

National report - Bulgaria

Etuc SociAll Project

Author: Hristina Mitreva

Participating National Trade unions: CITUB, Podkrepa

Executive Summary

- Introduction of minimum social standards to guarantee a minimum income. Determining the amount of the minimum old-age pension in relation to the minimum wage in the country, and unemployment pensions in relation to the official poverty line.
- Improving labour market integration and quality of work, to allow the effective accrual of adequate pension benefits - in particular tackling the gender pay gap and consequent gender pension gap.
- Increasing the portability of social security rights to facilitate mobility between jobs and ensure adequate protection for self-employed, non-standard workers and dependent workers.
- Further financial strengthening and long-term sustainable development of the pension system, in order to fully integrate it into the values, principles and requirements of the European social model.
- Increasing the adequacy of the pensions by improving the elements of the pension formula. Removal of the pension's ceiling.
- Ensuring equal and effective access to services of general social interest, such as education, healthcare and utilities especially for the most vulnerable groups of the population (low-educated, low-skilled, long-term unemployed and the Roma population, as well as for "active ageing and solidarity between the generations".
- Implement effective monitoring of indicators and policies for social inclusion.
- Optimising the system of social transfers and social assistance after refining the income test, increasing the effectiveness of anti-poverty policies and limiting the "socially weak" forms of work and employment .
- The development of a national map of social services together with the municipalities to overcome inequalities in the distribution of resources and applying the mechanism for the real identification of the risk groups in Bulgaria.
- Empowering trade unions to actively participate in the implementation of the initiative's objectives in social protection and pensions.



Section 1

Pension Structure

Since 1 January 2000 a three-pillar pension system was introduced in Bulgaria in order to improve the financial sustainability and adequacy of the system and to create an incentive for private initiative.

First pillar - Compulsory – PAYGO (DB). It covers all types of workers (full-time employees in standard employment, part-time workers, casual workers, temporary agency workers, civil servants, self-employed, etc.

Second pillar - Compulsory - fully funded (DC). The contributions of each insured person are accumulated in his/her own individual bank account. There are two types of pension schemes: 1. **Professional pension funds (PPF)**, for employees working in hazardous and heavy conditions and who can retire earlier (10 or 5 years) depending on the employee's work category. Contributions to professional pension funds are made exclusively by employers.

2. **Universal pension funds (UPF)** cover employees and the self-employed, who were born after 31 December 1959. The first supplementary pensions from UPF will start to pay in 2021 year for women, and in 2023 - for men. **The UPF are obliged to pay additional lifetime old age pension as well as single or deferred payments.**

Third pillar - Voluntary (DC). People over age of 16 who have signed a contract for voluntary pension insurance with a pension insurance company. Voluntary pension funds can pay additional temporary or lifetime pension as well as single or deferred payments.

Formal Coverage (both public and supplementary pension schemes) – 2019: First pillar - number of insured persons: total – 2,794 million incl. self-employed – 2,464 million.

Supplementary compulsory pension funds - second pillar (PPF + UPF) – 2,389.8. This is the number of insured persons for whom pension contributions are regularly paid according to NSSI data.

Voluntary pension funds (third pillar)– 6,181 million.

Retirement age – 2020

First pillar: Old-age pension (for years of service and age): two conditions are required for granting the pension (3rd category of labour):

Age: men - age 64 years and 3 months, rising by 1 month a year until reaching age 65 in 2029; **women** - 61y and 6 m., rising by 2 months a year until 2029, and then by 3 months a year, until reaching age 65 in 2037.

Years of service: men - at least 38 years and 10 months, rising by 2 months a year until reaching 40 years in 2027; **women** - 35 y & 10 m, rising by 2 months a year until reaching 37 years in 2027.



Partial pension: Age 66 years & 6 months - for men and women, rising by 2 months a year until reaching age 67 in 2023 with at least 15 years of contributions.

The effective age for new granted old age pension (3rd category of labour) – 2019: men – 65.3 y; women – 62.9 y. (legal age in 2019 – men 64y & 2m, women – 61y & 4m)

After 31 December 2037 the retirement age will be linked to the increase in the life expectancy.

Trade union participation. Thanks to the efforts of the trade unions in 2015 proposals were made for a smoother **increase in the retirement age**; a **higher percentage for each year of service** in the pension formula; an **increase in the maximum social insurance income** that is linked to the amount of the maximum pension; and **the right of choice insured persons in the UPF to transfer their pension contributions from the second pillar only to the State Pension Fund.**

Trade Unions also play a very active role in the developing **active labour market policies** so as to encourage longer participation in the labour market after retirement age.

They also participate in the developing of strategies and measures for active ageing as well as in stronger engagement and responsibility towards pension programme results, etc.

Contribution credits to address career breaks:

Workers and self-employed, insured for all social security risks - the time of paid and non-paid leave taken to bring up a child; the time of pregnancy and childbirth, for childbirth and adoption of a child up to 5 years of age; the time of paid and non-paid leave for temporary inability to work.

Workers - the time during which the person has received unemployment benefit.

Non-insured persons - As years of service at retirement shall be considered the time, during which care is taken for a person, to whom assistance is designated. This shall be accounted for one of the following persons: husband (wife), parent (adoptive parent) or one of the parents (mother or the father) of the disabled person.

During the phase of the accumulation the pension contributions in the 2nd pillar, **insured persons bear investment and inflation risks. During the phase of paying** supplementary pensions the **private pension companies** which manage pension funds **bear the risk of life longevity.**

Pension finance

The interaction between the 1st pillar and the 2nd compulsory pillar, with both types of pension funds (Professionals and Universals), is direct because the contributions to PPF and UPF are part of the pension contribution, **from the solidarity 1st pillar.** As both pillars are compulsory, the conditions for receiving pensions from them are interrelated. From an adequacy



perspective, the main function of supplementary pensions is to enhance the income maintenance capacity of pension systems. **Their ability to do this depends on several factors:** the coverage of active population; amount of savings in the schemes (which depends on contributions paid and the rate of return of the accumulated assets); and pay-out options. Given the long accrual period, supplementary pension schemes will take decades to mature, and to be able to produce a notable contribution to retirement incomes, and improve the adequacy of pensions.

