National report - Romania

ETUC SociAll Project

Author: Steluta Enache

Participating National Trade unions: BNS, CNSLR, CSDR, Cartel Alfa

Summary

There are a number of elements with a significant impact on the Romanian pension system, such as the lack of concern for the development of policies able to provide employment opportunities across all regions of the country, a development model based on low wages, lack of adequate public health policies, poor working conditions, income inequality, undeclared work, gender-based differences both in terms of income level and the number of years of contribution, a system of social benefits with major problems in terms of targeting and adequacy, maintaining certain categories of people with a favourable tax treatment in the short-term but very problematic in the medium- and in the long-term, the lack of viable mechanisms for keeping people approaching the retirement age in the labour market, and the lack of a culture capitalising on the experience of the persons at the end of their careers.

Although it has undergone major reforms in the last 20 years, the public pension system could not be balanced. Capitalisation-based pension schemes are still far from maturing, the benefits offered at the moment, and also in the coming years, do not help the public system to secure an adequate level of pension income. Moreover, due to the differences in performance and also in the policy approach, the decision to transfer a part of the social insurance contribution to the second pillar of pensions translates into a net loss in the total pension income (the public pillar and the second pillar). The reduction of the pension income from the public system, caused by the transfer of a part of the contribution, is higher than the income obtained as a pension from the second pillar. Although hasty reforms are among the causes generating difficulties in the pension system, some reform measures will be necessary in the near future in order to restore the balance between sustainability and equity.

Moreover, capitalisation-based systems are beginning to pay benefits, especially in pension pillar II. The promises of the politicians and of the pension fund managers reached the moment of validation.

The legislation for Pillar IV was already adopted but unfortunately this scheme was built in a way that makes it impossible to work. Apart from how it should be set up, it is identical to the Pillar III scheme. Although established by employers or by collective agreements, neither the employer nor the employees would have any leverage over the private fund managers, once it would be established. This pension scheme is rather suitable for large companies, especially those with public capital.

In fact, all capitalised pension schemes are more of a business for the financial sector and less of a viable mechanism for earning an income in old age.

Ensuring an adequate level of pension to allow for dignified aging is possible only if there are enough taxpayers, and their salaries are high enough to allow savings.

Considering the identified challenges, we propose a few recommendations:

- *Creating real employment opportunities, with a decent level of pay that could stimulate the return to the labour market of at least some of the workers who now prefer to work abroad or those who are currently inactive. This would ensure a balance between the number of taxpayers and the number of retirees.*

- *The reinstatement of solidarity in the financing of the public pension system, so that the burden does not exert excessive pressure on the employee incomes, especially in the light of the difficulties in safeguarding the sustainability of the pension budget.*

- *Reducing labour taxation and transferring part of the fiscal burden to support public budget expenditure to the capital.*

- *Reintroducing progressivity in the calculation of income tax in order to reduce the risk of poverty - in the case of low wages - and thus reducing the burden due to paying social contributions for pension or health insurance.*

- *Restoring mechanisms able to stimulate collective bargaining, especially at sectoral level, in order to reduce wage inequalities with effects including the establishment of the right to a pension. Collective bargaining would allow a more adequate distribution of the added value created at the company level and at the same time would increase the workforce motivation.*

- *Identifying measures to tackle the aging population problem and to stop the migration of the working age population, even if the effects of such measures are not visible in the short term.*

Section 1. The National Context - Pension Trends and Current Reforms

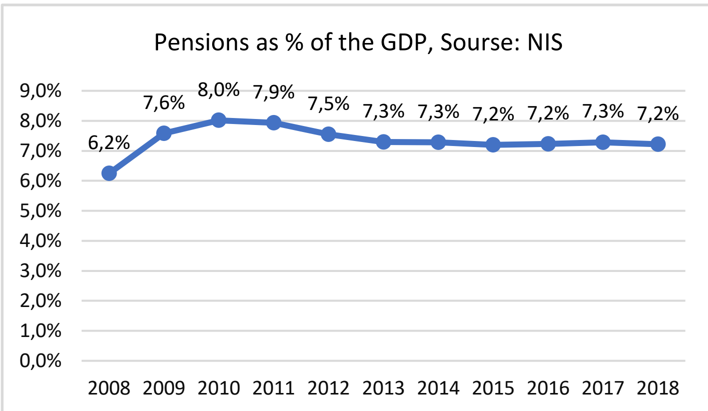
In the last 20 years the pension system in Romania has been in a continuous process of reform, irrespective of whether we refer to the enactment of the first law of the post-communist public pension system, to the partial privatisation of the public pension system or to the introduction of occupational pensions. In 20 years, Romania has changed three (3) laws of the public pension system that resulted in significant changes in the functioning of the system. Legal act 263/2010 on the public pension system (which will become void in September 2021) has been amended 37 times so far.

In recent years, the pension system has become a major topic of debate, both due to the deficit registered by the public system, and also to the unfairness and inequalities resulting from the existing legal framework. The accelerated increase of pensions (40% since September 1st, 2020) is the most recent aspect that has aroused numerous discussions at national level.

With the financial support of the European Union

Romania allocates a much lower percentage of Gross Domestic Product (GDP) to social protection than the rest of the EU member states. In 2018, the social protection income amounted to 144 982 million RON, an 1.1% increase compared to the previous year. The GDP share was 15.2%, same as in the previous year. In the same year, the expenses linked to social protection (including the administrative costs of the social protection schemes) amounted to 142 906 million RON (an increase of 12.7% compared to the previous year). The GDP share of this category of expenditures was 15.0%, an increase of 0.2 percentage points compared to 2017.

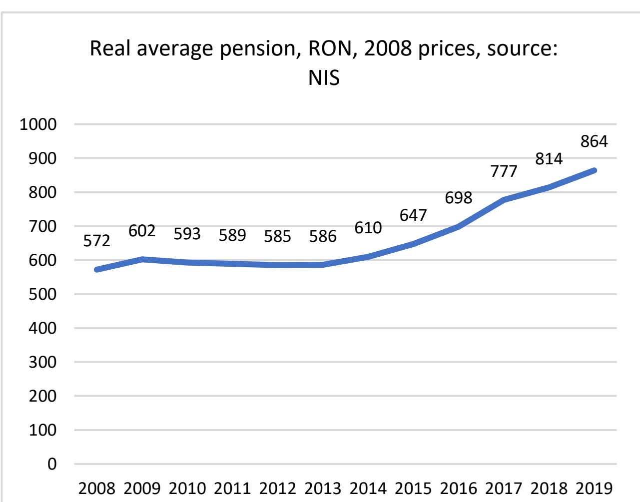
More than 50% of the total social protection expenses are related to old-age pensions.



Although pension expenditure, as GDP percentage, has risen in recent years, the GDP share is still below the average in EU Member States.

In Romania, households consisting of retired persons are the most numerous, after those of employees: 40.9% of the total number of households. Moreover, 16.7% of the average income of a household derives from pensions. Almost 20% of the Romanian population significantly depends on pensions. Since the income from pensions is spent to a large exent for consumption, it is estimated that over 15% of the consumption of the Romanian households is covered by pensions.

Unfortunately, Romania has failed to find a balance between equity and sustainability in the case of pensions, and the government lines in recent years went in different directions. It alternated between decisions that eroded the purchasing power of pensioners to ensure a budgetary balance and decisions to increase pensions by over 40%. Such decisions significantly affected the sustainability of the system.



Currently, the public pension system cannot support itself. Although the employment rate and labour productivity have steadily increased in recent years, the decision to significantly increase pensions has reverted the public system to a chronic deficit.

Romania's population is emigrating, declining and aging at an accelerated pace, which exerts significant additional pressure on the public pension system. Not only will the population shrink, but it will also continue to age, with negative consequences on the economic development, applying high pressure on the public pension system.

With the financial support of the European Union

Many Romanians who would have left the village for a big city in Romania (internal migration from rural to urban areas), now choose to go directly abroad. As a result, there is no future decrease expected in terms of external migration.

Under these circumstances, there is a significant risk that the public pension system cannot be sustained in its current form, including the retirement age, the plan to increase the pension point, and the level of social insurance contributions.

In 2017, the Romanian government initiated reform measures never before seen in the European Union, as far as the social security system is concerned. The government attempted to make a massive simplification of the system by having the employees finance it exclusively. After long debates, the idea of keeping some funds that were to be abolished was accepted, on the basis of European directives. However, it was not possible to stop the initiative to transfer on employees the burden of financing the social security system almost entirely.

Although it covers a wide range of risks, all components of the social security system are characterised by inadequacy in the level of benefits, and also by significant discrepancies. An example of such discrepancy is that certain categories manage to obtain, in various ways, special conditions, thus obtaining benefits well above average.

The reform proved to be detrimental to employees, and also to the stability and budgetary balance.

Currently, the Romanian pension system is structured as follows:

1. **Pension pillar I, the public pension system - a pay as you go scheme**, governed by the principles of uniqueness, compulsory contributions, equal treatment, redistribution and social solidarity. The scheme includes old-age pensions, early retirement pensions, invalidity pensions and survivors' pensions. The public pension system in Romania is currently in the process of transposing the new regulations that will enter into full force on September 1, 2021. Law 127/2019 is the new law governing the public pension system; it partially entered into force on September 1, 2020.

2. **Pension pillar II - pension scheme based on individual accounts with mandatory contribution and private administration.** The scheme started operating in 2007, its establishment and operation is regulated by law 411/2004 regarding the privately managed pension funds.

3. **Pension pillar III is a pension scheme based on individual accounts, with voluntary contribution and private administration.** The scheme is regulated by law 204/2006 on voluntary pensions. People who opt for this scheme benefit from tax deductions. This would apply both for the employer and for the employee.

