

# **SOCIAL SECURITY SYSTEM AND PENSION SYSTEMS – PILONS OF SOCIAL COHESION**

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**Abstract:** Economic and social cohesion is an expression of EU member states' solidarity to achieve a balanced development of the European community by reducing disparities between regions and promoting equal opportunities for each region, this attitude being manifested through support to regions with structural problems, to overcome them and develop their economies, so that the results obtained would converge in the same direction as the rich regions. However, regional policy is a policy that is defined mainly by its instruments known as "structural instruments", represented by the funds used to achieve the objective of reducing disparities between regions. Taking into account the prerequisites listed, the presentation of economic and social cohesion must be closely related to the development of regional policy and financial instruments of cohesion policy, but also to the extrapolation of regional policy's objectives.

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## **INTRODUCTION**

Closely related to the issue of combating unemployment, the fight against poverty requires the elaboration and implementation of strategies able to combine actions meant to ensure jobs with social protection measures and social security for the categories of persons who are socially disadvantaged.

During this period, marked globally by a deep economic crisis, social services are a mean used for fighting poverty and maintaining social cohesion. Social services can help mitigate the negative effects of the economic crisis, resulting in a better standard of living but in the economic growth in the community as well, provided they are well organized, planned and financed.

Economic growth is a sine-qua-non condition for achieving social cohesion and the knowledge of the specifics of social services sector, regular updating of data for the beneficiaries of such services, suppliers and staff involved in this sector and the methods of organization and financing of services have become in this context priorities at European level.

The concept of social cohesion should be understood as a system designed to establish new forms of balance between EU regions, which are aimed at combating

poverty and social exclusion and improving the quality of life for all, so that it can be said the concept is a stabilizing factor for the whole community.

The interpenetration of social policy with economic cohesion is important for achieving social cohesion objective, which should be analyzed considering the following aspects<sup>33</sup>:

- employment rate at both national and regional level;
- poverty, calculated by reporting minimum income of the population to the national and European average income;
- level of education, established by weighting the population with a certain educational level.

Economic and social cohesion policy includes:

- Regional development policy that is oriented towards reducing disparities and regeneration of declining industrial zones;
- Social policy is focused on combating long-term unemployment and supporting the educational and continuous training process;
- Assistance given to rural development.

Cohesion remains an important driving force by taking priority actions to strengthen social security systems and focusing policies on the individual person's needs, human dignity and providing an environment and associated conditions for personal development. The base for efficient functioning of a system over other systems is represented by the consistent application of elements which are aimed at social cohesion: social disparities-inequalities-exclusion and social relations-interrelations-human capital.

Social cohesion is considering elements likely to unify society as a whole, being regarded by many as an ideal to which all contemporary societies aspire but it is unfortunately difficult to achieve.

## ROLE OF SOCIAL SECURITY SYSTEM

Monitoring the situation of social services and the benefits they bring helps to continuously adjust national social policies.

Given the importance that the EU attaches to social assistance, two biennial reports have been developed by the European Commission on social services of general interest, which were published in 2008 and 2010, reports that provide comparative elements in the European Community, on the evolution, improvement trends and development of services related to social assistance<sup>34</sup>.

Moreover, the theme addressed in the reports mentioned above was the subject of national concern and was studied in the project "Increasing the level of implementation of legislation on social services at the local level in the context of decentralization", which was initiated by the Ministry of Labor, Family and Social

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<sup>33\*\*\*</sup> Rolul coeziunii economice și sociale în dezvoltarea Uniunii Europene/Role of the Economic and social cohesion in the evolution of European Union, [www.rejournal.eu/portals/0arhiva/JE%2024/JE%2024%20Ionica](http://www.rejournal.eu/portals/0arhiva/JE%2024/JE%2024%20Ionica).

<sup>34\*\*\*</sup> Comisia Europeană, primul raport biennal asupra serviciilor sociale de interes general (Biennial Report on Social Services of General Interest) COM(2008), 418 Final, <http://eur-lex.europa.eu/LexUriServ>, Comisia Europeană 2010, al doilea raport biennal asupra serviciilor sociale de interes general (Second Biennial Report on social Services of General Interest, SEC(2010), 1284 Final, <http://ec.europa.eu/social/main>)

Protection and financed from the European Social Fund within the Operational Program “Administrative Capacity Development 2007-2013”.

The European Commission has proposed the creation of a European Platform against Poverty and Social Exclusion that will establish a dynamic framework for action such as to ensure social and territorial cohesion so that benefits of economic growth and jobs are fairly distributed throughout the EU, and people experiencing poverty have the opportunity to engage in society. Alongside the European Platform against Poverty and Social Exclusion, social objectives envisaged in the Europe 2020 Strategy focus on the employment rate on one hand, and the level of education, on the other hand.

The term “social exclusion” has only recently been used in the field of social research, being preferred to the old term "poverty", just like the phrase "promoting social inclusion" replaced "measures to combat poverty."

The concept of social exclusion is viewed differently by specialists; some say that exclusion emerges due to poverty, others equate it with insufficient and inadequate social participation, or the inability of some people to act without assistance.

The social security system is designed to protect the most disadvantaged people, therefore needs an innovative reform, consisting of a set of family policies, policies to combat poverty and policies for people with disabilities and the elderly.

The principles for a reform strategy in social security are essentially the following<sup>35</sup>:

- Respect for human dignity, each individual person being guaranteed free development of personality;
- Social solidarity, where people who can not ensure their social needs are given support by the community to maintain and strengthen social cohesion;
- Subsidiarity, individuals or families who can not ensure their full social needs are helped by local community and associations and the state;
- Partnership, local and central public administration authorities cooperate in order to provide social benefits and services;
- Transparency, ensures the increasing accountability of central and local government to the citizen;
- Fairness, access is given to social security system to the citizens who are in a position of vulnerability;
- Focus, the social security system focuses on the needs of people in a state of vulnerability;
- Universality, each person is entitled to benefits and social services as provided by law.