Pension funds from the 2nd and from the 3rd pillar play a significant role both socially, with a view to increasing the adequacy of the future pensions, and economically - as a factor for the development of capital markets and investments in the Bulgarian economy.

Presence of fiscal incentives for private schemes. The personal contributions for the **2nd pillar** are not subject to taxation under the Personal Income Tax Act. Employer contributions are recognised as an expense for their business and are not subject to the Corporate Income Tax Act. The personal contributions for the **3rd pillar are:** up to 10% of the monthly or annual tax base are not subject to taxation. The employer's social expenses for contributions to the supplementary voluntary pension insurance for each employee up to € 30,7 per month are not taxed.

Contribution rates:

First pillar: Insured persons, born before 01.01.1960 pay 8.78% of their monthly insurance income; Insured persons, born after 31.12.1959 and who are participated in UPF pay 6.58%.

Self-employed: born before 01.01.1960, pay 19.8% of the insurance income; for persons born after 31.12.1959 - 14.8%.

Employers: pay 11.02% for persons born before 01.01.1960 and 8.22% - for persons born after 31.12.1959.

Government: contributes as an employer for civil servants, persons working in the army, the police force and some other specific government jobs.

Second pillar: Professional Pension Funds - 1st category of labour - 12%; 2nd cat. of labour – 7%.

Universal Pension Funds - 5% of participants' pension contributions. The insured person pays 2.2%; the employer – 2,8%. The contribution rate for self-employed is 5%.

The minimum monthly insurance income is € 286,3 (2019) and € 311,9 (2020) for the two pillars. The maximum monthly insurance income is € 1532.

The cost of supplementary schemes for the public budget due to transferring the part of contributions from the 1st pillar to the 2nd pillar in 2019 amounts € 803,8 million.

Pension Outcomes from Existing Arrangements



Calculation formula - Old-age pension (for years of service and age). The amount of old age pension is defined as: the **average monthly insurance income for the last 12 months** before the month of granting the pension is **multiplied by the amount formed by 1.2 percent** for each year of service and is **multiplied by individual pension coefficient**. The rate for each year of service for newly granted pensions is increased from the first day of each subsequent year by a rate equal to or greater than the percentage for updating pensions by "Swiss rule" (i.e. indexation of pensions by 50% of the increase in the average insurance income and 50% of the consumer price index in the previous year).

Indexation rule. From 1 January, 2017 until the year in which the percentage for each year of service from 1.1% reaches 1.2% in 2019, the granted pensions were not updated according to the "Swiss rule", but were recalculated annually from 1 July each year with an increased percentage for the years of service. This percentage cannot be less than the increase in pensions under the "Swiss rule".

The minimum old-age pension from 1 July 2020 will amount € 127,8 and the maximum old-age pension € 613,6.

Early pension: If the person retires early, 1 year before the normal retirement age for old age pension (3rd cat. of labour), the pension is reduced by 0.4% for each month it is claimed before this age.

Deferred pension: The pension is increased by 4% for each year if it is deferred after the normal retirement age.

The amount of the minimum old-age pension is set annually by law.

The amount of disability pension depends on the assessed loss of working capacity (for a loss of working capacity greater than 90% - 0.9; for a loss of working capacity of 71% to 90% - 0.7; for a loss of working capacity of at least 50% but less than 71% - 0.5. The minimum disability pension varies from 85% to 125% of the minimum old-age pension, depending on the assessed loss of working capacity and cause of disability.

Lifetime pension (UPF): This pension is paid based on the insured's individual account balance (contributions and rate of return) and life expectancy at retirement. The first supplementary pensions from UPF will be received by women after September 2021.

The risks of poverty and social exclusion (AROPE) in 2019 among older people is **47,1%**. As AROPE is high, the older people are dominated by severe material deprivation: the older individuals often lack the basic necessities for dignified living. Of particular concern is the situation of older women. For men the value of this indicator is 39,1%, for women -52,5. While pensions are the main source of income that older people rely on to support their living standards, other elements – such as the household composition, work, living conditions, wealth and service accessibility – play a role and interact with pensions. A substantial share of older people spend more than 40 percent of their equivalent disposable income on housing, which is a hardship for them.



Gender pay gap (economic activity) decreases from 13.2% in 2016 to 9.9% in 2019. The main reason for the gender pay gap in women is that a considerable part of them work part time, or are engaged in economic activities where wages are generally lower - light industry, food industry, nurses, social workers, etc. In addition, they have more frequent breaks in careers due to childbearing and raising children, and caring for family members, which in many cases slows down their career growth and hence their pay, despite the relative share of women with higher education and secondary specialised education being higher than that of men.

Income inequality evaluated by Gini coefficient of equalised disposable income after taxes and transfers is: in 2016 – 37.7%; 2019 – 40.8%.

The gender pension gap is: 2016 – 40.37%; 2019 – 32.35%.

Income inequality in old age (over 65+) - (S80 – S20) increased from 4.3 times (2016) to 4.9 times (2019).

Employment rate of older people (65+) in 2019 is 6.5%:

Duration of working life (years) – 3rd cat. of labour in 2019: total -34.8 years; men -35.0 years; women – 34.7 years.

Average duration of receiving of old age pension – 3rd cat.: (2019) men – 22.6 y.; women – 27.9 y.

Ratio between average retirement duration and working life (2019): men – 64.6%; women – 80.4%.

Pension Trends and Current Reforms

In 2015 and the following years up to 2019, the main changes are related to: **raising the requirements for granting an old age pension; changing the pension formula and the way pensions are indexed; introducing the right of choice for insured persons to redirect their pension contributions** from UPFs (2nd pillar) to the State Pension Fund (1st pillar) only.