4. **Pension pillar IV, occupational pension funds**, is the last component added to the Romanian pension system. The law was adopted in early 2020; it is an occupational pension scheme. The regulation on which this system is based is law 1/2020 on occupational pensions. It has not yet come into force. The structure of this scheme is similar to the third pillar of pensions, the only difference being that the establishment of

With the financial support of the European Union

the fund is decided by the social partners. However, their involvement is limited only to the establishment of the fund.

5. **Social allowance for pensioners** - a minimum level of pension guaranteed in payment for pensioners in the public pension system. It was established by the Emergency Ordinance no. 6/2009 on the establishment of the social allowance for pensioners.

Although the public pension system has been, since 2007, supplemented with 2 components based on capitalisation, their impact on the structure of the pension system is still insignificant.

The structure of the pension insurance system in Romania:

System structure	State involvement	Employer involvement	Individual contribution	Sources of establishment
Pillar I - public pension system Pillar IV - Private occupational pension	Yes	Compulsory	Compulsory	Employee contributions / employers' contributions only for atypical and special working conditions.
Pillar II - compulsory private pension	Yes	Compulsory	Compulsory up to 35 years old; Optional – 35-45 years old (in 2007)	Transfer of contribution from pillar I.
Pillar III - Optional private pension	No	Optional	Optional	Up to a maximum of 15% of individual income
Pillar IV - Private occupational pension	No	Optional	Optional	Up to max 1/3 of individual income.

The formal and effective coverage

The following categories are **covered by the public pension system**:

- Persons who carry out an activity based on an individual employment contract, civil servants, and other categories of persons whose income is assimilated[1] to salaries.

[1] There are different types of income obtained by employees according to the employment contract, like the participation of employees in the profit obtained by the company, various categories of benefits for employees, in cash or in kind - such as reimbursement of transportation, covering the costs of personal telephone subscriptions or the granting of gift vouchers for various occasions.

On the other hand, there are also employed persons whose incomes are assimilated in terms of salary taxation. Such examples are persons elected as public dignitaries (their allowances are assimilated to salaries); the military and the personnel from the militarized institutions (the military pay is assimilated to salaries); the directors or managers of the companies that carry out their activity on the basis of a mandate (their incomes are assimilated in order to be

With the financial support of the European Union

- Persons who carry out activities in elective positions or who are appointed within the executive, legislative or judicial authorities, during the term of office.
- Unemployed
- Persons who earn their income from independent activities and / or intellectual property rights to the extent that they earn annual income equal to at least 12 minimum wages per year.

At the end of March 2020, the public pension system was based on contributions paid by 5,505,806 insured persons (5,392,854 employees, 63,311 unemployed, 39,980 voluntary-insured and 9,661 self-employed) and provided benefits for 4,669,315 retirees.

At the end of the first quarter of 2020, Romania had a working population under the age of 65 of 8,274 thousand people.

Hereunder is a breakdown of the working population under the age of 65:

- 6,490 thousand employees and assimilated;

- 101 thousand employers;

- 1,157 thousand self-employed workers; and

- 525 thousand unpaid domestic workers.

Self-employed workers pay contributions and are insured in the public pension system only if they earn an annual income of at least 12 minimum wages (economy level). By the end of July 2020, just over 44,900 self-employed people declared that their income in 2019 was above the threshold of 12 minimum gross wages in the country.

Unpaid family workers, employers and most unpaid workers don't have insurance for old age, unless they work or have worked for a period of time as an employee.

Those who are insured in the second pillar of pensions are those who - at the time when the fund was established - were below the age of 35. Persons under the age of 35 who become contributors to the public system for the first time must also become contributors in the second pillar of pensions.

Currently there are 7,553,346 accounts opened in Pillar II, of which in May 2020 only 3,194,961 were funded by the payment of contributions.

As a general rule, employees entering the labour market for the first time can join a pension fund of their choice. However, over 90% of these people were randomly distributed by the National House of Public Pensions.

In May 2020 there were 518,092 open accounts in the pension pillar III. The average value of a pension account in Pillar III is currently about 1100 euros.

The military, police officers and civil servants with special status in the penitentiary administration system have a pension system separate from the public system, based on law

taxed as income from salaries); day laborers who carry out their activity without a contract - their daily allowance is assimilated to salaries in terms of taxation.

With the financial support of the European Union

223/2015 on state military pensions. The system is non-contributory and provides 3 categories of benefits: occupational pension, disability pension and survivor's pension. In 2019, 177,758 people received this type of pension.

Also, during the last years, service pension rights have been granted for various special categories, respectively:

Category	Number of beneficiaries
Law 216/2015 on granting service pension to the members of the Romanian Diplomatic and Consular Corps	833
Law 215/2015 for the amendment and completion of Legal act no. 7/2006 on the status of the parliamentary civil servant	787
Law 83/2015 for the completion of Legal act no. 223/2007 on the Statute of professional civil aviation personnel in civil aviation in Romania	1,424
Law 303/2004 - regarding the status of prosecutors and judges	4,096
Law 130/2015 for the completion of Legal act no. 567/2004 regarding the status of the specialised auxiliary personnel of the courts and of the prosecutor's offices	1,788
Law 7/2016 and Romania's Constitutional Court Decision 297/2012: service pensions for personnel of the Court of Accounts:	603

In 2019, 78% of people over 65 years old received a pension.

Legal and effective retirement ages

The standard retirement age is 65 for men and 61.5 for women. The retirement age for women will increase to 63 by 2030. The law provides for a lower retirement age for those who have worked in special or extraordinary working conditions.

The effective retirement age is currently 60.5 years for men and 58.4 years for women. It has increased by 11 months for men and women since 2015.

Although the European Commission has called in recent years for the elimination of the retirement age difference for women and men, no decision has been taken at national level yet.

Currently, women's pensions are, on average, about 13% higher than men’s.

Although it has increased in recent years, Romania’s life expectancy at birth is by six years below the European Union average. Romania’s mortality from preventable or treatable causes is among the highest in the EU.

With the financial support of the European Union

Life expectancy at birth varies significantly by gender and education. Men with a high level of education live, on average, 10 years longer than those with a lower level of education (at EU level, the difference is about 7.5 years). For women, the difference is not so high, with only 4 years compared to the EU average.

In Romania, women live on average 79.1 years, seven years longer than men (higher than the EU average by 5.2 years).

In 2018, life expectancy at the age of 65 was 14.7 years for men and 18.4 years for women. This was by 3.4 years and respectively by 3.2 years below than the European average.

Reduced life expectancy reflects both unhealthy behaviour and socio-economic inequities, but there are also significant deficiencies in the provision of medical services.

Currently there is no strategy in place to increase the life expectancy.

In Pillar II, the retirement age is the same as in the public pension system.

In the case of Pillar III, the retirement age is 60 both for men and women.

With respect to Pillar IV, there is no age limit for retirement. The age limit is set by the parties in the context of each scheme.

In the case of capitalisation schemes, if the amount existing in the personal account at the time of retirement is too small, the person in question has the possibility to request this amount in the form of a single payment.

The standard retirement age for the military, police and civil servants with special status in the penitentiary administration system is 60 years.

> *The involvement of trade unions in the governance of public and occupational pensions*

The development, monitoring and evaluation of the policies in the field of pensions in Romania is done by the Ministry of Labour and Social Protection. There is a Social Dialogue Commission consisting of the ministry representative and a representative of each trade union confederation and a representative of each national employers' organization. The draft normative acts initiated by the ministry are discussed within this commission.

The administration of the public pension system is done by the National House of Public Pensions, an institution subordinated to the Ministry of Labour and Social Protection. The National House of Public Pensions is headed by a President together with an administration board. The Administration Board consists of 19 people (as set out by law), namely a chairman and 18 members.

The administration board consist of:

- 5 representatives of the Government, appointed by the Minister of Labour, Family and Social Protection;

- 3 representatives of pensioners, appointed by the national organisations of pensioners;

With the financial support of the European Union

- 5 representatives of the employers' associations, appointed by the national employers' organisations;

- 5 trade union representatives, appointed by the national trade union organisations.

The Administration Board focuses more on the administrative functioning of the House and less on decisions related to the public pension system.

Regarding the development and execution of the annual budget for social insurance, the involvement of the unions through the Administration Board is limited to approving the data based on the annual budget, and analysing the execution account of the public social insurance budget.

As explained above, the involvement of trade unions in decisions related to the public pension system is very limited, notwithstanding that from 2018 the public pension system is fully funded by contributions paid by employees.

To sum up, the unions are involved in a kind of consultation - negotiation within the Social Dialogue Commission of the Ministry of Labour - that does not work very well. Although the unions are represented in the Administration Board of the National Pension House, the House is not entitled to take legislative initiatives.

Regarding the involvement of trade unions in reforming the public pension system, trade unions have participated only in the debate on draft laws, which took place at the Ministry of Labour, the Economic and Social Council and the Administration Board of the National House of Public Pensions. In the case of the regulation of special pensions, the draft normative acts in question were adopted without involving the social partners.

In the case of the capitalised components of the pension system - Pillar II and Pillar III - there is no involvement of the trade unions in the development and monitoring of secondary legislation.

Pillar IV has not yet been implemented, although according to the law this scheme is closely related to work. The involvement of unions is limited only to the decision to establish this scheme, where there is a collective labour agreement and the employer decides to set up a pension scheme. Beyond the fact that this type of pension fund is established on the basis of the collective labour agreement, where it exists, the unions or the employees' representatives no longer have any involvement, neither in the pension fund's administration nor in supervision.

