled.

1. **Increasing resources** could be attained in the following situations:

a) The best possible variety for increasing resources is achieved through “economic growth” (*increasing the GDP*) while maintaining the social expenditure quota in the GDP which would result in an increase, in real terms, in the pension’s social expenditure.

b) ***Increasing the general rate of taxation or, of the social funds’ contributions.*** Yet, there exist certain thresholds after which any taxation increases become counter-productive as they reduce the taxation base-rate and further the underground economy. This is a measure lacking popular support as in Romania there appears to be a real need for a tax rate reduction (a process that has been underway during the last few years that alters somewhat social insurance fund contributions).

c) ***Increasing the collection rate*** – thus, every percentage increase ensuring average pension growth opportunities or, a reduction in State subsidies. There is scope for increasing the collection rate in Romania (20% of the entire contribution was not collected in 2002). The proof of the money collection potential resides in the Health Fund where the collection rate approached 100% in 2002.

d) ***Government loans for Pension Fund top ups.*** Used by virtually every country in times of economic decline, loans do not yet represent a long-term solution as going beyond a certain rate of arrears overburdens subsequent insurance budgets with expenditures for servicing the current debt.

e) ***The privatisation quota – selling State properties (including natural resources)*** that must be directed towards the insurance fund. For certain periods (such as it happened throughout the post-communist transition) privatising certain State properties contributed important funds to the budget. Great Britain, during the eighties, had budgetary revenues of approximately 12% of the GDP as a result of the massive privatisation programme undertaken during the Thatcher years. The privatisation issue is one currently facing Romania, as it constitutes a possible revenue source that can be directed towards consumption as well as for public investments. Anyhow, even this possibility is limited in scope, conjectural and cannot resolve, in the long run, the financing of the social insurance system.

f) ***Introducing new social service taxes.*** The problems created are similar to those generated by increasing the basic tax rate hence dependant on the degree of popular support in the wake of “black market” employment done to avoid the payment of social contributions that are way too high hence, the exclusion of certain categories of people from the insurance system that will later burden the social assistance system with this very category of people that are uninsured. A possible solution could be imported from the agricultural sector, where those earning very low

salaries yet having other types of earnings are subject to certain contribution norms to the insurance system.

g) Increasing State revenues by other means, for instance, by receiving certain non-refundable financial support. This is a source that is characteristic of countries undergoing a very difficult set of financial circumstances, are very poor and/or are in the process of being integrated in various economic, military or, political structures. Alongside the fact that non-refundable aid is limited in size and time, it is most often accompanied by clear conditional ties set by those who award it which are most often unacceptable to the beneficiary. In Romania's case, this option should be carefully examined.

h) Increasing the collection base (of the number of people insured). This can be achieved in two ways:

1. By creating new work places (current measures have obviously been insufficient though, the unemployment fund has, for many years now, been in the black).

2. Via attracting amongst current contributors those who do not contribute at present. There are three categories here:

I. Those who work on the black-market (especially youngsters and those nearing retirement age who accept virtually any working conditions). The size of this phenomenon remains unknown yet it could be as large as several hundred thousands persons.

II. Seasonal or temporary workers (particularly, in the rural area), free professionals, agricultural workers (farmers) for whom there are not enough inducements to be attracted into the system. The number of persons occupied in the agricultural sector is XXXXX

III. Those working abroad (the exact number is, again, unknown yet, those working with legal working contracts numbers several hundreds of thousands.

i) Increasing declared revenues.

As many people fail to declare real revenues in order that they reduce taxation, there is a possibility to increase contributions via stimulating the declaration of real incomes for the majority of those insured.

2. **Reducing the insurance system's expenditure** could, in turn, be achieved in the following manner:

b. Transferring State responsibilities onto other welfare providers such as private companies. This is a method widely used in the West in the case of privately owned insurance companies; it implies corresponding social costs such as the growth in the inequality apparent in pensions' earnings.

c. Encouraging certain beneficiaries (via tax incentives, for example) to resort to private pensions.

d. Reducing the number of beneficiaries via toughening the criteria for joining the scheme (such as is raising the real average retirement age). The method is frequently used in

pension insurance systems where retirement age is periodically raised to reduce the number of beneficiaries due to the average life expectancy rate rise.

e. Reducing the pension quantum or, restricting the entitlement other rights and benefits (for instance, by failing to index benefits to inflation fully or in due course).

f. Reducing fund administration expenses via reducing the number of employees or their salaries as much as the pension distribution costs.

g. Placing (additional – if any) funds more efficiently.

These theoretical possibilities ought to be fully analysed in the context of the Romanian insurance system so that the use of each one of these possibilities passes the efficiency test.

THE INTRODUCTION OF ALTERNATIVE PENSIONS (PILLIONS II AND III) AND THEIR POSSIBLE CONSEQUENCES

7.1 ALTERNATIVE PENSIONS – CONCEPTUAL CLARIFICATIONS

More often than not, we encounter particular characteristics of the pension systems in analyses that are considered to be but typical schemes without any due consideration to the fact that merely interacting with other elements can result in completely different configurations for the pension system. For instance, individual contributions are represented as privately managed and having as distributing philosophy contributions rather than benefits. On the other hand, the in-flux system is implicitly related to State pensions.

In fact, individual accounts and PAYG pensions represent but pension system’s characteristics and not system types, as “ideal-types” must be conceived via the cross-over between three components – **the benefit type, financing and system management**⁵ (Hollzman, Robert, Palacios, Robert, 2001:2).

Not all combinations between these three components work, though, for one of them, in practice, does not. “This fact is interesting in itself and suggests some natural selection process for pension systems that leads some combinations to become extinct or irrelevant.” (Hollzman, Robert, Palacios, Robert, 2001:2).

	Publicly managed	Privately Managed
Defined Benefits (DB)		
Unfunded (UF)	Germany, France (basic scheme)	France (supplementary scheme)
Fully Funded (FF)		Holland (supplementary scheme)
Defined Contributions (DC)		
Unfunded (UF)	Latvia, Poland & Sweden (1 pillar)	
Fully Funded (FF)	Singapore, Malaysia	Chile, Mexico, Poland & Sweden (2. pillion)

Table 3 Examples of mixing types of benefits, financing and administration

Source: Hollzman, Robert, Palacios, Robert, 2001:2)

7.1.1 Defined Benefits versus Defined Contributions

The typical case of *Defined Benefits* furnishes X% from the final wage according to the contribution paid during the number of years of service. As regards typical *Defined Contributions*,

⁵ Nicholas Barr also raised the issue of the likelihood of systems becoming confused for one another: “NDC reminds us that that Public+PAYG+DC is a possible option – in other words, PAYG does not automatically mean DB” (Barr, N. 2003:6).

earnings are the result of the accumulated contributions plus a profit resulted from the investment of these sums of money. The monthly rent that an individual receives upon retiring is calculated (in the ideal situation) according to the life expectancy rate upon reaching the age of retirement – by dividing the total sum to the number prescribed of months remaining. Many countries adopt this system and publicise, at regular intervals, tables containing life expectancy at various ages so that individuals may work out for themselves their potential pension and establish as a result the optimal age at which they will decide to retire from the labour market. Specialists argue that this pension computing method is intrinsically constraining and can have positive effects on the system's functioning without any hiccups, which prevents the State or other organisms from imposing fixed dates for people's retirement age.

Pensions based on defined contributions have a series of extremely attractive characteristics (Barr, Nicholas, 2003:6):

- Flexible retirement age – something that will incur positive effects on the individual's welfare because he/she can self-adjust his/her lifetime consumption according to current/projected needs;
- Flexible combinations between the length of service and the age of retirement thus further increasing individual choice;⁶
- Automatic adjustment to the life-expectancy rise;⁷
- Increased capacity to face risk and uncertainty.

Even if it is easy to distinguish between the polarity of ideal types, in practice it is much more difficult to differentiate between benefits awarding methods. “However, if we consider a DB system based on lifetime earnings (such as the German and the French point system) and compare it with an unfunded individual account system or ‘notional defined contribution’ (such as in Latvia, Poland and Sweden), the two kinds of benefit schedules are not very different at all.” (Hollzman, Robert, Palacios, Robert, 2001:2).

On the other hand, there are situations in which, inside the same pension scheme, both types of income can be encountered i.e. those pertaining to the defined benefits type as well as those relevant to defined contributions. Nicholas Barr recommends, for example, that the in-flux State scheme be separated into two elements: one component of the defined contribution type that can mimic the individual private funds scheme and another involving a element financed from the redistribution of the general taxation⁸ (Barr, N., 2003:2).