The new forms of work pose major challenges for the labour market and require appropriate amendments to be made in social security and labour legislation to regulate the inclusion of these persons in the coverage of all branches of social security related to employment, namely unemployment benefits, sickness and maternity (paternity) benefits, invalidity, old-age, work injury and occupational disease benefits. Several amendments to the Labour Code, which also changed regulations in the Social Insurance Code (one-day employment contracts for seasonal workers, etc.) were part of the measures to increase the social security rights of these workers and the coverage in terms of their pension insurance.



Section 2. The Challenges

Gaps in formal coverage

Bulgarian social security legislation provides for all types of employees (workers, self-employed and other types of employment) to be included for compulsory pensions, and to be protected as receiving a decent replacement income on the basis of constant payment of insurance contributions. Due to the changes in the labour market and new forms of work, the significant number of people employed in non-standard or other forms of employment are not covered by the pension system and are exposed to greater economic uncertainty. **The most at risk of inadequacy of pension benefits and social exclusion are: non-standard workers, younger workers, women, farmers, casual workers, dependent (and) self-employed.** For these categories there is insufficient accumulation in pension funds due to their lower and irregular incomes, gaps in insurance periods and their exclusion from certain insurance risks (unemployment, work injury and occupational diseases, etc.). The effect of the frequently interrupted, shorter careers and lower earnings of these categories of workers influences on their pension entitlements and on the adequacy of the benefits. Another category of persons at risk of inadequate benefits are people with no or low education. Almost 2/3 of the population with primary and lower education are economically inactive, which puts them at risk of poverty.

Gaps in effective coverage

Ratio of the average number of insured persons to the total number of employed (15+) in 2016 is 91.6% and in 2019 - 86.4%.

The average monthly number of insured persons in 2018 was 2,7902,000 of which – self-employed – 2,519,000, i.e. the self-employed represent 9.89% of the total number of insured. In 2019, the numbers are respectively - 2,7940,000, of which self-employed - 2,464,000.

At the same time, many more people work in the economy and they are probably in the informal economy, which means that those in self-employment or in non-standard employment, often face less favourable conditions for assessing pensions and accruing pension rights. Also the retired self-employed have on average lower pensions and are more often exposed to income poverty and financial difficulties.

In 2018 **the difference between the total number of employed persons aged 15+ (31,527,000) and the total number of insured persons (27,901,000) is 3,626,000.** The gender differences are 1,737,000 for men and 1,888,000 for women. In 2019 **the difference is 4,391,000.** Respectively: men - 291,000; women -1,472,000 This is an unfavourable trend for the pension system in the last four years.



Inadequate benefits.

Insufficient coverage poses major challenges on the adequacy of **pensions**. The adequacy of pensions **depends on the incomes during the active working life, the years of service with regular employment and contributions paid**. The widespread extension of non-standard employment and the **existence of undeclared work create serious challenges to the adequacy of pensions** and the high relative share of poverty among the elderly population. **Career breaks for social reasons** (unemployment, childcare, care for dependent family members or own disability) also influence on the amount of pensions and lead to inadequate benefits.

The risk of inadequate benefits increases with the age. More than 52,5% of older women aged 65+ in 2019 are at risk of poverty and social exclusion due to several reasons, the most important being: women spend periods of time outside the labour market more often than men. These career breaks affect not only hourly pay but also future income and pensions; segregation in education and the labour market's demand. The practice shows that in some sectors and professions women are overrepresented - nurses, social workers, salespeople, where the wages are lower than in professions held mainly by men, even when the same level of experience and education is required. **In 2019 the individual coefficient for newly granted pension (3rd cat. of labour)** for men is 1,239; women – 1,037.

People in non-standard or self-employment, due to less favourable conditions for accruing pension rights compared to employees in full time job contracts, when they retire have often lower pensions and a higher risk of poverty income.

A particularly painful problem for the pension system is the very low guaranteed minimum amounts of old-age pensions. About 60% of pensioners (1.25 million) in 2019 received pensions under official poverty line **-€ 177,9** that caused the high poverty rate in people over 65.

Gender pension gap. Average monthly old age pension (3rd cat.) in 2018 was **€ 196,5**; men **€ 231,7**; women – **€ 175**. As percentages of the total average amount it represents 117,9% for men and 89,1% for women. In **2019** the figures are respectively: total average amount **-€ 208,2**; men **-€ 245,5**; women **-€ 185,5**; the ratio: men - 117,94%; women - 89,11%.

Indexing mechanism. The formula for pensions' indexation is the same for all types of pensions and thus compensates proportionally the accumulated inflation (CPI) and the increase of the average insurance income from the previous year. From 1 July 2016 to 1 July 2019, when pensions are indexed, the indexation coefficients are as follows: 2016 – 2.6%; 2017 – 2.4%; 2018 – 3.8%; 2019 – 5.7%.

Inadequate pension perspectives for new entrants to the labour market. There are a lot of factors for inadequate pension perspectives for new entrants. The most important are: significant high rate of unemployment among young people, income inequality as a result of a lack of equal opportunities, the weak redistributive effect of taxes and social transfers. Inequality of opportunity is also linked to disadvantages being passed from one generation to the next, as well as of equality of opportunity for the relationship between adolescents' educational outcomes and their parents' socioeconomic status. Where there is a high correlation between low educational performance and low parental skills achievement, this suggests that



the public services (in particular education) are not as successful in promoting equal chances for the children and the younger generation, regardless of their social backgrounds. Increases in technological change and the new forms of employment intensify income inequality and therefore inadequate pension perspectives for new entrants to the labour market. The tax system exacerbates inequalities rather than making favourable adjustments, which once again proves the need to change it towards a tax-free minimum to the amount of the country's minimum wage, and to change the ratio of "direct to indirect tax revenues" in a preferential increase towards the direct one.