The elements of solidarity and/or risk sharing in pension schemes

According to law 127/2019, social solidarity in the public pension system dons that insured persons have the obligations and benefits related to the rights for the prevention, limitation or elimination of the insured risks.

The principle of solidarity is exemplified in the following circumstances:

- The unemployed receiving unemployment benefits are insured in the public pension system, and the social insurance contribution is covered by the public employment service.

With the financial support of the European Union

- The persons receiving allowances for temporary loss of the work capacity, the persons on medical leave, on parental leave or on sick childcare leave are insured, and the contributions are paid by the National Health Agency.

- A series of periods in the professional career of an employed person are assimilated to the contribution period without paying the contribution. Such situations are the period when the beneficiary received a disability pension, the period when the beneficiary attended and graduated university courses, the periods when the beneficiary was on medical leave, the periods when the beneficiary was on parental leave.

For difficult working conditions, the law establihed two categories, and for each category the employer pays an additional contribution. It is the only social contribution paid by the employer for the public pension system. These two categories are:

- work in extraordinary conditions. A reduction of the standard retirement age and of the contribution period is granted. This category will cease to exist as of 01.09.2021.
- work in special conditions. A reduction of the standard retirement age and of the contribution period is granted. For certain categories, such as miners or artists, the retirement age can be reduced to 45 years old.

Also, the public pension system ensures access to a minimum pension established by referencing to the minimum gross salary guaranteed in payment.

In the case of the 3 capitalised schemes Pillar II, Pillar III and Pillar IV, a guarantee fund was established. Although the risks of the 3 schemes are different, the guarantee fund is unique.

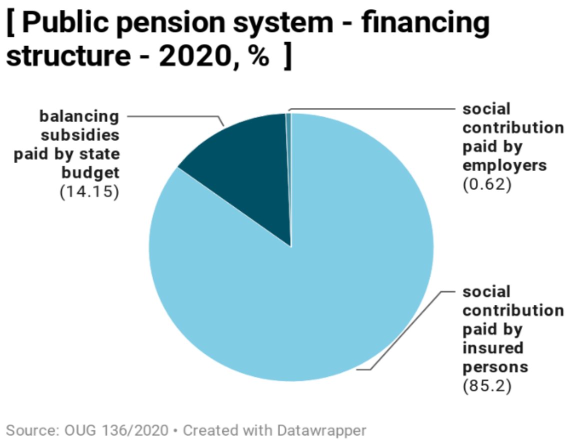
Pillar II is the only scheme of the 3 capitalised ones that has a guaranteed level specified in the law. Law 411/2004 stipulates that "The total amount due for the private pension cannot be less than the value of the contributions paid, less the transfer penalties and legal fees".

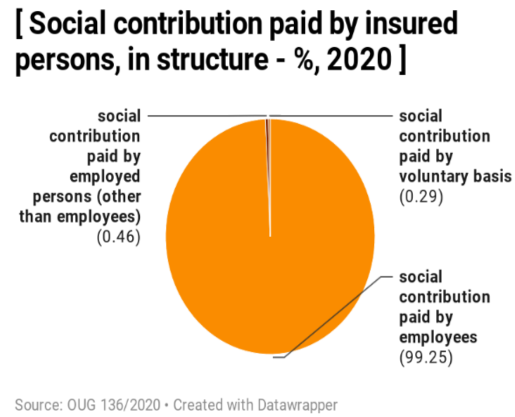
Pension Finance:

The public pension is a pay-as-you-go financing scheme. The financing is derived from the contributions paid by the insured person and the contributions paid by the employers for difficult working conditions. The deficit of the social insurance budget is covered by subsidies from the public budget.

Until 2018, the public pension system was financed, in a balanced manner, by the insured persons and by the employers. As of 2018, the pensions are financed mostly by the employees. Currently, the public budget provides resources for the difference between the level of social allowance for pensioners (the minimum pension) and the level of the calculated pension, taking into account the contributions paid. Also, the public budget covers the deficit of the social insurance budget (public pension system). According to the law of the public social insurance budget, the financing of the public pension system in 2020 is to be financed proportionately 85% from the contributions paid by the insured persons, and 14.15% from the public budget.

With the financial support of the European Union





In 2020, the revenues of the social insurance budget amount to 69,547,975 RON (not including the balancing transfers from the public budget), and the expenditure of the pension budget reach 81,004 million RON.

Employees are in fact, the main finance providers of the public pension system, as over 99% of the amount of social contributions paid by the insured persons are paid by employees.

There is currently a huge pressure on the public pension system, on the one hand due to unemployment or suspended jobs and on the other hand due to the pension increase schedule established in law 127/2019: an increase by 10% in September 2019, an increase of 40% from 01.09.2020 and 5.6% from 01.09.2022. In August, the increase by 40% was postponed. The increasw was only 14%. However, the postponement was not endorsed by the Parliament.

Currently, the deficit of the public pension budget covered by the public budget is about 1% of the GDP.

The expenditure on total public pensions, taking into account the legislation in force, will increase considerably over time, and will peak in 2053 when it will reach 14.4% of the GDP. Pension expenditure will reach, at the end of the projection horizon, 12.5% of the GDP, compared to 8.7% of the GDP estimated according to previous legislative provisions. This puts pressure on medium- and long-term debt and affects the sustainability of public finances.

The rapid aging process will change the ratio between the population of retirement age and the active population. This will bring major changes in the age structure and negative implications on the labour market. The ratio between people over 65 and those of working age (15-64 years old) is increasing significantly, which means that in the coming years the public pension system will have diminished resources in relation to its expenditure. The results of the demographic forecast provided by Eurostat for Romania indicate a significant population decrease, with 4.7 million fewer people in 2070 compared to 2018.

Regarding the second pillar of pensions, its financing is ensured by transferring a part of the contribution paid to the public system.

With the financial support of the European Union

The collection of the funds is coordinated by the fiscal authority and the distribution and the effective transfer of the contributions are coordinated by the National House of Public Pensions.

In 2008, when this system actually became operational, 14 private pension funds were authorised and had actually started. After 10 years there are only 7 left, with market shares between 6% and 28%.

Currently, there are 7 pension funds operating in pillar II, the average contribution paid by a participant is about 20 euro / month, the average value of a personal account is currently about 1,850 euro. The total net assets of these funds at the end of August were 68,511 million RON.

In 2019, for a short period of time, pillar II participants had the opportunity to withdraw from this scheme and to remain insured exclusively in the public pension system. A very small number of people have actually used this facility. There is a lack of understanding of how the pension scheme in Pillar 2 works, and as a result there is no monitoring of the operation of this system by the insured persons.

In Pension Pillar III, 14 pension funds started operating initially but only 10 of them have survived until now. The total net asset of these funds amounts to 2,688 million lei. The number of registered participants is 519,513 people.

In the case of service pensions and pensions for the military, the financing is provided from the public budget.

Contribution rates and State support for financing pensions

Starting with 2018, for those with normal working conditions, only the employees are paying social security contributions.

Social security contribution rates are as follows:

a) 25% is due by the natural persons who are employed or who are under the obligation to pay the social insurance contribution, according to the law;

b) 4% is due in case of extraordinary working conditions, as provided in the law 263/2010 regarding the unitary system of public pensions, with the subsequent modifications and completions, by the natural and legal persons who are employers or have a similar role;

c) 8% is due in case of special working conditions, as provided in the law 263/2010, by natural and legal persons who are employers or have a similar role.

The calculation for the social insurance contribution is based on the following:

- the gross income from salary and income assimilated to salaries, for employees and persons with incomes assimilated to salaries.
- the amount of gross earnings of individuals who receive a salary or income assimilated to a salary, for activity carried out in extraordinary, special conditions or in other working conditions, in the case of employers;
- the amount of monthly monetary rights covered by the unemployment insurance budget, in case of the unemployed;

With the financial support of the European Union

- the income chosen by the taxpayer, which cannot be lower than the level of 12 minimum gross salaries/country level, in case of self-employed persons, if they make annual incomes of over 12 minimum gross salaries/country level, from one or more income sources.

Pillar 2 started with a 2% social contribution transfer, later increased by 0.5% per annum for the next 8 years, and reaching 6% in 2016. In 2015, the deadline for reaching the 6%, was postponed from 8 to 9 years. In 2017, by Government Emergency Ordinance (GEO) 82/2017, the contribution transferred to pillar 2 is set at 3.75%, thus definitively giving up the 6% threshold.

The level of contribution for Pillars III and IV is decided by each participant but should not exceed the thresholds mentioned above.

Linkage between benefits and former employment career/contributions paid by public and occupational schemes

In the public pension system, the level of benefits is closely related to the contributions paid during the active life. The link between the pension level and the contribution level is discontinued if the pension resulting from the calculation is lower than the minimum pension.

In the case of Pillar II, the pension is set on the basis of paid contributions, and adjusted according to the results of the investment of these contributions and the administration or transfer of commissions charged by the management company.

In the case of service pensions, as well as in the case of military pensions, the pension level is established in relation to the last salary or to the average salaries of 6 consecutive months in the last 5 years of activity.

Pension Outcomes from Existing Arrangements/ Benefit levels and income replacement rates in public schemes and in representative occupational schemes

In July 2020, the average pension in the public system was 1343 RON, which was an increase of 4% compared to the average of 2019 (1292 RON).