⁶ This characteristic remains valid in the case of other types of pension

⁷ this characteristic can also be compatible with other types of pension – altering the age at which the individual receives full pension rights according to his/her life expectancy. Yet, in the case of NDC pensions, adjustment policies are simpler.

⁸ The rationale of such a measure will be further analysed in the chapter dedicated to the role of the pension pillions II and III.

7.1.2 In-flux pension systems versus funds based ones

The distinction between the two types of schemes most used constitutes the fact that in the first case (i.e. the in-flux pensions systems), contributions are used to pay current pensioners (thus representing a form of inter-generation solidarity) while in the other case, the individual is in charge of “pre-financing” his future pension (that will be equal to current contributions plus the interest earned as a result of the money’s investment).

Even if the inter-generational solidarity-based distinction is frequently achieved (due to the fact that in the latter case, one generation is enough for survival i.e. by reaching the retirement age, enough funds would have been accumulated by then), it fails to make sense at a macro-social level. This is because “In the end, both schemes require a subsequent generation to fulfill the generational contract, either in the form of current contributions (in unfunded schemes) or through the purchase of accumulated assets (in funded schemes).” (Hollzman, Robert, Palacios, Robert, 2001:3). On the other hand, the decisions made by the next generation are essential to the real amounts that people reaching the retirement age have – inflationary processes, faulty management etc. being able to alter significantly their purchasing power.

PAYG pensions govern the insurance world because of the advantages they offered governments.⁹ The most important advantage is that benefits can be paid as soon as the system had been introduced. Conversely, in funds-based systems, there is a need for the following generation to enable the pensioners to receive their benefits in full. Moreover, PAYG schemes can redistribute resources much easier between generations. In OECD countries where those in government considered that people who have lived through difficult economic crisis like that of the 20s and 30s or, the WW2 had their needs better served by the younger generations via an in-flux system. Finally, it is worth mentioning how easily such a system functions when the population is young and growing.

7.1.3 Public management schemes versus privately coordinated schemes

Much like in the two cases mentioned before, differentiation is easily achievable for cases where there is a clear polarity. At one extreme, you could imagine a sole administrative system that collects due contributions, administers accounts etc. At the other extreme, competing private financial institutions undertake tasks while the individual consumer decides which one of those is fit to administer its funds.

In reality, most systems are in a continuum. For instance, the public sector may cede services such as accounting, pension distribution etc. Conversely, “the function of the private sector in a funded system can be reduced to asset management since contribution collection, filing, and benefit disbursement may be done by clearinghouses (such as in Mexico and Sweden)” (Hollzman, Robert, Palacios, Robert, 2001:3).

The World Bank recommends a pension system based on three pillars:
Pillion 1 – a compulsory in-flux PAYG system publicly managed, conceived in order that it furnishes a basic income for elderly persons.
Pillion 2 – a compulsory individual accounts system, privately managed.

⁹ According to “Transition, Paying a shift from pay-as-you-go financing to funded pensions, p.2

Pillion 3 – a voluntary system (also financed and managed privately) to ensure savings and insurances

If we only analyse the PAYG public scheme (pillion 1), we can classify systems into three categories, according to the role in-flux pensions play in the overall pension system structure:

Enhanced role for the PAYG scheme – the PAYG scheme dominates pensioner's income distribution thus leaving an extremely reduce role for private pensions to play;

PAYG scheme plays a medium role – the PAYG scheme has a relatively high coverage yet, it provides only an average pension income (say, 40% of the average earnings). Countries fitting this category increase the probability for the individual investing in the private system too. This system is encountered in the majority of Anglo-Saxon countries including, Holland and Switzerland.

A minimal role played by the PAYG scheme – usually financed exclusively from the Budget and conceived to reduce the plight of persons that are not covered by private pensions' schemes. This type can be encountered in the Australian public schemes and the ones from Chile (Chand, Sheetal, Jaeger, Albert, 1995:5).

7.2 PRIVATE PENSIONS – MEASURES FOR THE INDIVIDUAL'S PROTECTION

When it is assumed that private pensions have certain limits, we implicitly pose the question of whether certain rules ought to be instated on the pension system or whether it is better if these types of pension are left to their own devices leaving it to the market mechanisms to distinguish between companies offering efficient services, better adapted to the environment.

Constraints and opportunities must be conceived differently for developed countries as opposed to those currently undergoing development (Portfolio Limits – Pension Investment Restrictions Compromise Fund Performance). The rationale for such a recommendation being made is that in countries that have only recently introduced compulsory private systems, consumers have little or no experience to invest. "Many citizens had little, if any contact with financial services and providers before the pension reform. In addition, financial services industries were rarely well developed. The lack of experience of investment—in particular, of managing risk—might lead to poor portfolio decisions." (Portfolio Limits: 1).

Such a situation necessitates rules for restraining the types of advice given vis-à-vis the way in which portfolios are invested, for the way in which portfolios are presented, administered etc. In countries that have well developed capital markets as well as a population with experience in terms of investing, the need for such rules is limited.

Yet, if pension systems are classified according to the compulsory or voluntary nature of the insurance/contribution then it is self-evident that where voluntary schemes are involved, the government may assume less responsibility than if a compulsory pension system applies.

7.2.1 Private pensions types of taxation

Measuring and computing the taxes that each individual must pay for his/her pension (whether voluntary or not) is an extremely difficult endeavour in situations when these are of different types – fixed, proportional – depending on the contributions made, of the value of the fund or, of the size of the investment etc. Moreover, with time, taxes interact in different ways, which makes it even more difficult for the citizen to find his/her way to the best possible solution (due to the virtual impossibility of comparing providers). Consequently, the first rule is that the Government requests that private pension providers present their funds/benefits in a standard format.

The required tax system (according to contributions made or the final value of the account) is given by the time frame the system allows. Contribution taxes can be advantageous as they generate a much quicker return so that investors can recuperate their money faster; indirectly, such a system encourages competition as more companies are tempted to enter the market. Conversely, taxes on the value of the account (i.e. contributions plus the profit) encourage investors to maximise its value hence invest better (Administrative charges – options and arguments for controlling fees for funded pensions: 6, 7)

Time profile of different charges

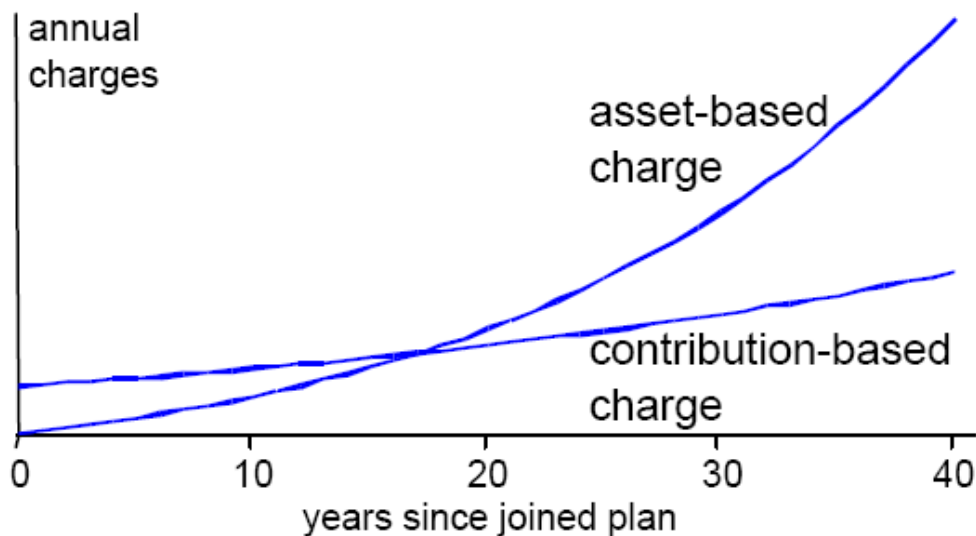


Figure 7 The profile of various payment forms of companies providing private pensions

Setting a price ceiling on the tax value is yet another potential raw nerve. Research shows that this is not necessarily a very efficient measure since the Government can be wrong when setting the ceiling – a too high a ceiling is useless while one that is too low is too harsh meaning that it would not cover expenses hence lacking attractiveness and competition. What seems to be a better option is the sheer price competition (Administrative charges – options and arguments for controlling fees for funded pensions).

7.2.2 Portfolio constraints

Other possible constraints are those concerning the types of investments allowed due to the possibility that the investors' money may be lost due to poor or, too high a risk placement. In such a situation, the State ought to be the one awarding compensatory payments (under different guises – guaranteed minimum income, state pensions etc.).