Risk-shifting employees. In the new forms of work (e.g. working on digital platforms, freelancers, custom workers, portfolio employees, etc.), although they offer more flexibility and autonomy than permanent production jobs, they may be associated with a deterioration in general working conditions, as they are often characterised by a higher frequency of unconventional work patterns, higher work intensity, excessive working hours and limited, or no access to social protection. If these persons are registered as self-employed, they should have no significant gaps in the pension system and in social protection. But if they work mainly on the so-called "civil contracts", especially for short-term periods, and if the outsourcing is volatile and the flow of tasks is unstable, or no employer is identified, gaps are more likely to occur and they cannot accumulate enough pension rights. Another risk category are portfolio employees, who provide their services to a large number of clients. In many cases there is no employer to contribute to their social protection. The same goes for workers who work through online platforms. Usually, neither the client nor the intermediary platform contributes to the social protection of workers. In addition, in all "new forms of employment" there are unfavourable working conditions with regard to the right of association and representation, which contributes to the erosion of workers' representation. Hence, their social rights are violated and trade union protection is weaker and ineffective, which also influences their social status and their well-being.

Fragmentation of old-age protection, as a result of pension privatisation.

From an adequacy perspective, the introduction of the 2nd pillar – UPFs due to the separation of part of the pension contribution from the 1st to the 2nd one, for persons participating in UPFs there will be a reduction of the individual coefficient. **The replacement rates will be lower for pensioners who are insured in both pillars, as their pensions from the 1st pillar will be reduced in proportion to the pension contribution that has been transferred to the 2nd pillar, as they will receive a supplementary pension from UPF.** The reduction in the amount of pensions granted in the last quarter of 2021, when women born in the early 1960s will acquire the right to an old age pension, **will be about 20%**, which will increase to 25% for pensions, granted from the State Pension Fund after 2040. This is because the entire insurance record of the persons who will retire then will cover periods after 2002. It is important to note that the value of the reduction is different for each individual pensioner and depends



on the specific period covered by his/her years of service. Assuming that 100 percent of insured persons born after December 31, 1959, will continue to be insured in both pillars, from values close to 42% at the beginning of the period, until 2030 the income replacement ratio of the **1st pillar** will decrease and will remain at a relatively **constant level of about 35%** until the end of the forecast period.

Poor employment integration/poor wages.

Among the working age population (including discouraged workers and people who say they do not want to work and who are poorly integrated into the labour market), there are many young people, people over the age of 55 and people with disabilities. Inactivity usually is a source of poverty. Moreover, the level of inactivity poses a threat to the financing of the pension system. The changes in the labour market are exacerbated by demographic tendencies in the country, while the young and skilled workforce emigrates and further exacerbates the mismatch between the sought and offered qualification. Many of the young people who stay in Bulgaria have difficulty entering the labour market; youth unemployment and inactivity among young people are the serious concerns. In addition, for many job seekers there is a mismatch between their educational level and qualification and at the same time - unrealistic expectations to receive higher wages. There are strong regional differences in the level of employment and wages in the country.

In order to strengthen the integration of employment with adequate pay to vulnerable groups (especially those without or with low education), as well as low-skilled workers, it is particularly important to combine training and work experience and especially training, in sectors and professions for which demand is growing. The offer of vocational training courses should be based on an analysis of the regional labour market. A higher level of education and qualification is also a guarantee for fair and decent wages.

Despite rising wages, the proportion of “working poor” is increasing significantly and in 2019 is about 10%. The thesis that work provides a decent living is not confirmed, and this is due to the high proportion of "low paid workers" (18%), who represent the potential mass that feeds the "working poor" contingent.

Opportunities for remaining in employment

For the persons, who have acquired the right to the old-age pension and continue to work after the date of acquiring the right, without having granted a private old-age pension, the value of the percentage for each year of service is 4%. In recent years, due to labour force shortages and especially skilled employees, many employers have organised and offered specific training and retraining courses for older workers as well as other incentives to stay in work and to have longer careers after legal retirement age in their companies. Programmes for the transfer of experience and the gradual withdrawal of older workers and at the same time the entry of younger workers are also applied.



Section 3. Possible reforms

The dependency ratio and the fiscal space for greater public spending

Macroeconomic and social indicators 2016-2019

Indicators	2016	2017	2018	2019
GDP (in mln. €)	49 076	52 250	56 087	59 023
GDP growth -%	3,8	3,5	3,1	3,4
Economic dependency ratio (employment of the population aged 15+ (%)	53,3	55,4	55,3	56,6
Men	59,5	61,7	61,9	63,4
Women	47,7	49,5	49,2	50,3
Rate of unemployment - %	8,7	7,2	6,1	4,2
Social and health insurance payments - % of GDP	14,2	14,4	14,5	14,6
Average inflation (HICP)- %	-1,3	1,2	2,6	2,5
Pensions as percent of GDP (gross spending - %)	9,2	8,8	8,6	8,3
Number of pensioners per 100 insured persons	78,9	78,2	77,5	76,8
Average pension of a pensioner to the average monthly insurance income for the country – %	43,2	42,1	40,9	38,8
Average pension of a pensioner to average monthly "net" insurance income for the country - %	55,1	53,9	52,8	50,0

Projections for main macroeconomic and social indicators – 2020-2050

% of GDP	2020	2030	2040	2050
Expenditures of the state budget – total -%	36,9	36,9	37,1	38,5
- incl. expenditures, related to the ageing of population	17,3	17,3	17,5	18,8
Expenditures for pensions -%	8,6	8,0	8,1	9,1
Economic dependency ratio - % of total population (15-64)	63,7	62,3	59,9	56,4



Population over age 65 as % of the whole population	21,7	24,6	27,9	31,4
Average monthly pension as % of average insurance income – 1st pillar	39,7	34,4	33,5	34,2
Dependency ratio - (number of pensioners to the number of insured persons-I pillar) - %	71,9	72,5	73,2	81,4
Income replacement ratio - %	39,7	34,4	34,5	34,3
Required rate of pension contribution - %	28,5	24,9	24,5	27,8
Average actual rate of pension contribution - %	16,4	15,9	15,9	15,9
Balance of the State pension fund as % of GDP - %	-3,3	-2,5	-2,5	-3,8