In July 2020, the data related to the category of pensions was as follows:

Pension category	**Number of beneficiaries**	**Average pension - RON**
Retirement pension	3.876.750	1505 RON
Early retirement	15.015	1728 RON
Partial early retirement	85.397	1.238 RON
Disability pension	468.907	684 RON
Survivorship pension	492.046	702 RON
Military pension	177.758	3.790 RON
Service pension	9.531	10.272 RON

Until now, capitalisation-based pension schemes have not generated real benefits in the form of pensions. Moreover, at this moment the legislation for the organisation and administration of the private pension payment system has not been established, although according to article 154 of Law 411/2004 - “the organization and functioning of the pension payment system regulated and supervised by the Commission are established by special law within 3 years from the entry into

With the financial support of the European Union

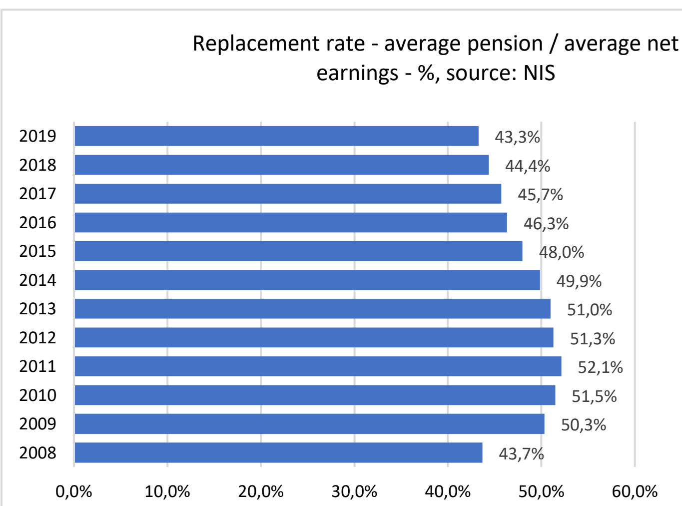
force of this law”. Although more than 10 years have passed, this law has not yet been drafted, all 3 capitalised schemes - Pillar II, Pillar III and Pillar IV - depend on this normative act.

As a result, although currently 39,829 people participating in Pillar II have already reached the retirement age, approximately 95% of them did not receive a pension other than a single payment. The average amount received as a single payment by those who retired was 7,430 RON. Those who did not want to receive the accumulated amount in the form of a single payment, could opt for payments that are staggered on a maximum of 5 years. This option has been selected by 1751 retirees. The average monthly amount received by the pensioners from this Pillar over 5 years is 239 RON / month.

In the third pillar, 39,105 people reached the retirement age and left the system through retirement. Approximately 92% of them received the amounts accumulated from the payment of contributions as a single payment, the average amount receivable being 6,365 RON. Those who have decided to receive retirement payments in instalments over 5 years (the only option available apart from the single payment until the elaboration of the law invoked above), receive on average a monthly pension of 170 RON / month from pillar III. Although since 2001 the evolution of pensions was related to the evolution of salaries, in the light of limited budgetary resources, political decision makers sometimes opted to postpone the indexation of pensions according to the legal provisions.

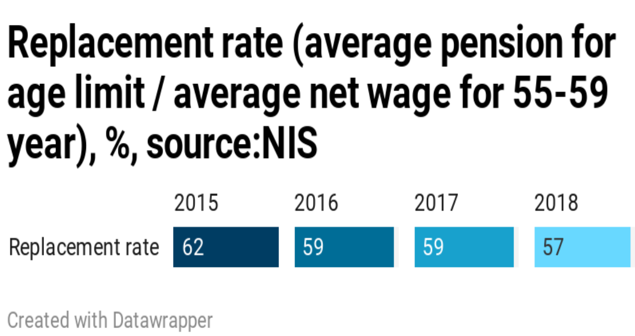
As a result, the link between paid pensions and salaries was lost over time.

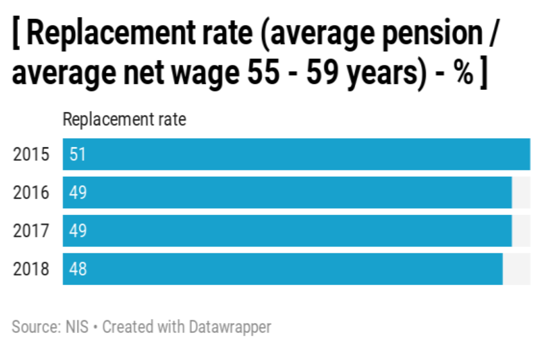
In addition, the way pensions are taxed is different from that of salaries.



Pensions under 2000 RON are not taxed. Also, pensioners do not pay health insurance. They are effectively insured by law.

Only 17% of the pensions in the public system are above the tax level of 2000 RON. As a result, the calculation of the rate of replacement of the salary by pension was made by reference to the average net salary gain. The evolution of the replacement rate in 2009 - 2015, reflected in the graph, is due to the decision during the economic crisis to cut





With the financial support of the European Union

the salaries in the public sector by 25%, which obviously influenced the evolution of the average net salary. As the wage cut was recovered, the replacement rate returned to the pre-crisis ratio.

Compared to the average net salary before retirement (age group 55-59 years), the replacement rate in the case of the old-age pension decreased constantly between 2015 and 2018. However, the replacement rate is over 50% in the case of old-age pension. Nonetheless, the replacement rate is much lower in the case of the average pension, especially due to disability pensions and survivors' pensions.

Pension formula:

In the public pension system, the amount of the pension is determined by multiplying the total number of points achieved by the insured person with the value of the reference point (explained hereunder).

The monthly score is calculated by reporting the gross monthly income earned or, as the case may be, the insured monthly income, which was the basis for calculating the social insurance contribution, to the average gross earnings used to substantiate the public social insurance budget for that year. The annual score of the insured person is determined by dividing by 12 the amount of monthly scores achieved in a calendar year. The total number of points achieved by the insured person is obtained from the sum of his annual scores.

Pensions in the public pension system are indexed according to the law based on a mechanism established according to the average annual inflation rate, to which is added 50% of the real increase of the average gross earnings achieved.

As already mentioned in the case of capitalised pension schemes, the organisation and administration of the private pension payment system is not yet established. As a result, what is known at the moment is that the net asset existing in the individual account at the time of retirement will be used for the acquisition of a private pension from a pension provider, and the fact that the pension provider establishes the pension based on an actuarial calculation and taking into account the net personal assets existing at the time of retirement.

The military pensions and the service pensions are updated annually by indexation with the inflation rate.

Minimum income in old age:

Currently GEO 6/2009 regulates a social allowance for pensioners, which is established annually in the public budget, but the normative act does not mention an automatic indexation mechanism.

This allowance works as a minimum threshold for all categories of pensions.

Those who benefit from this social allowance are pensioners of the public pension system and pensioners of the military pension system domiciled in Romania, regardless of the date of enrolment in the pension, if their pension, due or in payment, is below the social allowance for pensioners.

With the financial support of the European Union

In July 2020, 958 thousand retirees, approximately 20% of the total number of retirees, were beneficiaries of this social allowance. As of September 1, 2020, the social allowance for pensioners was set at 800 RON.

From September 2021, the public pension system will have a new indicator as a minimum level of benefits granted. The minimum pension for the public pension system is related to the evolution of the minimum gross salary and differs depending on the contribution period.

The minimum pension is established in percentages, minimum and maximum, of the minimum gross salary in the country, guaranteed in payment, depending on the contribution period, as follows: the minimum percentage is 45%, corresponding to the minimum contribution period, to which 1% is added for each year of contribution period completed over 15 years, without exceeding the maximum percentage of 75%.

Based on the current minimum gross salary in the country, the minimum pension would now be 1004 lei, for those with a minimum contribution period (15 years) and can reach 1673 lei for those with a contribution period of over 30 years. In the case of persons with a contribution period over 30 years, the minimum net pension is 25% higher than the minimum net salary.

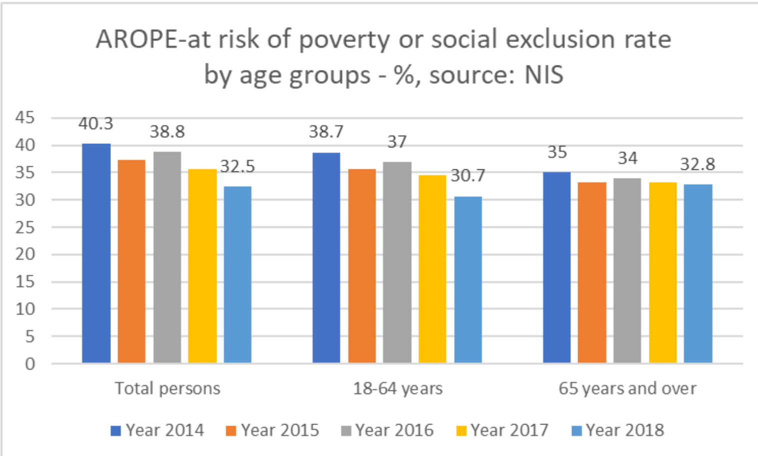
In the occupational pension schemes a minimum level of pension is applicable only to Pension Pillar II.

The gender pension gap and the main drivers for inequality

The impression of a public pension system that is discriminatory stems from a number of scenarios. Hereunder are a few of them: the permanent change of legal provisions; the lack of complex assessments in case of changes in the architecture of the system; the existence of extremely diverse individual situations due to periods spent by those accessing the pension system; the ability of professional categories to obtain a treatment that derogates from the general rule; and the so-called fiscal reform carried out in 2018. This gave rise to situations where people who had the same salaries during their active life and the same number of years of contribution, retired in different years, with different pensions.

In addition, it is only since 2000 that Romania has a computerised record of contributions paid for the pensions. In the absence of proper data and in conjunction with the legislative changes regarding the tax base or categories of persons exempted from paying contributions, it is extremely difficult to process pension records and moreover, and it is a source of numerous cases of inequality.