The two big investment types that can be delivered by a company providing pension services are the purchasing of shares or, State bonds. Certain countries set a limit on the shares that can be purchased in companies agreed in advance. The first incentive is offered by the high degree of risk that buying shares implies and the fact that the State cannot control the situation. Conversely, buying shares eases the transition from a PAYG system to a private one. “During this transition, workers’ pension contributions are partly diverted into their own pension accounts, meaning another source of revenues is needed to pay for existing public payas- you-go pension liabilities.” (Portfolio Limits, p.2)

Regardless whether shares are limited or not, countries may introduce constraints on the sums invested in other countries. If we look at foreign investments abroad, on the right hand side of the graph, constraints for Latin American countries are greater than those placed on the OECD countries. “Four of the Latin American countries allow foreign investments, ranging from a 5 per cent maximum share in Peru to 12 per cent in Chile. Finally, maximum investments in public bonds are also common in Latin America. The reasoning seems to be a mix of requiring funds to diversify and preventing future governments from appropriating pension funds to finance deficit spending.” (Portfolio Limits, p.3).

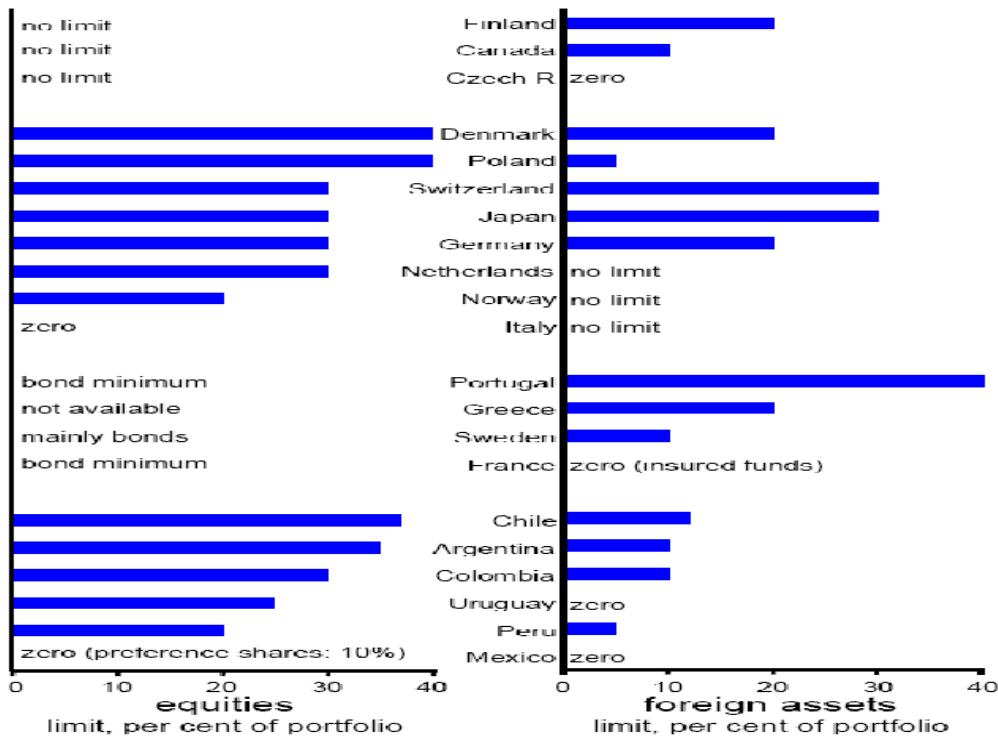


Figure 8 Pension funds portfolio limits

Even if, for certain countries there exists a possibility of buying shares and/or invest abroad, generally, shares are bought at a lower percentage than initially agreed. The following graph shows the difference between the upper threshold and the real part shares play in the pensions portfolio. In Denmark, Germany and Switzerland, for example, shares' investment is 20% smaller that the upper limit permitted.

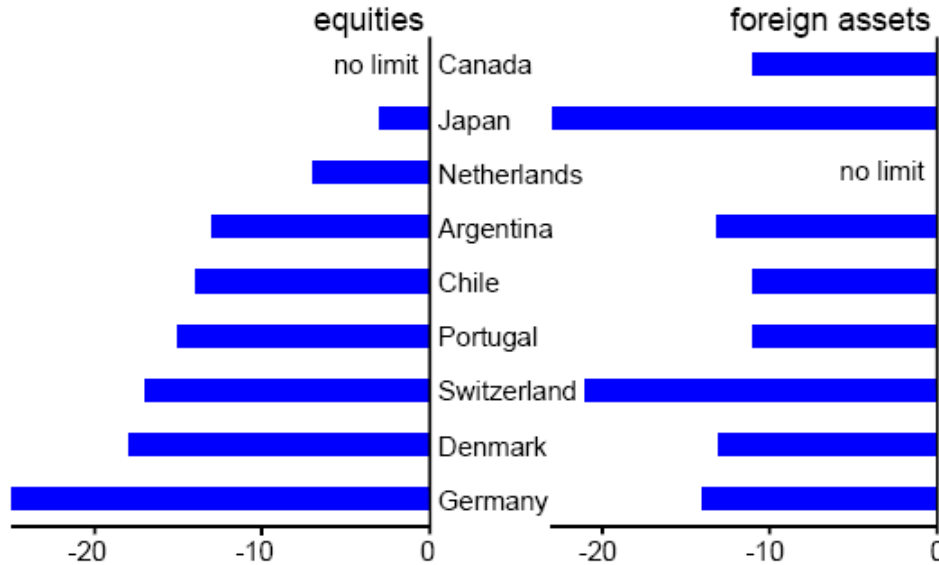


Figure 9 Portfolio relative to admitted limit, per cent of total assets

“The most convincing explanation is that fund managers in continental European countries are innately conservative. Equity holdings are generally lower than statutory limits and than in other countries (Figure 5). In English-speaking countries, such as Australia, Ireland, the United Kingdom and the United States, pension funds hold 40-80 per cent of their assets in equities. In Austria, France, Germany, Italy, Spain, Switzerland and others, the share is typically 10 per cent or so. These countries lack what is often termed an ‘equity culture’.” (Portfolio Limits, p.5)

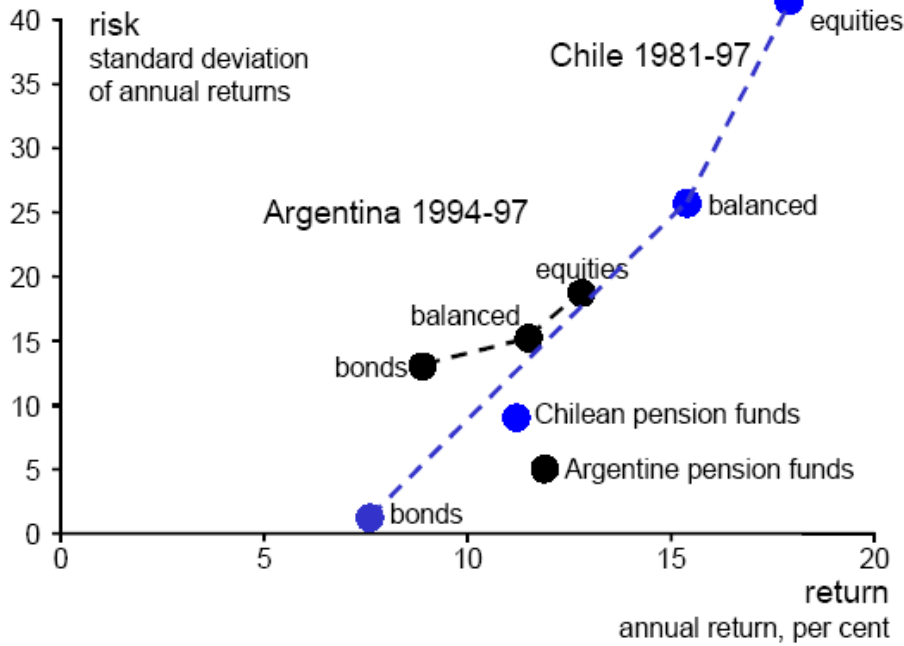


Figure 10 The risk-return trade-off

The figure above shows that shares generated a higher profit than bonds have and this with a rather small risk increase. Consequently, limiting the portfolio can have much higher costs in terms of benefits for pension system members.

Obviously, all these recommendations must be place in context. There is research undertaken that suggests that governments can and ought to reduce private pensions risks by imposing a regulatory framework and supervising institutions that should be quite strict, initially. A situation might be reached when the government should take responsibility for offering index-linked bonds to ensure wholly the private funds' viability (Holzmann, Robert, 1999:9).

7.3 PROJECTS FOR INTRODUCING ALTERNATIVE PENSION SYSTEMS IN ROMANIA

Supplementary pensions together with the privately administered occupational pensions (pillions II and III) have yet to be introduced as the White papers for the same are being considered by the Parliament.