National Reform Programme, 2019 Updated, Ministry of Finance; Country Report Bulgaria 2019; Commission Staff Working Document, February 2019; National Social Security Institute- Actuarial report, December 2019

The dynamics of the economically active population depends mainly on the long-term trends of the demographic development of the country, as well as on the overall economic situation and the opportunities in the labour market. It is also related to the economic growth and supply and demand of the labour force with its structural characteristics – education, age structure, professional qualification and realisation. So the increasing of the public spending in order for the Bulgarian economy to meet its challenges and the European criteria and standards, is very important and necessary. This means to increase the competitiveness, flexibility and adaptability by pursuing reasonable and purposeful public spending and policy in this area. **In order to keep the highly educated economically active persons in the country and to increase the levels of activity and employment, it is crucial to encourage the development of medium and high-tech industries, which are important for the competitive economy and have higher quality requirements, and implement the vocational training of the economically active population.** More funds, programs and greater public resources have to be spent in order to support business ventures in rural and depopulated areas, for occupying new market niches related to information technology, as well as ventures using local resources such as rural tourism and crafts, and to promote the creation of new jobs in agricultural micro-enterprises.

Persons aged 65+ have a stable increase in the levels of economic activity and employment during the four years (2016 – 4,4%, 2019 – 6,7%).

Pensions purchasing power



GDP per capita in PPS for the period 2016-2018 is: 2016 - € 14,300; 2018 – € 15,700. Compared to the EU-27 = 100 these have values – 49 and 51, which shows that the purchasing power parity per capita in Bulgaria is twice as low than the average for EU.

The **average purchasing power of people over 60** in the EU is EUR 16,277 (2018) while in **Bulgaria it is € 6,163**. Although the formula for indexing pensions improves the purchasing power of pensions, other mechanisms are needed to increase pensions, especially the lowest pensions (e.g. those up to the official poverty line), in order to reduce the share of the elderly who live in poverty and barely survive.

Fairness and equality of contributions, i.e. employers vis-à-vis employees.

At the beginning of the pension reform the contributions' ratio between employers and employees was 80:20. Since 2008, the ratio is 60:40. This change was necessary and gave results, especially during and after the economic crisis, in order to increase the collection of social security contributions without seriously affecting the labour market. The change in the ratio was reached in agreement between the social partners and the state. Due to the high relative share of workers who have a monthly income below or around the average insurance income, as well as the working poor, and given that in Bulgaria there is no non-taxable income, even for those who are below the minimum, or on minimum wage, and now this is fairly distributed between employer and employee.

Relationships between Social Protection / Labour Market / Collective Bargaining / wage and remuneration levels /Quality of work

Social protection system in Bulgaria includes the social security system (pensions and short-term social security risks – sickness, maternity, work injury and professional disease, unemployment), health insurance, social assistance and labour market.

The social protection system is insufficient to deal with significant social problems. **The high income inequality and the large number of people at risk of poverty show the need for "active inclusion" policies aimed at enabling every citizen to work and participate fully in society.**

An effective and targeted social protection system requires adequate and timely reforms to improve the situation of vulnerable groups and to integrate them more actively into the labour market on the basis of training courses, qualifications, as well as better availability and quality of integrated social and health services and housing.

Possible reforms are needed in the labor market and especially with regard to active measures.

Labour market interventions, which aims is to promote employment and productivity, the efficient operation of activities and the protection of workers through employment services, job matching, labour exchanges, job training /retraining for the unemployed, workers in mass layoffs and youth, and to increase the quality of work, **now face also the challenge of how to**



incorporate the informal economy and workers in non-standard employment, which comprises a significant portion of the workforce, and to cover them by the social security system, occupational safety and health measures, working conditions regulations as well as to have equal access to health services and work-related measures of social protection.

For achieving the effective labour market interventions and to integrate the different strategies the collective bargaining plays a very important role.

By supporting the increase in the minimum wage, the trade unions see the need to reform the way it is set and negotiated. This includes measures to increase the share of compensation for the wage gradually, but significantly and at a high rate, reducing the share of "working poor" to 7-8 percent.

The trade unions are proposing **urgent new measures to put an end to the practice of labour costs being a major factor in competitiveness.** This means: imposition and strict observance of the principle "for equal work - equal wages", through active participation of Bulgaria in the so-called "Wage Convergence Alliance"; development and implementation of stimulating policies and actions by the authorities to **negotiate minimum social standards between the nationally representative social partners.**

A number of steps are needed **to improve collective bargaining in order to raise its** role in overall economic and social prosperity:

- **Improving the normative regulations and increasing the institutional support** for the collective bargaining;
- **Normative expansion of the scope of collective bargaining** - with the problems of gender equality, issues of discrimination, temporary employment enterprises, etc.;
- **Creating conditions at the state level for increasing the capacity of the parties to collective bargaining** in order to increase the quality of bargaining - effective, innovative, flexible and promising solutions;
- **Turning the processes** of dissemination of the validity of the branch collective labour agreements **into a permanent practice and an effective instrument** for combating the grey economy, semi-legal employment and unfair competition, etc. This means to **improve the mechanisms for consulting, informing and respecting mutual interests**, for better guarantees to labour market participants.

Structure and effectiveness of the pension system. The effectiveness of the pension system means all working people, regardless of their employment status, to have de facto access to adequate social protection. The general coverage should be accompanied by mandatory contributions, in addition to equal and fair remuneration. It is indisputable that the improving of effectiveness of the pension system can only be achieved on the basis of closer links between contributions and the amount of pensions. In this relation, Social Insurance Code puts a strong link between them by the pension formula, which includes: 1. the years of service; 2. the



individual pension coefficient; and 3. the average monthly insurance income for the country for 12 calendar months before the month of granting the pension.