With the financial support of the European Union



Approximately 30% of retirees in Romania have a monthly pension income that is below the poverty line, despite the fact that in the last 2 years the average pension has increased by about 24%. According to employees, retirees are the category least exposed to the risk of poverty, nonetheless this is the only category for which the at-risk-of-poverty rate increased between 2016 and 2018. In addition, the at-risk-of-poverty rate among retirees is much higher than the EU 28 average.

Very frequent changes in legislation in the public pension system have created significant inequalities between beneficiaries. At this moment, approximately 65% of the pensioners in Romania have lower pensions than the average pension.

Law 263/2010 regarding the unitary system of public pensions, with the subsequent modifications and completions, establishes in article 53 paragraph (1) a standard retirement age limit of 63 years for women and 65 years for men. For men, the standard age limit of 65 years was reached on January 1, 2015, while for women, the standard age limit of 63 years will be reached, gradually over time, in 2030.

However, given that the wage gap between women and men is big, the replacement rate for retirement for women was 61% of that for men in 2017, above the European average (58%).

Although more numerous than men, the average social insurance pension for women in 2019 was below that of men for all pension categories. The largest gap is registered for the old-age pension, the percentage ratio between the pension related to women and that of men being 64.5% (1172 RON for women compared to 1818 RON for men). The closest values between women's and men's pensions are in the disability pension (585 RON for women compared to 738 RON for men). In the age limit category, which represents the largest share of the total number of social insurance retirees, 82.7% are men and 70.6% are women.

Latest reforms and those under active consideration

The pension system, both public and private, has undergone profound reforms in recent years. The first step was made by the significant change made in the pension financing mechanism. Starting with 2018, the contribution for social insurance, from which the public pension system and the Second Pillar of pensions are financed, was fully transferred to the employees. Employers have the obligation to pay a contribution to finance the public pension system only insofar as they cannot ensure normal working conditions. Currently, as shown above, the public pension system and the second pillar of pensions are 80% financed by employees, while the participation of employers is below 1%.

With the financial support of the European Union

None of the objectives assumed by this reform was achieved: the balance of the budget was artificial and on short-term, and the extension of the coverage for some categories of people was an unachieved objective. Approximately 24% of the employed population of Romania is self-employed, of which less than 2% pay contributions and are insured in the public pension system.

The level of collection is still an unresolved issue, although employers retain the social contributions of the employees. The support of pensions for over 4.6 million retirees falls entirely on the current workforce.

The reform of the financing system was followed by the modification of the legislative framework for the public pension system. Both in 2010 and in 2019, the reform of the pension system was done strictly in terms of regulation. There were no official evaluations and analyses for any of the aspects mentioned above. Lately there have been several evaluations regarding the reform of the public pension system, but all of them have been limited to short-term sustainability of the system.

The law adopted in 2019 and entering into full force in 2021, was initiated with the intention to reduce inequalities and inequities in the system, and aimed exclusively at short-term pension adequacy. The proposed reform is completely unbalanced with regard to various generations.

At this point, in terms of regulation, the reform has been completed. The only debate at this time is to increase by 40% the payment of pensions provided for September 2020. The formula for calculating pensions has been changed to eliminate possible inequalities in pensions received by retirees who had similar working / contribution conditions. Although according to the law the pensions had to increase by 40% from September 1, the Government decided that this increase should be only 14% for the moment, increasing the pensions in 2021 by another 30%. However, the Parliament rejected the Government's initiative, and currently the evolution of this situation is uncertain.

With the intention of increasing the collection rate, the new law created a new source of inequality for future retirees. From the entry into force of the new law, employees who reach the retirement age will benefit in the calculation of the pension only from the periods for which the employer owed and also paid social contributions. The law leaves the burden of the social contributions and the task of determining the employer's compliance for the payment of the contributions, exclusively in the charge of the employee. Employees who have worked or are working in insolvent companies, in bankrupt companies or large companies with state capital that have not paid their social contributions will be in a situation where the period in which the employer did not pay the social contributions or the contribution period, shall not be taken into consideration. The pension will not be established properly. At the end of 2017, 27% of Romanian employers had arrears on the payment of obligations to the pension budget.

Non-payment or late payment of taxes and contributions is still a fairly common practice, especially for small companies. Until 2015, withholding tax and non-transfer of income tax and salary contributions was considered tax evasion, but this provision was waived. As a result, starting with September 1, 2021, the contributions withheld from the employee but not paid by the employer will not be taken into account for establishing the pensions, neither as a contribution period, nor as a calculation basis for the pension.

With the financial support of the European Union

Although the level of employment has increased in recent years, very little has been done to increase the quality of employment. A number of issues with a future impact on pension systems have been envisaged, such as:

- a significant number of Romanians from the active labour force left the country,
- labour relations have become much more tense,
- about 30% of employees earn the minimum wage,
- informal work continues to proliferate unhindered,
- the Romanian labour force is less and less prepared to face the demands of the labour market,
- the collective bargaining was dismantles, including the mechanisms by which employees, through their representatives, can defend their rights, which led to frequent violations of the employees' rights,
- the highest at-risk-of-poverty rate among workers in the European Union, well above the European average,
- a very high level of labour taxation assumed in proportion of over 93% by employees, given that the social security system was brought close to collapse as a result of decisions such as the one proposed now, i.e. without any substantiation.

In the absence of an adequate approach to taxing the economy and with a timetable for increasing pensions but also other categories of social benefits such as child benefits, Romania no longer has viable levers to balance the public pension system:

- Contributions are borne exclusively by employees and are already at a very high level - 25%.
- The level of employment has already reached a threshold that can no longer be considerably exceeded.
- There is no political will to really include all categories of persons employed in the category of taxpayers, other than employees.
- The retirement age is already high, 65 years for men and 63 for women.
- Active aging strategies have no effect; the age group 55-64 has the lowest employment rate; there are facilities granted to employers who hire employees in this category but unfortunately even in these conditions employers are not interested in this category.
- Administrative measures to reduce informal work have failed and there is no real interest in this regard.
- There is no coherent demographic policy based on stimulating the birth rate.
- Increasing the collection rate continues to be a major problem, apart from penalising employees in 2021 for non-payment of contributions.
- Pension schemes for various socio-professional categories are maintained and proliferated, and are much more generous than the public pension system.

With the financial support of the European Union

- The components of the capitalisation-based pension system, more recently implemented, despite the 10-yearlong planning, do not diminish the existing pressure on the public pension scheme.

Section 2. The Challenges:

The evolution of the post-communism labour market continues to have more and more visible effects on the pension system.

Some of the current elements bearing a strong impact on the pension system include:

- promoting a development model based on low wages;
- lack of concern for development policies that provide employment opportunities in all regions;
- lack of adequate public health policies;
- poor working conditions;
- income inequality;
- undeclared work;
- gender differences both in terms of income level and the number of years of contribution;
- a social benefits system with major problems of targeting and adequacy;
- maintaining certain categories of people with a favourable tax treatment in the short term but very problematic in the medium term and in the long run;
- the lack of viable mechanisms for keeping those approaching the retirement age in the labour market; and
- the lack of a culture to capitalise on the experience of those at the end of their careers.

Although the public pension system has undergone major reforms in the last 20 years, it could not be balanced. Capitalisation-based pension schemes are still far from maturing, the benefits offered at the moment, and also in the coming years, do not help the public system to secure an adequate level of pension income.

Pillar II was built starting from a minimum level of contribution (6%). This level of contribution had to be reached in maximum 8 years of operation. However, the schedule was not respected, the law was modified, the level of the contribution paid by the participants for the second pillar remained at 3.75% and will most likely remain at this level for a long time. Even in the frame of a reasonable level of profitability after 30 years of contribution in the 2nd pillar, a person who has

With the financial support of the European Union

earnings at the level of the minimum wage will obtain a pension of maximum 70 euro / month. Only in the case of above average salaries, the pension received in pillar 2 could reach 150 euros. Frequent changes in the case of mechanisms that produce long-term effects create instability. Changes in the schedule of contributions, in the level of management fees or in the basic rules underlying the operation of these systems destabilise the system, and those affected are the employees. It is inconceivable that in less than 1 year the pension scheme of pillar II renounced at the obligation to participate, only to reintroduce the obligation after a few months.

Very few workers in Romania have enough information to make a decision in full understanding of how capitalisation-based pension schemes work. This also explains the lack of interest of the participants in expressing an option regarding a pension fund. Over 90% of the participants registered in the Second Pillar of pensions were randomly distributed to a pension fund. The trade unions do not have any leverage to defend the rights of these workers. Therefore, in the absence of informed workers, defending the interests of the workers is not manifested in any way.

Among the challenges that Romania is currently facing in order to ensure a sustainable pension system with an adequate level of benefits, there are:

1. Accelerated population aging and migration - the main challenges for the pension system.

Population aging is certainly one of the main challenges, especially in the medium and long term. Visible demographic changes are expected to be observed by 2030. Migration, along with life expectancy and fertility have accentuated this process. The aging process will change the ratio between the retired and active population, with major implications in the age structure and negative implications on the labour market. The ratio between people over 65 and the working age population - 15-64 years – is increasing significantly, which means that in the coming years the public pension system will have diminished resources in comparison to spending. According to EUROSTAT, in 2070 Romania will have 4.7 million fewer people, compared to 2018. The dependency ratio of the elderly will be one of the highest in the EU countries, and will almost triple to 65.27%, compared to other states.

The demographic evolution of the last decades has impacted the demographic, social and economic plan of the country. In recent years, important changes have occurred in the demographic structure of the population, both qualitative and quantitative. The negative values of the natural increase, combined with those of the balance of external migration have caused the resident population to decrease in the last 10 years by more than 1.4 million people.