Regarding the National Strategy for Sustainable Development of Romania for the years 2013-2020-2030<sup>36</sup>, the EU sets the overall objective of "creating a society based on social inclusion by taking into account solidarity between and within

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<sup>35\*\*\*</sup> Strategia privind reforma în domeniul asistenței sociale din România 2011-2013 elaborată de Ministerul Muncii, Familiei și Protecției Sociale, Legea nr. 47/2006, publicată în M.O. nr. 239-2006 / Strategy regarding the reform of social security system in Romania 2011-2013, elaborated by the Ministry of Labor, Family and Social Protection, Law n. 47/2006, published in the Official Gazette n. 239/2006

<sup>36\*\*\*</sup> “Asistența Socială, modalitate de respectare a egalității de șanse și apărarea drepturilor persoanelor vârstnice”, ro.scribd.com/.../157381939 / “Social Security, a way to respect the equal opportunities and rights of older people”, ro.scribd.com/.../157381939.

generations and within them and improving the citizens' quality of life as a precondition for lasting individual well-being."

The national target for 2013 was the creation of a legislative, institutional and participatory modern framework meant for reducing the risk of poverty and social exclusion and promoting social cohesion, equal opportunities and cultural diversity.

For 2020, the main objective is to promote consistently EU norms and standards relating to social inclusion, equal opportunities and actively supporting the disadvantaged.

The national target for 2030 is represented by the significant approximation to the EU average in terms of social cohesion and quality of social services.

The economic crisis has revealed that there are differences between labor market institutions and social protection systems capacities to cope with potential shocks of crisis.

At the suggestion of the European Commission, Member States must take into account the guidelines set in the "Social Investment Package," aimed at refocusing the states towards social investment, where it is necessary, by the optimal use of funds.

## CURRENT STATE OF THE PENSION SYSTEM IN ROMANIA

Following the decline in the number of taxpayers and increase in the number of pensioners by the aging of population while birth rate is decreasing, the longer life span and early retirement (before term), the pension system in Romania was affected significantly towards an imbalance between receipts at the pension fund and the budget allocated for their payment.

In recent years a great pressure was exerted on the pension system due to the increasing number of retirees who seriously unbalanced the state budget.

Erroneous decisions were perpetuated over time, resulting in a collection rate getting lower, and the inconsistent policy concerning the calculation of basic rights for entry into the pension affected significantly certain segments of the workforce who was already enduring the populist measures of differential payments made in prior periods, which led to inequities in calculating pensions of persons.

To illustrate the above we can mention the following:

- If in 1990 in Romania there were 8.1 million employees and 3.6 million pensioners, the ratio has reversed dramatically and now there are currently 5.5 million pensioners and 4.5 million employees.
  - Statistics show that in the year 2012 of the approx. 5.5 million pensioners only 3.8 million had reached full age limit to retire, of which only 2.1 million had both age limit as well as the complete contribution period.
  - From a total population of approximately 21.5 million, according to official data, the retirees' number amounts to approx. 5.5 million, including all forms of pension type, which are supported by the approximately 4.5 million taxpayers who will not be able to balance, on medium and long term, the imbalance created in the system.
- It must be emphasized that imbalances were significantly increased by:
- The 150000-200000 special pensions for which the allocated budget amounts to around one billion Euros annually, suffocating the social security budget;

- Social Security Budget can no longer sustain itself from the proceeds of the compulsory pension contributions due to the rise of pensions' value by 50% in 2007;
- The 2 million inactive people, out of a total of 5.2 million persons, who are aged between 45 and 65 years;
- More than 40000 false disability pensions, obtained in violation of statutory provisions;
- The approximately 650000 survivor's pensions.

All these pensions mean approximately 10 billion Euros per year, money that are paid from the contributions of more than four million employees, but also directly from the state budget since the budget pensions can not meet these expenses.

From the statistical point of view, every taxpayer maintains today the life of more than one retired, and this ratio is projected to reach more than two pensioners per taxpayer for in 2050.

Moreover, the prospects are bleak as the current pension system does not allow the accumulation and investment of amounts collected in the pension fund, because they are poor and primarily used for pension payments. In fact, there is no certainty that the state will have the resources necessary to ensure him a pension in conformity with his contribution payments when the taxpayer reaches retirement age.

## CONCLUSIONS

From the considerations mentioned above, the governmental policies relating to the pension system aim to achieve a balance of the pension budget by 2020 so there will not longer be necessary the intervention of the state budget to support their payment.

Although the social policies depend on the competence of each Member State, the European Union supports those by completing the activities under the states' responsibility.

Complementary to the national and community policies, the World Bank supports and promotes pension system reform in countries with which it has agreements, and the pension system promoted in Romania by it is based on the following three pillars<sup>37</sup>:

- Pillar I - it is the pension provided by the public pension system.
- Pillar II – it is the privately managed pensions (mandatory private pensions).
- Pillar III – is represented by the voluntary private pensions, consisting of additional contributions of employees and employers.

This material has tried to incorporate economic, social and financial aspects in an effort to recognize the links and synergies between the pensions and "Europe 2020" global strategy for smart and sustainable development, favorable for social cohesion.

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<sup>37</sup>\*\*\* Sisteme de Pensii/Pension Systems - Aegon Romania, [www.aegon.ro/ro/RO-Homepage-pensia](http://www.aegon.ro/ro/RO-Homepage-pensia)

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