What has to be mentioned though is that these types of pensions will be accessible only to those who have time to capitalise significant funds for this purpose and especially to those earning a significant amount while there is hardly any solution for the current pensioners nor is it for those intending to retire in the next few years or, for currently insured earning small wages.

We shall analyse hereafter, the current White Paper proposals for the privately administered compulsory and occupational pensions with an optional character for employees.

7.3.1 White Paper on the Privately Administered Compulsory Pension Funds

12.11.2003

The White Paper regulates the privately administered compulsory pension funds establishment, organisation and functioning, the prerogatives of the **Commission for Supervising Insurances** and sets the guarantees awarded to participants to these funds.

There exists a series of key elements that ought to be mentioned in order that the project's options are better understood:

- Establishing an Insured Supervisory Commission (ISC) that sets out as its objective to protect the interests of all the participants to and the beneficiaries of this type of pensions thus controlling the activity of all those involved in the field of compulsory pensions. Consequently, the ISC's prerogatives are as follows: awarding, suspending or, withdrawing pronouncements, authorisations or, licences concerning funds, administrators, depositors and independent auditors, administering the Warranty Fund, establishing the methodology for computing the fund's profitability indexes, informing participants about the system, issuing norms etc. The ISC administers the Warranty Fund that guarantees the rights of participants/beneficiaries and pays these rights until payment by the administrator is re-commenced in order that it would thus recuperate the amount spent. The Warranty Fund is made up of the administrator's subscription fees and the profit resulting from these amounts being invested.

- The Fund must have a number of at least 50000 participants within three days.

The assets can be invested in:	The maximum ceiling, % from the value of the funds assets
Bank or credit accounts at an institution authorised by the NBR to operate within the Romanian territory and that are not under supervision or special administration and whose authorisation had not been suspended;	20
Bonds and credit tiles issued by the Ministry of Public Finances and bonds issued by the NBR;	70
Bonds issue by the Romanian local public administration authorities;	20
Bonds listed on a market regulated by the NCA;	50
Bonds issued by commercial societies registered in Romania that are listed on a market regulated by virtue of a CSA rating in consultation with the NCA;	50
State bonds issued by foreign governments with an international rating as well as bonds issued by foreign issuing authorities listed on a foreign market and accepted by the CSA and the NCA, with all currency regulations issued by the NBR being observed	20
Other forms of investment covered by the CSA norms	

- Persons whose age is up to and including 35 who, for the first time become insured with compulsory insurance, are forced to contribute to the privately administered compulsory pension

funds. For people of up to the age of 35 who are already insured, the privately administered compulsory pension fund is optional.

- Any individual may move from one fund to the next by giving prior notification, 30 days in advance. The assets transfer will include the sum that is in the account since the last evaluation date, diminished by the commission and the penalty for the transfer should that be the case.

- Contributions are paid by the employer or, by the persons assimilated to the employer as the case may be and they represent a part of the social insurance individual contribution owed to the public system, which is deduced from it. The base rate for calculating the contribution cannot be higher than five times the national monthly gross average. At the beginning, the contribution quantum is 2% of the computing rate, following that in the next ten years from the date the contribution had commenced, the contribution quota is increased by 8%, with an increase of 0.6% yearly, starting with the 1st of January of each year.

- The administrator's minimum social capital represents the equivalent in ROL of the 20 million Euros amount, which is integrally deposited at the time of its constitution and cannot come from sums borrowed or made available under any form or title by other physical and legal persons. To administer a fund, the administrator fixes commissions that are the same for all participants. Their alteration has to be communicated to participants with at least 6 months before they are being applied.

- The administrator is obliged to constitute a reserve fund from its own resources from the start date of the collection activity that must have a prudential level to cover:

- a) Compulsory payments in pay and those foreseeable medium-term;
- b) The obligations to increase these rights;
- c) Adjusting the profitability rate to the standardised level;
- d) The difference between the sum to which the participant is entitled to and his/her personal assets in the case of transferring them into another compulsory pension fund.

- The individual's personal assets can be used only for the payment of a compulsory pension. Only beneficiaries who do not have the quality of participants, those pensioned for being disabled and those persons whose personal assets at the date of withdrawal is too low to entitle them to a compulsory pension make exception to this rule. In such cases, people receive a one-off payment within 30 days from the date they were assigned to any one of those situations mentioned before.

- The individual may choose between a compulsory pension of his own and a compulsory pension with a legacy component (which is paid even after the death of the participant – the husband or, the wife's) while the compulsory pension quantum is set according to the participant's age, the age of the surviving husband/wife or the designated beneficiaries (if any) and the amount deposited in the participant's account.

7.3.2 The White Paper on Occupational Pensions

The White Paper sets the principles underpinning the optional schemes for occupational pensions, those for the administrator’s organisation and functioning as well as those for co-ordinating the activities of other entities involved in this area of expertise, such as:

- The right to propose optional schemes for occupational pensions belongs to the employer or to the syndicate as set out in the collective work contract at unit level, groups of units or branch.
- Employers, economic agents that keep track of unpaid budgetary contributions as well as public institutions regardless of their financing system of subordination cannot contribute to optional schemes for occupational pensions.
- The contribution to an occupational pension fund is paid alongside compulsory social insurance contributions; their level can be as high as 200 Euro from the yearly wage, according to the annual taxation settlement procedure.
- The occupational pension participant’s contribution is deduced from the gross income earnings further to the deductions for social insurance contributions legally owed.
- The employer’s costs for the contributions owed in lieu of the occupational pension fund of up to and including the amount of 200 Euro per year for each participant are deductible upon calculating taxable profit.
- Participants can, at any moment in time, modify, suspend or cease paying contributions to an optional occupational pension scheme without incurring any sanctions or losing their rights according to the optional occupational scheme’s rules and regulations.
- Any occupational pension fund must have a minimum of 100 participants.
- The minimum social capital required to undertake occupational pension fund administrative activities constitutes the equivalent in ROL calculated at the NBR’s exchange rate at the date of its constitution of the sum of 10 million Euro.

The assets can be invested in:	maximum ceiling, % of the value of the funds assets
Financial market instruments, including bank accounts and deposits at the National Bank of Romania (NBR) authorised banks that are not subject to special supervision and whose authorisation has not been suspended	20
Titles issued by the Ministry of Public Finances	70
Bonds and other assets issued by the Romanian local public administration authorities	20
Assets traded on a market regulated and supervised by the National Commission for	50

Assets (NCA)	
Bonds and other assets issued by other states that fulfil NCA requirements	10
Bonds and other assets issued by non-governmental foreign organisations, if such instruments quoted at authorised bond markets fulfil rating and other NCA requirements	10
Participant titles issued by organisations dealing in asset placement in Romania or in other countries fulfilling rating and other NCA requirements	5
Other investment forms fulfilling NCA requirements involving the maximum percentages of assets that can be invested in such ways	

- The administrator’s income comes from its basic activity and is constituted from the charges perceived:
 - a) Via deducing a percentage of the contributions paid that is not larger than 5% on condition that the deduction be made before converting the contributions made into account units;
 - b) Via deducing a percentage from the profit thus made from investing the fund’s assets into occupational pensions.
- The Commission establishes the computation method for paying and calculating charges:

Art. 71

- (1) Personal assets may only be used to obtain an occupational pension annuity.
- (2) The right to an occupational pension becomes valid upon the participant’s request and with the following conditions being fulfilled cumulatively:
 - (a) the retirement age mentioned in the Law no. 19/2000 concerning Public Pensions and other Social Insurance Benefits with subsequent alterations and additions;
 - (b) if at least 60 monthly contributions have been paid;
 - (c) the personal assets portfolio is at least equal to the amount needed to obtain the minimum occupational pension as mentioned in the Commission’s norms.
- (3) In cases of permanent disability, the participant may benefit of his personal assets without fulfilling the provisions mentioned at paragraph (2), letter (a).

Art. 72 – Exception to the provisions of art. 71 make the situations in which:

- (a) the participant fails to fulfil one of the conditions mentioned at art. 71, paragraph (2) in which case he/she receives the sum that is in the account as a single payment or, in rates over a period of maximum 5 years, at his/her own choice;

- (b) the participant is an invalid, in which case his/her right to an occupational pension is brought into being in the terms and conditions established by the Commission;
- (c) the participant's death occurred before the request for an occupational pension was registered, in which case the sum in the account is paid to beneficiaries according to the conditions and the quantum established by the adherence pact and the succession documents;
- (d) the participant's death occurred after his/her right to an occupational pension was brought into being and he/she chose an occupational type of pension with legacy clauses, in which case the amount due is paid to the person named.