Labour resources have decreased almost constantly in recent years, in 2018 only labour resources have decreased by about 1.5%.

High emigration, especially among young people, has serious demographic repercussions.

2. Low wages are another challenge, especially in the private sector. Romania has chosen to promote a development model based on relatively low wages for a well-qualified workforce in order to enjoy a competitive advantage over other Central and Eastern European countries. This has led to massive labour migration, which has created a major imbalance in the public pension

With the financial support of the European Union

system. The suppression of collective bargaining at sectoral level, and the dilution of the importance of collective bargaining at company level has allowed for precarious income, and it also keeps a significant number of workers earning merely the minimum wage. Before the pandemic the income of 74% of Romanian employees with full-time employment contracts was below the level of average gross earnings per economy. The increase in wage inequality between high-wage and low-wage employees is another consequence of the lack of collective bargaining, despite significant increases in the minimum wage in recent years. The eradication of salary scales from sectoral collective agreements has accentuated this disparity. The significant salary gaps continue to be a constant of the Romanian labour market evolution, both in territorial profile, and also in terms of the size class of the employer.

The phenomenon of "grey" work - informal payments and undeclared work (salary handed out to the employee in an envelope) are still very present in the private sector, especially in small companies.

Approximately 30% of salaries in Romania are close to the minimum wage.

In 2018, 80% of employees with a low level of education and 65% of employees with a medium level of education had lower salaries than the median salary (and were in the first 5 deciles of salary income).. Women generally have a lower income than men in all major occupational groups. In 2018 women's salaries accounted for 98.6% of men's salaries.

Low-wage workers in the private sector will be the future poor retirees.

3. **Poverty rate:** Retirees are one of the social groups most affected by poverty, especially due to the insufficient adequacy of pensions. They also have specific need for medicine and maintenance, which are very expensive.

Although Romania has registered a wage growth that may seem significant, the existing gaps are so substantial that one cannot really talk about a recovery of differences and a real convergence. Despite the progress in reducing the risk of poverty for people who have a job, in 2018 Romania remained the EU state with the highest risk of poverty for the employees (15.3%), given that the average in the European Union is 9.5% (Eurostat).

The at-risk-of-poverty rate for people in employment has fallen from 17.7% in 2008 to 15.3% in 2018, but the decrease is very slow given the difference to the European average. The distribution by sex shows that employed men have a higher risk of poverty than employed women, 9.9% and 9.1% respectively in the EU, while in Romania the risk was much higher in 2018, 17.9% and 11.4% respectively.

In Romania, income inequality is higher than the average for the European Union. In 2017, people from households considered rich (part of the fifth quintile of income distribution) obtained a total volume of income that was 6.5 times higher than that of people from households considered poor (part of the first quintile of distribution). In 2016, the richest 20% of European Union citizens earned an income that was 5 times higher than the poorest 20%. The relative distance of the

With the financial support of the European Union

income of the poor population in Romania, compared to the level of the poverty line, was much higher than the average value of the Union (36.2% compared to 25.0%).

Poverty at work and high levels of inequality during the working life lead to a low level of funding for the pension system based on social solidarity. Moreover, the costs of ensuring a minimum level of pensions in payment increased greatly. Although current retirees need an adequate level of pensions, the issue of their sustainability is much more frequently discussed.

4. **Low level of economy taxation and low level of collection**: the revenue collected for the public budget in Romania is approximately 31.9% of GDP, well below the European average, especially in the case of fiscal revenues (including social contributions). With such a low level of taxation in the economy, the possibility of ensuring adequate benefits from social allowances is an impossible task.

From a formal point of view, Romania has a very high level of labour taxation. For the self-employed, the level of income taxation is extremely low.

In 2018 the public budget had a deficit of 2.8% of GDP, and in 2019 it reached over 4% of GDP. In both years the pension budget was met only as a result of subsidies received from the public budget.
In 2020, after 7 months, the public budget deficit was already at 4.7% of GDP and is expected to exceed 7% by the end of 2020, given that pensions have increased by only 14% since September 1 and not by 40 %, as provided by the law approved in 2019. However, the Parliament rejected the Government's initiative, demanding the observance of the 40% increase. The increase requested by the Parliament would increase the public budget deficit by another 3% of GDP in 2021.

Unless an increase in the level of taxation occurs, the only measure to ensure the payment of pensions would be the increase of contribution share, but this would translate into a decrease of the net income of employees.

Collection efficiency remains extremely low, the tax system is extremely cluttered and with many exceptions. The unfair placement of the tax burden in many cases, the high level of the underground economy, are just a few reasons why the public budget is facing a severe strain. Currently, the Romanian tax administration does not have the capacity to ensure a substantial increase in collection.

The new Pension Law leaves the burden of paying social contributions, and also the task of determining the employer's payment compliance, exclusively on the employee. The solutions offered to employees working in companies facing insolvency or bankruptcy are not mentioned, given that most likely these companies will never pay their outstanding debts to the social insurance budget.

With the financial support of the European Union

Although with the entry into force of the current law, employees could have the necessary levers to determine the employer to pay their tax obligations generated by the withholding of social contributions, according to the legislation in force, the extinction of tax obligations is done in a chronological order.

Starting from 01.07.2018, the Ministry of Public Finance / the National Fiscal Agency changed the way of paying taxes, fees and social contributions, which will affect even more the current employees and future retirees. As of 01.07.2018, both social contributions and other taxes owed by employers are paid in a single account, (these include payroll tax, profit tax, specific tax, micro-enterprise tax, etc.). The distribution is made proportionally for each type of budget - public budget, social insurance budget and the single health insurance fund. Even if the employee could determine the employer to pay social security as a priority, it would be useless because the distribution is done automatically by NFA.

This provision will significantly affect a large part of employees in Romania, especially those working in small and medium-sized companies, in rural areas or in small towns or those over 45 years of age. It is not enough for an employee to know that his/her employer does not pay the retained social contributions, additional mechanisms are needed, through which the employee can force the employer or the state to assume this responsibility through the appropriate institutions.

5. Undeclared work is still at a high level

“Grey” or “black” labour is impossible to control in the current format of labour market management. However, we have a few legal and institutional instruments at our disposal to combat undeclared work. Today, fines are the only tools at our disposal to diminish undeclared work.

Although, since 2017, the Labour Code allows us to apply tougher sanctions to frequent offenders, consisting in the cessation of the activity of such companies (article 260, paragraph 4), it is still not possible to implement this measure.

According to the Labour Code, the cessation of the activity can be done only on the basis of a procedure initiated by the Labour Inspectorate and approved by Order of the Minister of Labour. Although almost 3 years have passed since the adoption of this provision, it was still not completed and approved. As a result, those who frequently use undeclared work still carry on with their activity, unhindered.

6. Lack of effective active measures for those close to retirement.

Age is the main obstacle for job seekers over 45 years old. This was a conclusion reached by several surveys conducted in Romania. One recent labour market study shows that many companies still discriminate on the basis of age. Indeed, more than half of the candidates who are over 45 years old are not even called for an interview. Employers complain about difficulties in the recruitment process due to the mismatch between the level of training of candidates and the requirements of companies. Studies show that almost 60% of Romanians over the age of 45

With the financial support of the European Union

have faced problems when looking for a job. Employers justify not taking up workers who are over 45 years saying that the reasons are linked to the requested salary, level of experience or behaviour during the interview.

Half of the employees consider that there are few attractive job opportunities in line with their level of experience, this is why 52% claim that it is difficult or very difficult for them to find a suitable job. The efficiency of internal mobility packages promoted as active employment measures is rather limited.

The lack of interest of employers in those nearing the end of their careers, but also the failure of policies to keep them active, are visible if we follow the evolution of the average earnings of the 55-59 age group, as compared to the evolution of the same indicator in all working groups. In 2013 the average salary for the 55-59 age group was higher than the average of the indicator at the level of all age groups. Since 2015 the situation was reversed, and the gap is more and more pronounced.

7. **Lack of an IT management system for the labour market:**

In the current conditions, the labour market can no longer be managed efficiently without digitisation.

In such a dynamic labour market, workers need to be able to access information about their path in the labour market. Modernising the labour market management model has become urgent, since companies disappear, archives are mismanaged, claims must be proven (and timekeeping is not always related to reality), undeclared work practices have been refined, etc. The elimination of workbooks and the introduction of the electronic register of employees was a short-term simplification of the human resource management. In the medium and long term, however, it affected the records kept by the employee regarding his/her professional career.

In addition, the various IT systems with implications on the management of human resources used by institutions such as ANAF, CNPAS, CNAS or ANOFM (agencies dealing with fiscality, public pesnions, public health insurance, and employment) were created without having a common vision for interoperability. As a result, in many cases workers accessing the benefits provided by these systems have to prove themselves their contribution period; or even in situations, such as the recent one, where contrary to legal provisions, they cannot benefit from certain rights due to the impossibility of connecting information between ANAF (fiscal agency) databases and those of ANOFM (employment agency) or CNAS (health insurance agency).

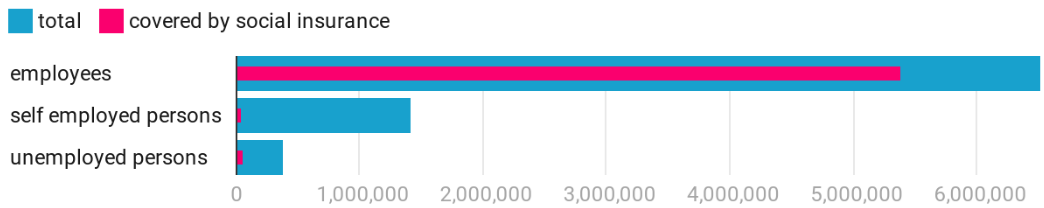
Moreover, Romanian workers are increasingly mobile at European level, as we have seen even during the pandemic. It is impossible for the current labour market management system to manage this phenomenon. Consequently, Romanians working abroad, especially the seasonal workers, bypass the social insurance system, both in the country where they work and in Romania.