But not only in the State Pension Fund the contributions and years of service influence on the amount of pensions. The same is valid for the 2nd compulsory pillar. **Currently, serious changes are envisaged, which will more precisely take into account the contributions paid on the individual accounts, excluding the periods for which pension credits are recognised, as in the solidarity first pillar.**

The situation of the self-employed workers (including bogus and dependent /fairness / taxation policy. The labour market trends reflect changes in the nature of employment and new forms of work, and effect on inequalities in pension rights. As part of self-employed and non-standard workers are in the grey, undeclared sector, establishing their number and type of employment creates a number of difficulties in collecting contributions and proving entitlements. **A challenge to the effective coverage and accrual of benefits for self-employed and non-standard workers is the eligibility conditions and the basis for assessing income, which is the base for calculating the benefits.** The fluctuating incomes of the self-employed and non-standard workers can make defining and paying contributions more complicated than for fixed wage earners. On the other hand, the requirements for advance payments often hamper the self-employed's ability to pay social contributions if their current income falls below their estimated income. The same refers to **part-time workers**, who could not meet a certain hourly threshold and/or minimum wage threshold, to be compulsorily insured as well as **the casual workers, seasonal workers, temporary workers etc.**, even when meeting the minimum eligibility conditions, they can have lower benefits and pensions, because only time spent in actual employment counts towards their contribution records.

Very important factors for improving the coverage and effectiveness of the pension system are: **increasing the portability of social security rights to facilitate mobility between jobs; simplification of administrative procedures for registration and payment of contributions; ensuring compliance with legislation; preventing misclassification of workers and ensuring adequate protection for self-employed persons, non-standard and dependent workers.**

The introduction of a non-taxable minimum on the lowest wages will also allow more people to start insuring on a higher insurance base and thus receive higher pensions and benefits in the future.

Adequacy for all workers whatever the nature of their work, whether in standard employment; atypical employment or self-employment. The treatment of workers in precarious jobs. Better adequacy allows all types of people engage in employment to have the necessary means to live in dignity and participate actively in society.

As the adequacy of pensions depends on the incomes during the active working life and the longevity of participation in the labour market with regular employment and incomes, the



extension of atypical employment and undeclared work pose a serious challenge to the pension's adequacy and the high relative share of poverty among elderly people.

The practice shows that even if they realise higher incomes, a significant part of the self-employed in Bulgaria are insured on incomes close to the minimum income **€ 286,3**, and this leads to a lower pension after retirement and bigger risk of poverty. Their average insurance income is 59% of the total average.

The measures that can no longer be postponed with regard to self-employed, non-standard workers and other atypical workers are to create appropriate incentives to insure on their real incomes and their inclusion in the formal economy. Only in this way, after retirement, such people will be able to rely on more adequate pensions and have a higher standard of living.

Due to Social Insurance Code, there are lower-protected and upper-limitation threshold of the pensions. The application of a lower-protected and upper-limitation threshold of the pensions and without any particular obstructions applied in the framework of solidarity, with a view to the regular and gradual transition to cover of increasing insurance periods, respectively social security benefits in them for the purposes of determining pensions. These safeguards and limitations, when it comes to a social system, such administrative and political instruments, are not only permissible but also advisable.

The guaranteed minimum levels of old-age pensions and other types of pensions set by the legislator are aimed at **providing better guarantees for low-income pensioners, although the link between the years of service and insurance income is, in many cases, disrupted.** For the period 2016 - 2019, the **average amount of old age pension** has increased from **€ 186,7** in 2016 to **€ 216,2** in 2019, and the **minimum old age pension** – respectively. from **€ 81,5** (2016) to **€ 109,2** in 2019.

The numbers show clearly enough that the adequacy of pensions remains a matter of serious concern. The declining number of pensioners, the increased requirements for acquiring the right to an old age pension and the demographic processes, have an important contribution to improving the balance of the pension fund. The factor with the largest contribution to reducing the **shortage in the 1st pillar as a share of GDP** is the low replacement rate (average pension to average insurance income).

Income inequality has been steadily increasing in recent years, driven by a steady increase in income at the top of the scale (10) and a gradual decline in the share of income of the poorest households. In 2019 the incomes of the richest 20% of the population were more than 7.7 times higher than those of the poorest 20%. The impact of taxes and benefits on poverty reduction and inequality is significantly lower. **This reflects the low level of social spending, the uneven availability of social services and the limited redistributive effects of the taxation system.**

The gender situation. There is a large difference in **adequacy of pensions between men and women.** As a whole, the pensions of women are lower than pensions of men. This means that



certain reforms are needed to reduce the gender pay gap and hence the gender pension gap. They must start from the labour market with all active intervention measures, so that men and women have equal opportunities for inclusion, professional realisation and fair pay for their work, regardless of gender and employment status.

The gender difference in the aggregate replacement ratio for pensions (excluding other social benefits) in 2016 is 8%; in 2019 - 7%.

Retirement age in relation to demography, effective retirement age and employability at older ages. As stated in Section 1, the legal retirement age for men and for women working in the 3rd category of labour in 2019 is: **men** - 64y & 2m rising by 1 month a year until reaching age 65 in 2029; **women** - 61y & 4 m, rising by 2 months a year until 2029 and then by 3 months a year until reaching age 65 in 2037.

The effective age at which the persons from the 3rd category are retired in 2019 is: men - 65,3 years and women – 62,9 years. This shows that for both sexes there is a longer retention in the labour market and thus all persons who have acquired the right to retirement (age and years of service), but have not exercised it, receive a bonus of 4% instead of 1.2% for each year of service.



Section 4. Guidelines and Recommendations:

Guidelines:

1. The problem of poverty is highlighted. The relative share of people at risk of poverty or social exclusion falls from 41.3% in 2015 to 32.5% in 2019. The situation is particularly complicated in regional terms - in the Northwestern region (44.4%) it is almost twice as high as in the Southwestern region (23.0%). The most affected population is in rural areas, where the real median income is 61% of that of urban households (84% for the EU).