8. THE IMPACT OF INTEGRATING THE ROMANIAN PENSION SYSTEM IN EUROPE

8.1 Measures adopted by EU countries attempting to resolve outstanding issues in the member countries' pension systems and their impact on Romania in view of it joining the Union in the near future

Romania's pension system's current reform must take into consideration the options, tendencies and the EU legislation into which it wants to integrate.

EU countries are facing difficulties with regard to their own pension systems – difficulties arising from a host of common economic and social factors examined in the first chapter, which lead to medium-term common measures proposed and drafted by various work groups that analyse pensions in the EU.

Knowing the pension reform solutions adopted by the EU countries is important due to the need for becoming aligned to what is likely to become a single trend as much as it represents a viable solution for the problems facing all former communist countries in Eastern Europe.

Reform proposals such as increasing the degree of workforce occupation to increase the sustainability of the national pension system includes plans for attracting workforce from abroad, hardening conditions for anticipated retirement, equalling the age of retirement between men and women and increasing it to 65 by 2020, increasing the rate of occupation for the elderly population and its motivation to delaying retirement (by obtaining increased benefits via increasing the length of service) will constitute criteria for Romania's integration in the EU (see henceforth the common reform measures adopted by the EU, after the 2000 Lisbon summit).

Analysing the Romanian pensions system in view of its EU admission request, the EU Commission underlined the problems that need to be addressed to make the system compatible with the rest of the Union:

- the reduced contribution collection rate;
- the system's financial crisis;
- the small percentage of the GDP allocated for social insurance;
- the system generated inequalities;
- the limited system capacity to co-ordinate with the rest of the EU social assistance systems;
- the new Pension law allows the partial transfer of rights and benefits from Romania's territory to the territories of other states with which Romania has signed such agreements;
- the need to strengthen and develop the administrative capacity of institutions operating in this area of expertise.

At the 2000 Lisbon meeting, the Council of Europe decided to mandate a commission that could undertake a research study on the sustainability of the EU member countries pensions systems and propose solutions that could address existing imbalances (the Lisbon strategy).

A series of short-term (2010) or long-term (2050) measures have thus been adopted vis-à-vis the following strategic issues:

1. offering adequate pensions:

- ensuring a decent standard of living for retired persons;
- promoting inter-generations solidarity;
- ensuring people's access to the public or private pension systems.

2. ensuring the system's financial sustainability

- it is estimated that pensions public expenditure will grow with between 3-5% of the GDP in most EU countries between 2000 and 2050 (15-20% din PIB by 2030). Hence, the following measures have been proposed to ensure the system's sustainability:

- economic growth;
- increasing the workforce's rate of occupation:
 - for an economic growth averaging 3% of the GDP, the standard employment rate must reach 70% of the male active population by 2010 (60% for women) and up to 83% by 2045 – if the workforce occupation rate will increase by 2010 according to this Strategy, the growth in the public pensions expenditure is estimated to be reduced by up to a third by 2050;
- increasing the occupation rate for the population aged 55 to 64 from 38,5% to 50% by 2010 (delaying retirement);
- attracting qualified personnel from countries undergoing development or, underdeveloped;
- motivating women to enter and re-enter the labour market after breaks;
- making the system more flexible to allow women to work while caring for their children (attempting to stimulate fertility);
- recognising maternity leave work-break period as part of the length of service (2-3 years);
- increasing retirement age by just one year will absorb approximately 20% of the average increase in pension expenditure forecasted by 2050;
- hardening conditions for anticipated retirement;
- increasing retirement age with 5 years by 2010;
- equalling retirement age for men and women to 65 by 2020;

- creating reserve funds to prepare for the baby-boom generation's retirement;
- increasing opportunities for supplementary pension entitlement, thus reducing the pressure put on the public system;
- finding other financial resources to fund the public pension system such as, the Eco-taxes;
- giving citizens assurances that prolonged rate payment into the system will lead to greater benefits (so that the elderly population retirement date is postponed);

3. modernising the pension systems to answer ever-changing needs

- improving the pillion II system to enhance coverage for the mobile workers from a workplace as much as a territorial point of view.

Source: Adequate and sustainable pensions, Lisbon, 2000, www.eu.int.org

8.2 EU common regulations on transferring pension benefits between member states

On the other hand, Romania must consider EU common regulations concerning the transfer of benefits between member states with regard to pensions – regulations that will have to be aligned at the time the accession takes place.

This need to adopt common regulations concerning age-limit retirement pensions stems from the worker's freedom of movement right. Thus, such common regulations agreed between member states concerning social protection rights for the upwardly mobile insures the citizen of any of the EU countries working in any one or more of the EU countries but his own that, at the moment in time when he/she decides to retire into pension, he/she will benefit from the services and indemnities that will ensure a decent life in retirement.

After protracted discussions on the differences and similarities existing between the insurance system's characteristics, the idea of harmonisation gained ground EU-wide. The European Community concluded that each state could preserve its own social security system while social rights may circulate freely around the Common Market.

One of the regulations adopted is that of the Workplace Law (*Lex Locis Laboris*). This is applied to workers working for their entire working life in one country who decide to leave to another country upon reaching retirement age. The financial benefits are provided by the country in which he/she worked while services in kind will be received from the country of residence (the money for the payment of such services being transferred from the country where insurance was paid).

Supplementary pension raises certain problems in the sense that there exist certain countries – such as Germany, for example – where certain companies offered supplementary pensions after a number of X years to ensure that the commitment of its workers was unwavering. Via the 1998 directive, it was established that, at Community level, workers who leave, could keep their entitlement to a supplementary pension.

One of the problems discussed at EU level is that of *establishing the 16th system of pensions*, which can, on the one hand, reduce the benefits equity transfer problem while, on the

other, represent a danger for the national systems facing financial difficulties due to the ageing population in that contributors are leaving them.

The EU Regulation number 1408/71 is the main instrument regulating member states' social security system's co-ordination via the following provisions:

a) Vis-à-vis pensions for limit of age, disability or, legacies:

1. Any person that has been insured in one or more systems receives a pension from each state.
2. Any one person cannot contribute at the same time in two national systems for the same type of pension.
3. Pensions will be paid to employees or their successors if they reside in one of the EU states.
4. When the beneficiary resides outside the country providing the said benefit, the said pension takes the form of a pro-rata pension which is smaller than what is actually paid to residents of the country where the benefit was paid.
5. For those who are not citizens of a country yet contribute to that country's insurance system, the same rules as for the rest of that country's citizens apply. With regard to the length of contribution, the failure to meet the full retirement age length of service in one country may be achieved by contributing an X number of years in another EU country (the X number is set by the providing state).
6. The size of the pension corresponds to the length of the contribution.
7. Certain benefits such as, Child or Disability Benefit is not paid if the said person resides in another country than that providing the benefit.

b) Benefits destined for children and their upkeep are paid to the family members of a person employed in an EU member state according to the employing country's legislation even if the family entitled lives in another country.

c) The country where the unemployed is seeking work yet pays unemployment Benefits for a period of three months, according to the legislation of the country the said job seeker has left and the country of origin supports the expense thus incurred. After seeking a workplace in another EU country for a maximum of three months, the unemployed must return to the country of origin to continue receiving benefit there.

At the same time, the European social security code establishes via a set of rules and regulations the conditions underpinning the member states' pension systems:

- Retirement age must not be over 65. The parties may set a higher age limit if the number of residents of the same age is not smaller than 10% from the total number of residents under that age (yet, over the age of 15).
- The average contribution period is 30 years.

- The pension must replace at least 40% from the beneficiary's prior earnings (from the time he/she was in active service).
- The beneficiary may continue to work even after the retirement age was reached.

9. CONCLUSIONS AND RECOMMENDATIONS

9.1 Recommendations concerning balancing and reducing current problems facing the public system

1.1 The urgent need for drafting a medium- and long-term strategy concerning the elderly persons, the main component of which is the pensions insurance system.

1.2 An electronic population database. There appears to be a need for an updated electronic database of all the pensioners in Romania and all the relevant data. Such a database would partially eliminate frauds, as it would be linked to other electronic information that would allow checks to be made, statistical analyses etc. Obviously, access to such data must be restricted so that it does not compromise the protection of information.

1.3 The monitoring, analysis and policy system in the area of pensions. With the support offered by such a database backed up by other information provided by the National Institute for Statistics, there could be built a monitoring system that could offer indicators needed for undertaking various analyses as much as for drafting pension policies, monitoring and adjusting them accordingly during the implementation phase.

