

CAN THE ROMANIAN PENSION SYSTEM BECOME A PERFORMANT ONE?

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Abstract: Starting from the fact that pensions are the key elements of social protection systems, this study aims to analyze the social policy in Romania in terms of internal and external factors that represent a barrier to the sustainability of the system compared to the achievements of social policy at EU level. Because a major question that concerns much of the population is if the pension system can give us a decent pension in old age, the objective of this study is to identify the main issues facing this part of the social protection in Romania and to develop recommendations that will improve the social climate in our country.

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1. INTRODUCTION

Analyzed among other policies undertaken by the government, the social policy is an important component for ensuring stability for any country especially during the crisis of the welfare state. The priorities of social policy actions must concern ways to stop imbalances in the pension systems. Without applying appropriate reforms, the recorded efficiency losses in the social insurance budget will worsen on long-term the fiscal situation and it will slow down the country's growth prospects by creating a pressure on public finances.

The recorded regress in terms of growth, and the low rate of employment have increased the need to adjust the policies and practices in the field. The crisis has shown that efforts must be made to improve the efficiency of pension schemes in order to ensure for the elderly, the financial support for a decent life, the principle of solidarity between generations being particularly important for achieving this. Romania is one of the countries that face difficulties in terms of sustainability and viability of the public pension system.

Most countries in the European Union and others have difficulties in maintaining their own pension system. The European Union supports its Member States in their efforts to reform their pension systems. Romania has to face the challenges of population ageing and of the decline in number of contributors to the public pension system compared to the number of beneficiaries. Population ageing leads to the loss of efficiency and effectiveness of the public pension system and therefore it becomes unsustainable. Pensions are a source of income for a large part of the population. If Romania is not able to provide decent pensions, the elderly, who have no other source of income, will face poverty.

The reform of the social protection system in order to ensure its sustainability and viability by increasing employment and thus an increase in number of contributors to the pension system should be the course of action in the next period for the governments of the member states of the European Union. Romania needs to take measures to ensure the

development of the private pension system as a solid alternative to the public system failures because of the serious lack of financial resources necessary for a proper function during the last years.

2. OBJECTIVES

The main objectives of this study are to identify the main directions to follow so that the pension system in Romania would become a performant one by applying coherent social strategies based on suitability and viability. The second objective aims to follow specifically the measures taken by other European Union member states and the ways in which they can be adopted and successfully implemented in our country.

Therefore, this study will highlight below the measures taken at European level in response to an aging population which affects the whole Europe, the removing of the barriers to labor mobility as means of modernizing social protection and the ways we can achieve a balance between working-life period and retirement period.

Most EU countries have already reformed their pension systems or they project their reforms for the next period in response to the growing number of the elderly and high social costs due to higher retirement age. Since in Romania during the recent years there have been taken measures to reform the public pension system, this paper will try to emphasize possible factors that may bring the public pension system to bankruptcy.

3. METHODOLOGY

Ensuring an adequate retirement income is the main objective of any pension scheme based on the principle of solidarity between generations. Starting from the assumption that replacement rates of the public pension system will decrease in the next period, reforms will be needed to cover these inaccuracies of the system by providing new possibilities for citizens such as increasing the period of active life or providing financial incentives to employers who maintain and engage in employment persons approaching retirement and also providing various supplementary pension schemes. Considering the deplorable situation of the Romanian public finances, largely due to higher public debt, fiscal consolidation will be needed in all policies in our country, including the adopted social policy. An economically developed state can provide a decent income in old age, so reforms are needed to strengthen Romania's economic growth potential and thus stimulating the labor supply.

According to the demographic forecasts for Romania, issued by Eurostat, it maintains the accelerated aging and a reduction by 37% of the population aged 20 to 65 years compared with the 20% of the total population of Romania in the period 2010 - 2061.

We expect the population over 65 years to grow about 1.9 times, and the population between 20 - 55 years to get to half during this period.

The speed of the aging process will adversely affect the labor market. The ratio of people aged over 65 years and working age (20-65 years) increased significantly, which means that in the next 10 to 20 years, the financial resources of the public pension system will be much reduced compared to expenses.

4. ANALYSES

Next, we identify internal and external factors with negative impact on the sustainability of the pension system in our country.

Among the internal factors with a significant impact on the pension system we can include:

- a) the volatility of the legislative framework caused by the various interpretation and application according to law interests of the group;
- b) the lack of inter generational fairness by not respecting the pension equivalent level in comparable cases;
- c) the large number of early retired and disabled persons;
- d) the inefficient management of public funds;

External factors with negative influence on the pension system are:

- a) population ageing with the declining of birth rates, the increase of life expectancy and the decline in fertility rates (see table 1);

Table no.1 Fertility rates in România for the period 1980 -2060

Year	Fertility rate
1980	2,44
1990	1,84
2000	1,39
2006	1,31
2008	1,32
2010	1,33
2020	1,37
2030	1,41
2040	1,44
2050	1,48
2060	1,52

Source Data provided by Eurostat and Europop 2008

- b) labor mobility (see table 2), especially among young people;
- c) the economic and financial crisis which affected equally both public and private components of the pension system in our country;
- d) the low employment rate ("the first quarter of 2012, the employment rate of working age population 15-64 years was 58%. the unemployment rate was 7.6%, the employment rate for the population aged 20-64 years was 62.3%, at a distance of 7.7 percentage points from the national target of 70% set in the context of Europe 2020¹ ").

Table no. 2 The total stable population in Romania for the period 1948-2012

Year	Population (mil.)
1956	17.300.000
1966	19.200.000
1977	23.000.000
1992	22.900.000
2002	21.700.000
2012	19.043.767

Sorce: Data provided by the National Institute Of Statistics

The influence of these factors correlated with the low confidence of taxpayers and beneficiaries of the pension system, the existing inequities in Pillar I, we provide sufficient arguments for rethinking the pension system in our country.

¹ National Institute of Statistics, press release,no.69/30.03.2012

5. CONCLUSIONS

Romania has the lowest social protection expenditure per capita in the European Union, about 339 euro per year per capita, thus recording social protection expenditures 20 times lower than in the euro area countries. In order to live up to the other Member States it is needed for our country to strike a balance between the working-life period and the retirement period, to establish a clear link between contributions paid and benefits received, an adequate rate of transfer and the participation in private pension systems.

We must also identify measures to ensure that older workers have access to specialized placement on the labor market, by providing social and fiscal benefits to employers in order to facilitate the employment of the elderly, to combat discrimination on grounds of age and also in order to ensure a secure income in old age. At the European level, the countries that try to establish a comprehensive coverage of Pillar I, such as the case of Romania, fail to provide decent living conditions for citizens, so it is necessary to rethink the public pension system based on individual account of each contributor to the system and identify a clear algorithm based on contributions paid for benefits paid to those who have not contributed to the public pension system such as survivor's pension in our country. Several European countries have identified new technologies and services that offer the possibility for carrying out an activity in the labour market regardless the location that enables flexible working and the possibility for keeping the older people on the labour market. Such measures can successfully be implemented in our country after a refurbishment process.

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