Statistical indicators:

With the financial support of the European Union

▪ Gaps in formal coverage and gaps in effective coverage;

[Gaps in social insurance formal coverage - 1st quarter 2020]



Source: NIS and National Public Pension House • Created with Datawrapper

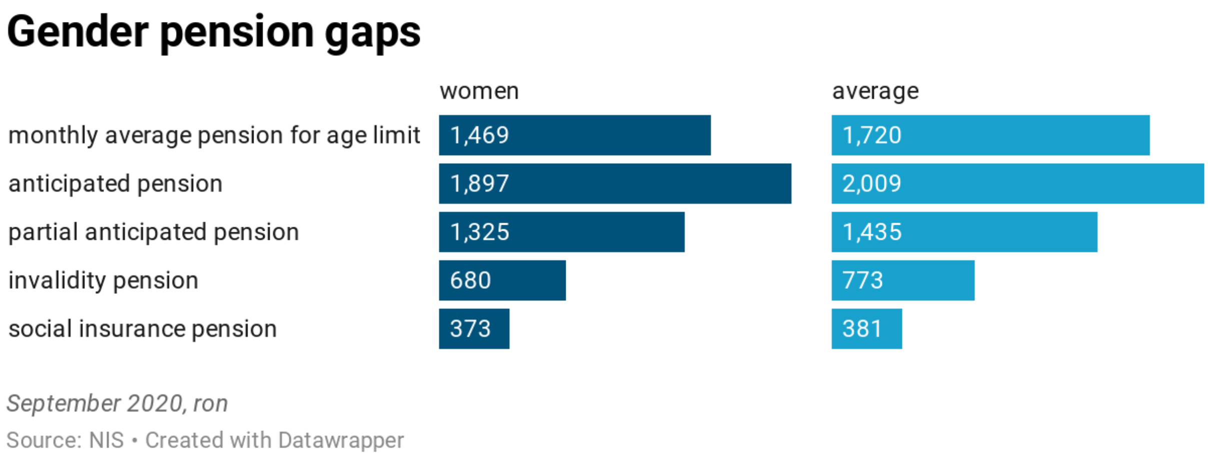
▪ Inadequate benefits;

[AROPE-at risk of poverty or social exclusion rate for the persons aged 18 years and over by most frequent activity status]

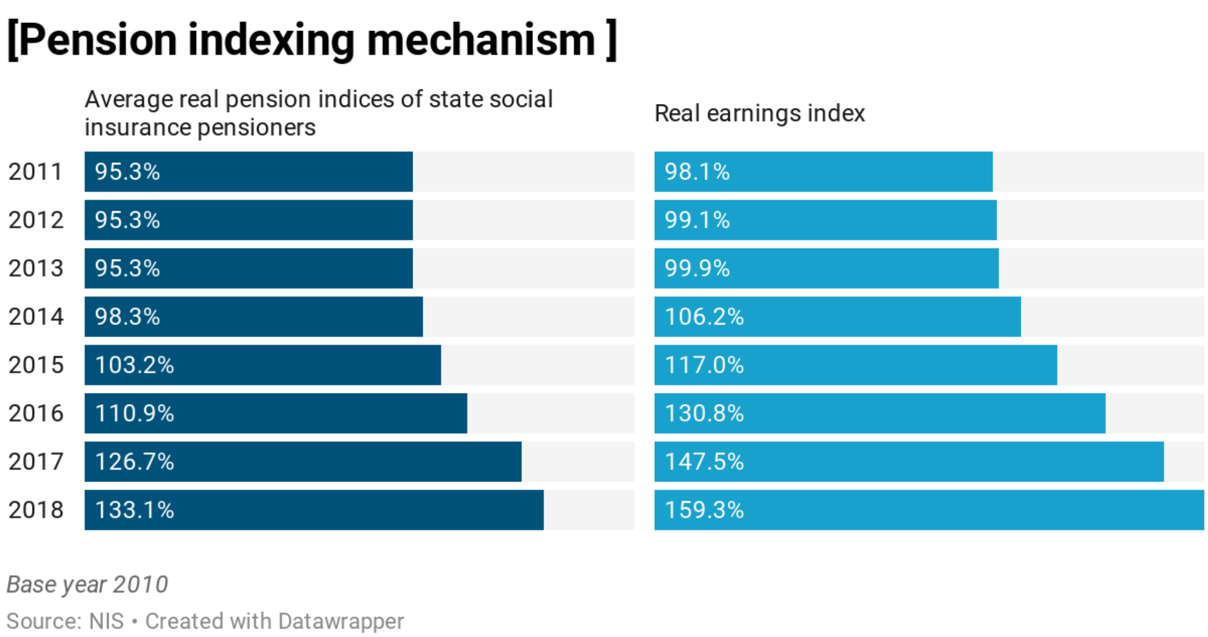
Source: NIS • Created with Datawrapper

▪ Gender pension gaps;

With the financial support of the European Union



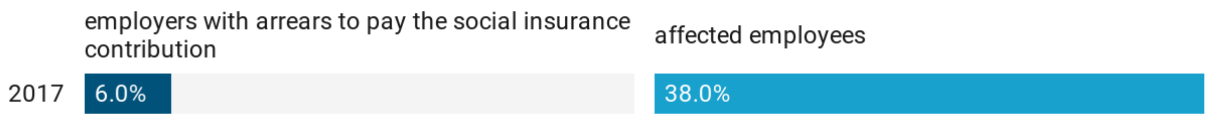
- Poor indexing mechanism;



- Inadequate pension perspectives for new entrants to the labour market;

With the financial support of the European Union

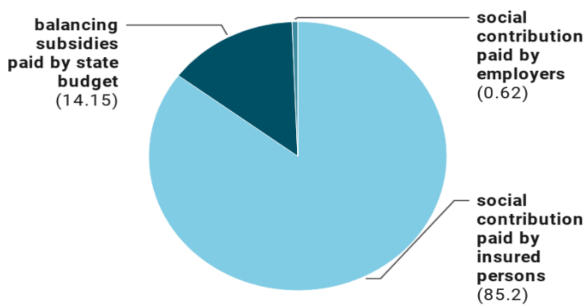
Inadequate pension perspectives for new entrants to the labour market



Source: Natonal Agency for Fiscal Administration • Created with Datawrapper

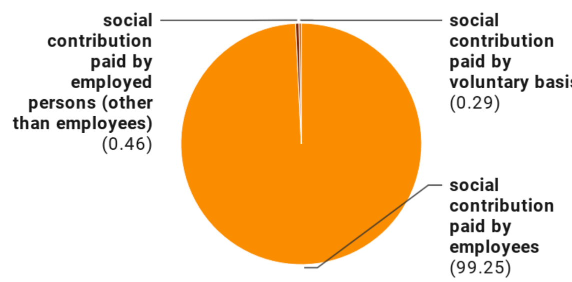
- Risk-shifting to employees;

[Public pension system - financing structure - 2020, %]



Source: OUG 136/2020 • Created with Datawrapper

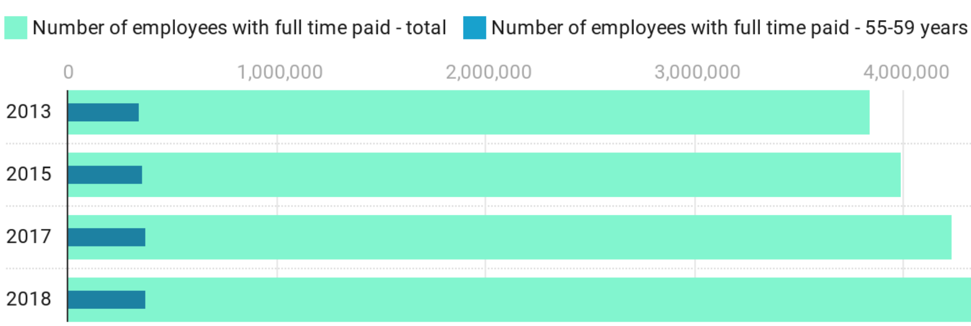
[Social contribution paid by insured persons, in structure - %, 2020]



Source: OUG 136/2020 • Created with Datawrapper

- Poor employment integration / poor wages; and

Number of employees with full-time paid for the whole month by age



Source: NIS • Created with Datawrapper

With the financial support of the European Union

▪ Missing opportunities for remaining in employment until (increased) legal retirement age.

Employment rate by age group and gender

	55 - 64 years - total	55 - 64 years - male	55 - 64 years - female	15 - 64 years - total	15 - 64 years - male	15 - 64 years - female
2014	43.1%	53.2%	34.2%	61.0%	68.7%	53.3%
2015	41.1%	51.2%	32.1%	61.4%	69.5%	53.2%
2016	42.8%	53.0%	33.6%	61.6%	69.7%	53.3%
2017	44.5%	55.3%	34.9%	63.9%	71.8%	55.8%
2018	46.3%	57.9%	35.7%	64.8%	73.2%	56.2%
2019	47.8%	60.1%	36.5%	65.8%	74.6%	56.8%

Source: NIS • Created with Datawrapper

Section 3. Possible Reforms:

Although hasty reforms are among the causes generating difficulties in the pension system, in the near future it will be necessary to adopt some reform measures in order to restore the balance between sustainability and equity.