Potentially crucial indicators for this monitoring system are the following:

Examples of Entry Indicators:

- 1) the number of employees contributing to the system (categories)
- 2) the average monthly and yearly income
- 3) the rate of collection
- 4) institutions that failed to pay due contributions and arrears
- 5) the average life expectancy at birth, at the real retirement age, at the potential retirement age, on gender etc.
- 6) forecasts on the population evolution and dependency ratios within the population (population pyramids, population evolution models etc.)

Examples of exiting indicators:

- 1) the number of pensioners (according to categories of age, gender, year of retirement, economic area, occupation etc.)
- 2) the statutory age of retirement
- 3) the average real age of retirement (according to gender, economic branches, areas/counties etc.)
- 4) employee cohorts and their participation on the labour market
- 5) data concerning internal and external migration (immigration and emigration)

1.4 Parametric measures (improving entering and exiting the system indicators)

i. the “entry” component:

1.4.1 Increasing the number of contributors to the system

a) increasing the number of employees with legal contracts via active policy making, investing, maintaining the minimum wage to its lowest level;

b) Increasing the number of contributors via attracting people who either work in the agricultural sector or, people working as free professionals. The compulsory nature of each young (under the age of 40, for instance) land owner paying a contribution for each hectare of land that he owns under the guise of a supplementary tax will ensure an increase in the pension insurance coverage and a reduction of those going without any pension for many years to come.

c) For Romanians leaving to work abroad with proper work contracts, it ought to be that they either pay contributions to the systems in the countries of destination (for EU countries, pension rights can be transferred later) or, they pay directly to the Romanian pension system (for countries where such pension agreements do not exist). The increasingly large numbers of workers working abroad constitute a great danger to as well as a potential resource for the pension system.

d) Promoting the principle of active ageing and finding (other than by increasing the number of pension points) ways of stimulating the desire to keep working for people who have reached retirement age. Women ought to be main target for such active policies of maintaining occupation.

1.4.2 The more the Romanian workforce migrates towards other countries and the economy gets a new lease of life (sustained economic growth will eventually have visible effects) the more that is needed a coherent *immigration policy, of selecting and encouraging immigration from certain areas* (with a certain degree of cultural, linguistic, religious compatibility etc.). Immigrants could thus become contributors to the pensions system, if they work legally.

1.4.3 Undoubtedly, a long-term *demographic policy based in particular, on stimulating an increase in the rate of birth* will be needed to ensure the future contributors to the system are there.

1.4.4 An increase in the collection rate is needed, as this will surely improve with the continuation of the privatisation process and through an increase in the financial discipline.

1.4.5 Increasing contributions to the Insurance Fund (31.5%, 36.5% and 41.5% respectively) cannot be done, as it would even need reducing to lessen the fiscal burden.

ii. the “exit” component:

1.4.6 Reducing the number of pensioners (and, implicitly, the dependency rate) through:

– **Increasing the average real retirement age**, which is currently only approximately 52 years. Romania cannot afford to have so many young pensioners;

– Making retirement age the same for men and women (a compulsory condition in the EU – see the area of recommendations for accession);

– Renouncing anticipated retirements (on the one hand, inequitable for they are guaranteed universally to those who find themselves in a situation requiring it while on the other hand, they are expendable through periods of unemployment and the awarding of the Guaranteed Minimum Income (GMI) until retirement;

– Reducing fraudulent retirements (especially for disabilities). This alarming increase, especially in certain areas and by certain commissions, ought to be stopped. An analysis of the causes and the periods of massive growth in the number of disabled pensioners per commissions would be most relevant. Also, periodic changes of the people forming these commissions and a re-examination of all suspect cases would be most beneficial. Moreover, it would be necessary to define in a more clear fashion the situations when a person can be declared disabled.

1.5 Increasing the equity of the system and reducing the number of truly revolting pension amounts (especially those that are too large) through the re-calculation of pensions awarded before the 1st of April 2001. This process ought to start with those whose pensions are the most in each county and then continued until the new computing method is fully introduced.

1.6 Reducing the pension system's administration costs. An analysis of the administration costs is long overdue. For instance, pension distribution at the beneficiaries' place of residence could be replaced, for mobile pensioners as well as for those living in places where cash points exist with pension debit cards. Yet, the administration costs analysis ought to be complex and thoroughly reasoned.

OTHER RECOMMENDATIONS

1.8 The ration between *minimum pensions, the Guaranteed Minimum Income (GMI), Unemployment Benefit and the minimum wage* must be properly thought through and harmonised. Thus, it is not normal for smaller pensions than the GMI to exist. Moreover, the minimum pension ought to be smaller than Unemployment Benefit or, the Minimum Wage in order that retirement pressures are eased.

1.9 Introducing a *social pension* (small enough yet, bigger than the GMI) for all those who fulfil the minimum length of service such as, for people working in the agricultural sector, the free professionals etc. which would solve many of the problems underscoring the pension system. This minimal (social) pension (Pms) ought to be bigger than the GMI so as to motivate people working in the agricultural sector and the free professionals to become insured. If the Pms were to be higher than Unemployment Benefit, those whose age nears retirement would chose the latter hence burden the Pension Fund while relieving the Unemployment Fund.

9.2 Recommendations concerning the introduction of privately administered pensions

1. Regardless of the type of reform and the solutions chosen, the premise that we ought to consider is that every form of redressing the system implies high costs that are wholly met by the population. Consequently, the first thing that must be done is to **inform people vis-à-**

vis the need for reform and its peculiarities. The lack of correct information on costs and the need to pay these costs can have an adverse effect and could even put a break on reform.

2. Private pensions' reform should no longer be delayed. Any delay of this reform will represent an extra burden on future generations (that will have smaller pensions, higher taxes etc.). Models show that the PAYG system reform may represent a solution for fiscal equilibrium only for a period of about ten years.

3. Bearing in mind problems encountered both in the case of mono-pillion PAYG systems as much as systems based entirely on private funds the best reform solution available apparently is a many-sided pillion that would have both systems advantages. The main advantage resides in the fact that risk is "diversified". As in the case of entirely private pensions, there is capital markets fluctuation and even a bankruptcy risk hanging over companies offering social insurance services yet, private pensions represent but part of a much larger system where the individual reduces the degree of uncertainty by investing his/her money in "several baskets".

4. In Romania, consumers have little if any experience to invest. Experiments such as Caritas or, the FNI showed many individuals ready to risk everything without considering the consequences of such a risk being undertaken. On the other hand, the financial services industry is yet undeveloped as the lack of experience can lead to inadequate decisions as concerns the portfolio. Due to the lack of individual's experience (that fail to behave as rational actors in a perfect market) as much as the capital market's immaturity, the provider's constraints mechanisms must be very strong and their inspection system also.

5. In the same vein of helping the individual get used to the financial services market in the sense of making rational choices, it must be that taxes and benefits are presented in a standard format by all pension providers. Certain taxes are fixed, other proportional, some depend on contributions, others on the value of the fund etc. notwithstanding the fact that they interact differently with time all of which makes their comparison very difficult indeed.

6. In the likelihood of private pensions being introduced, the increase in their value must not be sluggish, for a whole host of reasons. Firstly, if the value of the contributions is small – notwithstanding their recent establishment – the fund's solidity will be reduced. This means that, on the one hand, system administration costs may presuppose that only a small proportion of the sums reaches individual accounts while the fund's managers must withstand heavy losses for a lengthy period of time before equilibrium is reached. This could limit the number of those entering the funds management market thus restricting competition and individual choice. On the other hand, governments could give up policies of increasing private account contributions.

9.3 Recommendations concerning the reforms needed for European accession

Taking into account Romania's European Union accession perspectives, the Romanian pension system's current reform must consider the member states pension system's variation tendencies and their current corresponding legislation as well as the EU regulations concerning social insurance benefits' inter-state movements.

Taking member states' reform objectives into consideration as they have been adopted following the Lisbon round of discussions, Romania needs to consider the following short-term changes:

1. Balancing the state pensions' insurance budget financially via:

- Sustained economic growth;
- Increasing the workforce's rate of occupation [EU states have undertaken to achieve a 70% employment rate for men and 60% for women (from the work able population's total) by 2010 and 83% by 2045 – figures calculated for a 3% from the GDP economic growth];
- Increasing by 2010 the elderly (aged 55-64) population's rate of occupation (via delaying retirement);
- Attracting labour force from countries undergoing development;
- Motivating women to enter (or re-enter, in the case of interruptions) the labour market;
- Making the system more flexible to enable women to work while raising their children (stimulating fertility rate increases);
- Recognising as length of service the years when work was interrupted for raising children (2-3 years);
- Making anticipated retirement ever more difficult to achieve;
- Increasing retirement age with 5 years by 2010;
- Making retirement age (65) equal for both men and women by 2020;

As the nowadays pension law states, the retirement age will be 60 for women and 65 for men by the end of 2014. So, it is impossible to raise the retirement age for women up to 65 during the next 6 years. Thus, there is the need to make an amendment to the law and to start raising the age from now on, or to ask for a period of at least 5 years, period in which the retirement age for women to be optional between 60 and 65.