Despite rising wages, the proportion of “working poor” is increasing significantly. Negative factors for this are the qualification levels of the employed, the family background that is usually inherited from the previous generation and the ability of the children to change their destiny in terms of education and qualification.

2. The minimum wage dispute is only part of a complex puzzle in which social dialogue has shown poor performance in recent years. Most of the sectoral councils for social dialogue do not work, collective bargaining is under attack by employers' organisations and is increasingly being pushed to the periphery by businesses and companies.

3. The adequacy and coverage of guaranteed minimum income remains at very low level, which in 2018 was € 38,3, and stayed 'frozen' at this level. The access to social assistance as well as to energy assistance is determined by it, of course, by the use of certain coefficients, depending on the type and size of the family concerned.

4. The low amounts of the minimum pensions, related to the employment and the high relative share of pensioners, who receive pensions below the official poverty line (60%), and the significant pension gap .

Recommendations:

1. The social protection system has to ensure adequate protection throughout the life cycle by combining social security rights and different types of social assistance;

2. All competent institutions have to take comprehensive measures to ensure the long-term, sustainable and equitable financing of the pension and social protection systems as a whole;

3. Changes in legislation, measures and policies to be the result of cooperation and active social dialogue involving representatives and other stakeholders in order to obtain the widest possible support;

4. Enhancement of social cohesion and improvement of working and living conditions;



- 5. Development of measures for linking the problems of Health and Safety at Work, and adapting the work environment to the demographic trends (ageing) of the workforce. Involvement of the social partners in order to solve the problems of the "future of work" in all aspects of employment and working conditions;**
- 6. Active actions towards mastering the practices of the so-called grey economy, respectively, grey and illegal employment;**
- 7. Applying an integrated approach for socio-economic integration of marginalised communities such as the Roma and interventions to improve access to education and employment, social and health services, and the provision of normal housing;**
- 8. The existence of a tax system with elimination of progressions in income taxation and the lack of non-taxable minimum has to be changed;**
- 9. Measures to improve the situation of people at risk of poverty or social exclusion, as well as to improve the quintile ratio between people with the lowest and highest incomes;**
- 10. Development and implementation of stimulating policies and actions by the authorities to negotiate minimum social standards between the nationally representative social partners;**
- 11. Reducing the pay gap and pension gap;**
- 12. Better measures for coverage and integration of the most vulnerable groups of the population and for "active ageing and solidarity between the generations" as well as to non-traditional employment patterns and work regimes;**
- 13. Better coordination between trade unions and employers at regional and international level on social protection.**
- 14. Increasing the diversity, scope and effectiveness of social protection programs and taking measures to regulate the risk of "long-term care";**
- 15. Optimising the system of social transfers and increasing the effectiveness of anti-poverty policies.**
- 16. The development of a mechanism for the real identification of the risk groups in Bulgaria and effective monitoring of indicators and policies for social inclusion.**



Annex B. Outline of indicators

Coverage:				
Indicators	2016	2017	2018	2019
Total number of employed person aged 15+ (thousand)	3 016,8	3 150,3	3 152,7	3 233,1
Men	1 607,6	1 682,6	1 685,3	1 732,1
Women	1 409,2	1 467,7	1 467,3	1 501,1
Categories of workers and self-employed covered by pension schemes (thous.)				
By public schemes* (thous.)	2 765,1	2 779,8	2 790,2	2 794,0
Men	1 427,1	1 433,7	1 511,6	1 440,1
Women	1 338,0	1 346,1	1 278,6	1 353,9
By collective occupational schemes** (thous.)	7,3	7,8	8,3	8,7
Men	2,4	2,5	2,6	2,8
Women	4,9	5,3	5,7	5,9
By individual arrangements related to employment*** (thous.)	601,1	614,8	628,1	640,1
Men	347,5	353,7	360,1	365,8
Women	253,6	261,1	268,0	274,3
Percentage of employees and self-employed covered by old age schemes - % of total number of employed persons aged 15-64				
By public schemes -%	91,6	88,2	88,5	86,4
Men	88,8	85,2	89,7	83,1
Women	94,9	91,7	87,1	90,2
By collective occupational schemes - %	0,24	0,25	0,26	0,27
Men	0,15	0,15	0,15	0,16
Women	0,35	0,36	0,39	0,39
By individual arrangements related to employment - % of total number of employed aged 15+	19,92	19,52	19,92	19,79
Men	21,62	24,10	21,37	21,12



Women	17,99	17,79	18,26	18,27
Extent and nature of contribution credits				
Retirement age - legal (years&months)				
Men (3rd cat. of labour)****	63y & 10m	64 y	64 y & 1 m	64 y & 2 m
Women (3th cat. of labour)	60y & 10m	61 y	61 y & 2 m	61 y & 4 m
Effective retirement ages (data recorded for newly granted old age pension 3rd cat.)				
Men (years & months)- data recorded	65,1	65,1	65,1	65,3
Women (years & months) – data recorded	62,4	62,5	62,7	62,9
Distribution of effective age - %				
Men	42,7	42,7	42,8	42,9
Women	57,3	57,3	57,2	57,1

* The public pension system in Bulgaria includes the 1st and 2nd compulsory pillars. It covers all persons engaged in paid employment (employees and self-employed).

** Collective occupational pension schemes include Voluntary Occupational Pension Funds.

*** Individual pension schemes in Bulgaria are voluntary schemes and can provide for both workers, employers as well as inactive persons.