- Increasing opportunities for obtaining supplementary pension thus reducing the amount of pressure put on the public system;
- Finding alternative financial resources for the public pension system;
- Stimulating staying in the labour market for the elderly population via ensuring that a lengthier period of contributing to the system will bring increased benefits or, in other words, strengthening the relationship between the size of the contribution and that of the benefits.

2. The private pensions' system must take into account covering mobile (from a territorial as well as a workplace point of view) workers;

3. Insuring a decent standard of living for pensioners;

4. Promoting inter-generations' solidarity (between active and retired persons);

5. Increasing the public/private pensions coverage rate for individuals;

6. Adopting EU regulations concerning benefit transfer between member states.

2. ANNEXES

	PILLION I
1921	<p>1. The Neniescu Law, in the old kingdom</p> <ul style="list-style-type: none"> The principle of compulsory insurance for accidents, illness, maternity, old-age, disability – introduced for the first time in the country for corporate employees; Age limit contributions – paid in equal part by the employee, the employer and the state. Age limit – 65; maximum contribution period – 23 years. <p>2. The Maghiar Law, in Transylvania</p> <p>3. The Austrian Law, in Bucovina</p>
1933	<p>The Ioanitescu Law</p> <ul style="list-style-type: none"> Unified the system The management of the system belongs to the state and the employers. Individuals working in agriculture still excluded No age-limit pension Unemployment Benefit not included among benefits.
1938	<ul style="list-style-type: none"> Age-limit pension is re-introduced
1949 Law 10	<ul style="list-style-type: none"> The onset of the Communist regime All public and private funds are included in the State budget Fund expenses focused on providing pensions (age-limit, disability, legacy) Other benefits (in case of illness, death, maternity) The age-limit pension quantum – 50-80% of the wage.
1954	<ul style="list-style-type: none"> Anticipated retirement incentives introduced Increasing the indemnity for those working in dangerous working conditions. The computing basis used – the gross average monthly earnings during the previous 12 months, with a certain ceiling put on it. Contributions paid by employers, all of whom are state units.
1959	<ul style="list-style-type: none"> House wives and individuals working in agriculture included. Employment becomes compulsory and so does the employer's contribution → Very high social insurance coverage High employment rate → High contribution collection rate Social protection offered exclusively to employees and those assimilated.
1968-72	<ul style="list-style-type: none"> High expenditure for the fund → the diminution of the pension quantum
The 1977 Law	<ul style="list-style-type: none"> The length of service needed increases by 5 years → 25 years for women and 30 for men

	<ul style="list-style-type: none"> • Severe reduction in the disabled pensions' benefits • The introduction of the pension for Collective Farms' members and for individuals not part of the CFs. • Collective Farms' members: <ul style="list-style-type: none"> ○ Disadvantaged for the length of service is calculated on the number of norms accumulated rather than the length of employment. Smaller benefits. ○ The agriculture working individuals' insurance fund is financed via the Collective Farms' contributions (8% from the gl production value); in the agricultural sector, ○ the age of retirement is 65 for men and 60 for women • Separate insurance systems for domestic co-operatives, cults, lawyers, artisans' Confederations, the military and the police. • System contributions –14% of the employer's wage fund, the employees – 2% for Supplementary pension fund (between 1986-1 the percentage becomes 3%). • For full pension rights, the legal retirement age is 57 (55 upon request) for women and 62 (60 upon request) for men, • The length of service required being 25 years for women and 30 for men; • For difficult working conditions – length of service benefits i.e. reduction in the age of retirement.
1990-2000	<ul style="list-style-type: none"> • Until 2000, the following eligibility criteria were in force (based on the 1977 Law): • Age of retirement, for full pension rights – 62 for men and 57 for women; • length of service – minimum 30 years for men 25 for women; • if the length of service criteria was fulfilled, retirement could even be done at the age of 60 for men and 55 for women. • People with a length of service of at least 10-15 years who have reached retirement age have a right to a pension calculated according to their respective length of service. • Special working groups benefit from certain privileges vis-à-vis anticipated retirement: <ul style="list-style-type: none"> ○ group I (extremely dangerous working conditions: mining) 20 years length of service – 52 years of age for men, 50 women; ○ group II (dangerous conditions: constructions) 25 years length of service – 57 years of age for men, 52 for women. • Women with a length of service of 25 years and who have more than 3 children for whom they have interrupted work, may retire between 1-3 years earlier. • Supplementary pension is 5% of the employee's monthly wage; All pensions are not taxable.
Law 2/1995	<ul style="list-style-type: none"> • The period for anticipated retirement is raised from 2 to 5 years.
Law 19/2000	<ul style="list-style-type: none"> • Increasing the age of retirement to 60 for women and 65 for men; • Increasing the length of service – 30 for women and 35 for men; • Introducing a more stringent control in awarding disability pensions; • Anticipated retirement without penalties is allowed for increased contributions, of 40 for women and 45 for men. • The definition of dangerous work place is much more restrictive

	<ul style="list-style-type: none"> • Extending the group of beneficiaries (employees, free professionals, those employed with temporary agreements and the unemployed in the sense of universal coverage)
EGO 41/2000	<ul style="list-style-type: none"> • A new maximum value put on the pension point; Its value cannot be larger than 45% from the gross national average wage
EGO 49/2001	<ul style="list-style-type: none"> • Work on sea platforms qualifies for special working conditions • The time when a person received disability pension is not considered when determining the period of contribution needed to qualify for anticipated retirement
EGO 107/2001	<ul style="list-style-type: none"> • The recognition of all the rights stipulated by law, the complete period of contribution, those penalised for their employer's failure to pay their due contributions; • Penalties for anticipated retirement still apply; • The indemnity for temporary work incapacity is financed by both the employer as well as the social insurance budget
GD 297/2001	<ul style="list-style-type: none"> • The control of the Social Insurance budget being put into execution is carried out by the Ministry of Labour and Social Solidarity (MSE)
Law 632/2002	<ul style="list-style-type: none"> • The gross national average wage forecasted for 2003 is 6.962.000 ROL. When establishing the computing base upper ceiling for social insurance contributions stipulated by art. 23 and 24 from the Law 19/2002 with all its subsequent changes, the value of 5 gross national average monthly wages is considered. The minimum level of income insured monthly for all insured who submit insurance declarations or, sign insurance contracts is 1.7 lei, while the maximum level is 34.810.000. • The social insurance contributions quota in 2003 is: <ul style="list-style-type: none"> ○ For normal conditions: 34% ○ For special conditions: 39% ○ For extraordinary conditions: 44% • The social insurance contributions quota from January 2003 is 9.5%, regardless of the working conditions.
EGO 147/ 2002	<ul style="list-style-type: none"> • In 2003, to the social insurance contribution quotas approved by law is added a quota of 0.5% - which represents the insurance quota for industrial accidents and professional diseases. • In 2003, this type of contribution is owed by employers as well as by every single person who enters a contract for the first time himself/herself against this type of risks.
September 2002	<p>The standard retirement age is 60 for women and 65 for men.</p> <p>Reaching the standard retirement age will be done in the next 13 years (until March, 2015) via increasing the age of retirement starting from 57 for women and 62 for men.</p> <p>The minimum contribution period for both men and women is 15 years.</p> <p>Increasing the minimum contribution period from 10 to 15 years will be achieved within the next 13 years (by March, 2015)</p>

	<p>The full contribution period is 30 years for women and 35 years for men. Reaching the full contribution period will be achieved in the following 13 years (by March, 2015) via its increase, starting from a period of 25 years for women and 30 years for men.</p> <p>The insured who have reached their full contribution period and who have totally or partially carried out their activity in extraordinary working conditions are entitled to an age-limit pension, with a reduction in the standard retirement age</p> <p>The reduced retirement age cannot be earlier than turning 50 for women and 55 for men.</p> <p>The insured who have carried out their working activity in workplaces in workplaces such as those mentioned at art.20, paragraph a) and e), who have completed a period of contribution of at least 20 years in such conditions may benefit from full retirement pension rights upon their turning 45.</p> <p>The insured who have carried out their working activity in workplaces in workplaces such as those mentioned at <u>art.20</u>, paragraph c) and d), who have completed a period of contribution of at least 25 years in such conditions may benefit from full retirement pension rights and a reduction in the standard retirement age of 15 years.</p> <p>The insured who have carried out their working activity in workplaces in workplaces such as those mentioned at <u>art.20</u>, paragraph b), who have completed a period of contribution of at least 15 years exposed to zone I type of radiation or, to have been exposed for at least 17 years to zone II radiation type may benefit from full age limit retirement pension regardless of age.</p> <p>The insured who have completed their due contribution period both in special as well as in exceptional working conditions, may benefit, cumulatively, from a reduction in their standard retirement age, notwithstanding the fact that this reduction should not be any bigger than 12 years.</p> <p>People who have been deprived of their freedom or have been deported after the 23rd of August 1944 may benefit from a reduction in the standard retirement age with a period of 6 months for every year spent in captivity/deportation with full contributions for the said period and corresponding rights vis-à-vis their length of service.</p> <p>The insured that have completed a contribution stage in conditions of handicap that pre-existed their becoming insured, according to the degree of their handicap, they benefit from a reduction in the length of their contribution stage as well as a reduction in the standard retirement age the provisions of which can be found in annex 3:</p> <ul style="list-style-type: none"> • The reduction of the standard retirement age for severely handicapped persons by 15 years if, at least one third of the full contribution stage is completed; • The reduction of the standard retirement age for seriously handicapped by 10 years, if at least two thirds of the full contribution stage is completed; • The reduction of the standard retirement age for the standard handicapped persons by 10 years if they completed their full
--	--

	<p>contribution cycle.</p> <p>The insured who are blind benefit from an age-limit pension, regardless of their age, if they complete at least one third of their full legally stipulated contribution cycle.</p> <ul style="list-style-type: none"> • The reduced retirement age cannot be lower than 50. • The standard retirement age from which a deduction is applied is done according to Table 4 i.e. according to the year/month respectively when the pension right becomes valid as per annex 3. <p>Women who have completed their contribution cycle and who have given birth to at least 3 children and have reared these children to the age of 10 benefit from a reduction in the standard retirement age as follows:</p> <ul style="list-style-type: none"> • By one year – for 3 children; • By two years – for 4 or more children. • This reduction cannot be cumulated with any other reduction stipulated in the current or, any other special laws. Thus, the reduced retirement age cannot be lower than 55. <p>The insured who fulfills the conditions stipulated by the current law vis-à-vis the entitlement to an age-limit pension, with the exception of anticipated and partially anticipated retirement, may continue working only with their employers' express agreement in that respect.</p> <p>In the case of the insured who have submitted their retirement notices, their employers may not cease contractual working relations, whether operative member or otherwise earlier than having received confirmation that the said retirement notice had been awarded.</p>
<p>Law 519/2003</p>	<p>The national gross average wage forecasted for 2004 is 7.682.000 lei</p> <p>When establishing the maximum ceiling for computing the base rate for social insurance contributions established via the Law 19/2000, with subsequent alterations, it is taken into account the value corresponding to that of 5 national gross average wages.</p> <p>The minimum level of the monthly income insured in the case of insured who submit insurance declarations or, sign insurance contracts is 1.920.500 lei, while the maximum level is 38.410.000.</p> <p>2004 social insurance contributions quotas are as follows:</p> <ul style="list-style-type: none"> • normal conditions: 31,5% • special conditions: 36,5% • exceptional conditions: 41,5% <p>The social insurance individual contribution quota, beginning with January 2004 is 9,5%, regardless of the working conditions.</p>

BIBLIOGRAPHY

- Anusic, Zoran; O’Keefe, Philip; Madzarevic-Sujster, Sanja (2003), Pension Reform in Croatia, Social Protection Discussion Paper, No. 0304, The Social Protection Unit, The Human Development Network, The World Bank.
- Barr, Nicholas. (1995). Workforce Markets and Social Policies in Central and Eastern Europe, the World Bank, vol. 2
- Barr, Nicholas. (1998). The economics of the welfare state, Oxford University Press.
- Barr, Nicholas. (2003). Notional Defined Contribution Pensions: Mapping the Terrain, Conference on NDC Pensions, Sandhamm. September, 29-30.
- Borsch-Supan, Axel; Wilke, Christina. (2003). The German Public Pension System: How it was, How it will be. Paper presented at the Conference on Improving Social Security Programmes at the University of Maryland, September 13.
- Chand, Sheetal; Jaeger, Albert. (1999). Reform Options for Pay-as-You-Go Public Pensions Systems, December, the Social Protection Unit, the Human Development Network, The World Bank.
- Disney, Richard. (1999). OECD Public Pension Programmes in Crisis: An Evaluation of Reform Options, the Social Protection Unit, the Human Development Network, The World Bank.
- Frunzaru, Valeriu. (2003). European Union pensions. Legislative Evolution and Current Challenges (PhD programme paper).
- Gal, Robert; Simonovits, Andras; Tarcali, Geza. (2001) Generational Accounting and Hungarian Pension Reform, Social Protection Discussion Paper Series No. 0127, the Social Protection Unit, the Human Development Network, The World Bank.
- Holzmann, Robert. (1998). Financing the Transition to Multipillar, Social Protection Discussion Paper Series No. 9809, the Social Protection Unit, the Human Development Network, The World Bank.

- Holzmann, Robert. (1999). *The World Bank Approach to Pension Reform*, Social Protection Discussion Paper Series No. 9807 the Social Protection Unit, the Human Development Network, The World Bank.
- Holzmann, Robert; Palacios, Robert. (2001). *Individual Accounts as Social Insurance: A World Bank Perspective*. The Social Protection Unit, the Human Development Network, The World Bank.
- Kinsella, Kevin; Velcoff, Victoria A., the US Census Bureau. (2001). *An Ageing World*, the US Government Printing Office, Washington D.C.
- Lambriu, Mihaela; Chiritoiu, Bogdan; Gregoire, Jacques. (2003). *The Romanian Social Insurance System – Acceding to the European Union*, the European Institute in Romania, Bucharest.
- Lindgren, Jarl; Miettinen, Mauri. (1999). *Socio-Economic Status and Living Arrangements of Older Persons in Finland*. United Nations. [i.e. “Social and Economic Status and the Elderly Population’s Living Arrangements, in Finland”]
- Marginean, Ioan, 2000, *Social Policy Economics*, Ars Docendi Printing Press
- Muller, Katharina; Ryll, Andreas; Wagener, Hans, Jurgen. (1999). *Transformation of social security. Pensions in Central-Eastern Europe*, Physica-Verlag, Helderberg.
- Palacios, Robert; Whitehouse, Edward. (1998). *The Role of Choice in the Transition to a Funded Pensions System*, The Social Protection Unit, the Human Development Network, The World Bank.
- Pop, Luana (co-ord.). (2002). *Social Policies Dictionary*, Bucharest: Expert Printing House.
- Preda, Marian; Chassard, Yves. (2000). *EU Social Policies*, the European Institute, Bucharest.
- Preda, Marian. (2001). *The Romanian Social Policy Between Poverty and Globalisation*, Polirom Printing Press, Iasi.
- Preda, Marian (co-ord.) (2003). *Bringing ICDP and MDGs at County and Community Levels in Romania Through Regional and Local Statistics and Case Studies*, Report published by the UNFPA.

- Rother, P.C.; Catenaro, M.; Schwab, G. (2003). Ageing and Pensions in the Euro Area Survey and Projection Results. The Social Protection Unit, the Human Development Network, The World Bank.
- Sunden, Annika. (2003) How much do people need to know about their pensions and what do they know? Prepared for the Conference on NDC Pensions. Sandhamn, Sweden. September 29-30. www.worldbank.org/pensions.
- Schwartz, Anita, M. Pension Basics. www.worldbank.org/pensions.
- Zamfir, Catalin (co-ord.). (1999). Social Policies in Romania, Bucharest: Expert Printing Press.
- Zamfir, Elena; Zamfir, Catalin. (1999). Social Policies. Romania in a European Context, Bucharest: Expert Printing Press.
- Wolfgang, Lutz (ed.) (2003). Popnet (Population Network Newsletter) No. 35, Summer.
- World Bank. Administrative Charges, Options and Arguments for Controlling Fees for Funded Pensions, World Bank Pension Reform Primes, www.worldbank.org/pensions.
- World Bank. Transition, Paying a Shift from Pay-As-You-Go Financing to Funded Pensions. World Bank Pension Reform Primes, www.worldbank.org/pensions.
- World Bank. Portfolio Limits, Pension Investment Restrictions Compromise Fund Performance. World Bank Pension Reform Primes, www.worldbank.org/pensions.
- *** (2001), Preparing for an Ageing World – the National Research Council, the National Academy Press, Washington D.C.
- *** 2003, The Pensions Law and other Copyrights, Meteor Printing House, Bucharest