**** Insured persons working in the third category of work represent over 95 percent of all insured persons.

Adequacy:

Indicators	2016	2017	2018	2019
Theoretical replacement rate -% - (European Report on Pension Adequacy-2016)	57,3			
Aggregate replacement ratio* - % (Eurostat statistics, 2020)	45	37	41	37
Men	50	43	49	42
Women	42	33	36	35
The gender pension gap, for pensions related to the employment – in % (NSSI reported data, 2020)	40,4	38,2	32,4	32,3



Expected benefits (for career profiles) compared to the relative official poverty threshold – %				
- Pensioner with a minimum old age pension compared to the official poverty line – %	55,7	55,9	63,5	61,4
- Pensioner with a typical career (40 years), whose insurance income was equal to the national average for the entire period compared to the official poverty line – %	111,7	110,5	119,7	122,7
High-income pensioner with the maximum pension compared to the official poverty line – %	318,2	289,8	283,5	303,2
Self-reported unmet needs for medical care (over 16+)	2,8	2,1	1,9	1,4
Men	2,5	1,8	1,8	1,6
Women	3,1	2,5	1,9	1,2
Income inequality among people aged 65 and over**	4,3	5,1	4,8	4,9
Average net wealth by household type – total (€)	3 147	3 588	3 585	4 224
Average net pension wealth 65 + (EUR)	2 649	2 752	2 860	2 957
Gender difference in relative income of elderly people 65+ %	17	14	11	15
Relative share of the poor before social transfers – %	81,7	81,7	81,5	79,5
Men	80,0	79,8	79,6	76,5
Women	82,8	83,0	82,8	81,6
Relative share of the poor before social transfers with included pensions) - %	26,0	34,5	32,5	38,7
Men	17,2	24,9	23,6	30,8
Women	31,9	41,1	38,5	44,1
Material deprivation rate among those age 65 and over – %	37,5	36,3	32,7	29,1
Men	30,6	29,5	26,5	24,1
Women	42,2	40,9	36,9	32,5
Gini coefficient after taxes and transfers	37,7	40,2	39,6	40,8
Risk of poverty rate among those age 65 and over - %	24,3	32,0	29,2	34,6
Men	15,9	22,5	20,5	27,2



Women	30,1	38,4	35,0	39,5
Combined indicator*** - %	45,9	48,9	45,1	47,1
Men	36,5	39,2	35,7	39,1
Women	52,7	55,4	51,5	52,5

* Aggregate replacement ratio for pension (excluding other social benefits) – Eurostat statistics - 2020

** Income ratio of the poorest 20% and richest 20% of households (EU-SILC survey)

*** Combined indicator includes risk of poverty risk, low intensity of economic activity and material deprivation.

Labour market:

Indicators	2016	2017	2018	2019
Overall employment rates 15+ (including/not including marginal employment where available- %	49,3	51,9	52,4	54,2
Men	54,6	57,8	58,4	60,5
Women	44,3	46,6	46,9	48,3
Employment rate age group 20-64 by sex – % Men	67,7	71,3	72,4	75,0
	71,3	75,3	76,5	79,3
Women	64,0	67,3	68,3	70,7
Employment rate age group 55-64 – %	54,5	58,2	60,7	64,4
Unemployment rates – %	7,6	6,2	5,2	4,2
Men	8,1	6,4	5,7	4,5
Women	7,0	5,9	4,7	3,9
Duration of working life (years)*	35,5	35,3	34,7	34,1
Men	35,9	35,7	35,2	34,2
Women	35,3	35,1	34,5	34,8
Trends in wage distribution (income inequality)**				
Men -% of total	105,4	104,9	104,8	104,8
Women - % of total	94,3	94,8	94,9	94,9
In-work poverty rate (% of persons employed)	11,6	10,0	10,1	9,0



Men	13,2	11,3	11,5	9,7
Women	9,7	8,4	8,6	8,2
Gender pay gap (economic activity) – %	13,2	12,7	12,5	9,9
Compensation of 1 employed person as share of GDP – %	5,8	10,5	9,7	7,8
Wages as share of GDP - %	5,1	5,3	5,3	5,6

* The indicator “Duration of working life” means “Average length of service for (newly granted) old age pension” - 3rd cat. of labour, in which work over 95% of all insured persons.

**Trends in wage distribution (income inequality) is calculated on the basis of “Average monthly insurance income”.

Sustainability:

Indicators	2016	2017	2018	2019
Demographic old-age dependency ratio (65 and over vis-à-vis 15-64 age group) - %	31,8	32,5	33,2	34,3
Men	25,4	25,8	26,3	26,4
Women	38,4	39,3	40,0	40,9
Number of life years expected at 65 (disaggregated by gender)	16,02	16,07	16,13	16,20
Men	14,09	14,08	14,09	14,13
Women	17,63	17,73	17,82	17,92
Healthy life years in good health 65+ (disaggregated by gender)	9,7	8,8	9,8	
Men	9,2	8,4	9,2	
Women	10,1	9,2	10,2	
Economic dependency ratio (retirees + unemployed vis-à-vis people in employment) - %	79,4	75,0	74,3	70,8
Men	64,3	60,8	59,4	59,7
Women	96,8	92,3	90,7	87,4



Average years in retirement, relative to average years in active employment (ratio) –for 3rd cat. of labour -%				
Men	63	64	64	65
Women	77	79	80	80
Public pension expenditure as a share of GDP – gross - %	9,2	8,8	8,6	8,3
Public pension expenditure as a share of GDP split between those * - %:				
- covered by social security contributions	45,6	51,9	57,3	62,8*
- covered by general taxation	54,4	48,1	42,7	37,2*
Public pension spending:				
- as share of GDP per capita 65 and over – in %	6,70	6,45	6,41	
Private pension expenditures: ** - %				
- as share of GDP (total) - %	0,091	0,08	0,086	0,099

* The **ratio of pension expenditures as a share of GDP** covered by social security contributions and by general taxation, is **calculated for the State Pensions Fund (1st pillar)**. For 2019 the figures are planned, not reported ones.

** **Private pension expenditures as share of GDP** include the pension's expenditures paid by private pension funds from the **2nd pillar** (UPF and PPF) and from the **3rd pillar as a share of GDP**.