With the financial support of the European Union

Moreover, capitalisation-based systems are beginning to pay benefits, especially pension pillar II. The promises of the politicians and of the pension fund managers reached the moment of validation.

The legislation for Pillar IV was already adopted but unfortunately this scheme was built in a way that makes it impossible to work. Apart from the way it should be set up, it is identical to the Pillar III scheme. Although established by employers or by collective agreements, neither the employer nor the employees have any leverage over the private fund managers, once it has been established.

In fact, all capitalised pension schemes are more of a business for the financial environment and less a viable mechanism for earning an income in old age.

Among the possible reform measures, the following should be considered:

1. The economic dependency ratio and the fiscal space for greater public spending:

Before the crisis, Romania had a ratio of 1.12:1 between the number of taxpayers and the number of pensioners. In the midst of the crisis, this ratio reached 1:1.

With such a dependency rate, it is necessary to take up measures to increase the number of taxpayers and implicitly increase revenues to the public pension budget. These measures could include:

- Activating people who are currently inactive, including people discouraged from seeking jobs. Promoting concrete measures and having less bureaucracy to increase internal mobility, a fair remuneration system, improving the level of skills for low-skilled persons – these are just some of the measures that can contribute to increasing employment.
- Reducing undeclared work and informal pay. The practice of undeclared work and informal pay is widespread, especially in small private companies. Although it is a known fact, nothing has been done to reduce it. Moreover, the legislative mechanisms to fight the phenomenon have been blocked by delaying the development of the necessary enforcement procedures.
- Modernising and digitalising the labour market management system. The management of labour relations is currently focused on physical documents. The lack of digitalisation of information makes it very difficult to control the Labour Inspection.
- Modifying the tax legislation and law 241/2005 on preventing and combating tax evasion, according to the decision of the Constitutional Court, so that the withholding and non-transfer of social contributions and payroll tax by the employer becomes a crime.
- Withholding social contributions from employees and their non-transfer by employers is another phenomenon present in the Romanian economic environment. Since 2018, for normal working conditions, workers are the only taxpayers in the public pension system. Before 2015, withholding and non-transferring the income tax and social contributions was considered tax evasion. To protect the employers, this provision was abrogated, taking advantage of a decision of the Constitutional Court which considered that in the absence of concrete identification of the taxes and social contributions being withheld, the provision in the tax evasion law is unconstitutional. In the absence of an action by the Government or the Parliament to identify the categories of taxes and contributions considered as being withholding tax, the article that incriminates the withholding and non-transfer of taxes as tax evasion has been repealed.

With the financial support of the European Union

- Correcting law 127/2019 on the public pension system, in the sense that the contributions due are taken into account when establishing the right to a pension, regardless of whether or not they were paid by the employer.

2. **Pension purchasing power;**
   - Effective implementation of the minimum pension mechanism. The new law on the public pension system included the notion of minimum pension, an indicator correlated with the evolution of the minimum wage. However, it is very important that this legislation is effectively applied, given that there is an increasingly used approach to postpone the implementation of some legislative provisions, especially for budgetary reasons.
   - Application of the pension indexation mechanism, so as to preserve their purchasing power.
   - The introduction of a minimum pension for the second pillar, considering the obligatory contribution for this scheme. Currently, only the amount of paid contributions is deducted, minus the administration fees. Participants must be guaranteed at least the amount of contributions paid, adjusted to the inflation rate.

3. **Fairness and equality of contributions, i.e. employers vis-à-vis employees and the situation of self-employed workers (including bogus and dependent / fairness / taxation policy)**
   - Application of a unitary taxation system for social contributions, regardless of the source of income. The calculation basis of the insurance must be the insured income, regardless of their level. A very small number of self-employed people are currently insured for retirement. For a few of them, the insurance has a permanent character that will allow them to get at least the minimum pension when they reach the retirement age. The calculation basis for the payment of the contribution in the case of self-employed persons should be the realised income and not the minimum salary, as is the case at present.
   - Elimination of the insurance threshold of 12 minimum salaries per year for those who carry out independent activities. Self-employed persons are under the obligation to be insured only if in one year they obtain an income that is higher than 12 minimum wages per year. This provision is used excessively to avoid paying insurance. In the case of employees, there is no minimum or maximum threshold for insurance.
   - Granting the right to voluntary insurance, regardless of the level of the contribution period completed, especially in the case of those who carry out seasonal activities or day labourers.

     The new pension law allows voluntary insurance only if there is previously a minimum contribution period of 15 years. Especially in the case of day labourers, self-employed persons or seasonal workers, this provision blocks access to the pension, despite the existence of a previous contribution.

4. **Relation between Social Protection / Labour Market / Collective Bargaining / wage and remuneration levels/ Quality of work;**
   - Promoting collective bargaining as the main lever for reducing wage income inequality. Approximately 30% of employees in Romania have minimum wage income, due to the

With the financial support of the European Union

absence of collective bargaining. Especially in the private sector, there is an excessive flattening of salary scales, in particular at the bottom of the grid.

In the last 10 years in Romania no collective labour agreement has been concluded at sector level. At the same time, the quality of the negotiation process decreased a lot due to the replacement of the Trade Unions with the employees' representatives. This has had a direct impact, especially at the level of the distribution of the added value created at company level.

- Increasing the quality of employment, including ensuring access to vocational training for workers. The level of education is one of the main criteria for salary discrimination.
- Ensuring a more equitable distribution of economic growth.
- Introducing progressivity in the taxation of labour income, in order to protect vulnerable workers with low wages
- Promoting active employment measures, particularly for the vulnerable categories of the active population.
- Promoting active measures for people over the age of 55.

5. Structure and effectiveness of the pension systems;

- Increasing the involvement of trade unions in monitoring capitalised pension schemes.
- Urgently adopting the legislation for the payment of pensions for occupational pension schemes.
- Increasing the involvement of the employer and the trade unions in the functioning of occupational pensions.

6. The gender situation;

- Promoting measures to reduce the pay gap between women and men,
- Promoting active employment measures for women and improving their access to the labour market.
- Ensuring access to public services that allow women to balance their professional life with the family life.

7. Retirement age in relation to demography, effective retirement age and employability at older ages.

- Promoting measures to counteract the effects of an aging population, both through measures aimed at the birth rate, and measures to stop the migration of the working age population.
- Identifying measures to capitalise on the experience of those over 60 years of age, and also viable measures for active aging.

Section 4. Guidelines and Recommendations:

Ensuring an adequate level of pensions to allow for a dignified aging is possible only if there are enough taxpayers, and their salaries are high enough to allow savings.

With the financial support of the European Union

Considering the identified challenges, we recommend the following:

- Creating real employment opportunities, with a decent level of pay that could stimulate the return to the labour market of at least some of the workers who now prefer to work abroad or those who are currently inactive. This would lead to a balance between the number of taxpayers and the number of retirees.
- The reintroduction of solidarity in the financing of the public pension system, so that the burden does not exert excessive pressure on the employee incomes, especially in the light of the difficulties encountered in safeguarding the sustainability of the pension budget.
- Reducing labour taxation and transferring a part of the fiscal burden to support the public budget expenditure to capital.
- Reintroducing progressivity in the calculation of income tax in order to reduce the risk of poverty - in the case of low wages - and thus reducing the burden felt due to paying social contributions for pension or health insurance.
- Restoring mechanisms able to stimulate collective bargaining, especially at sectoral level, in order to reduce wage inequalities, and establishing the right to a pension. Collective bargaining would allow a more adequate distribution of the added value created at the company level and at the same time it would increase the workforce motivation.
- Identifying measures to respond to the aging population problem and to stop the migration of the population of working age, even if the effects of such measures are not visible in the short term.
- Granting the right to voluntary insurance even to those who do not have the required minimum contribution period, coupled with the amendment of the current legislation so that the insurance payment is made at the level of an insured income or at the level of the minimum wage. Such a measure would allow workers who have worked as seasonal or day labourers, as well as those in precarious situations to insure themselves for old age.
- Standardisation of the calculation base of contributions to the public pension system. Regardless of the source of income, the insurance should be based on the actual income.
- Optimising the minimum pension mechanism for the public pension system, so as to ensure a minimum level of benefits in conditions of fair treatment in the provision of benefits. Starting with September 2021, the public pension system will simultaneously operate the social allowance for pensioners (mechanism still operating today, the allowance being established annually by the budget law) and the minimum pension (established by reference to the minimum wage and differentiated according to the contribution period, effective from September 2021).
- Correlation of the minimum pension mechanism with the pension calculation formula. The application of the minimum pension in its current form in the law (applicable from September 2021) will lead to an excessive flattening of pensions, especially in the case of pensions that are currently in payment. The ratio between the minimum pension in net value and the minimum net salary would be 1.25, while the ratio between the average pension in net value and the average net earnings would be 0.85.
- Finding solutions to insure seasonal workers abroad. Many of them will reach retirement without having the minimum contribution period. In order to access public health services without having to pay for these services, elders must be pensioners.

With the financial support of the European Union

- Payment - from the budget allocated to active measures - of social insurance contributions for the unemployed who no longer receive unemployment benefits but are included in active employment programs, especially in the case of training programs.
- The introduction of a guaranteed minimum level of the pension within Pillar II. At this moment the level of the guarantee is too low and does not even cover the real value of the paid contributions, although the participation is obligatory.
- Increasing the level of information of the workers regarding the functioning of the capitalised pension schemes. Workers who are compulsorily insured (by law) or voluntarily insured should have sufficient knowledge to monitor how the resources in their pension account are invested and managed. Currently, their involvement, at least in the case of Pillar II is inexistent.
- Adequacy of benefits, method of calculation, restriction of the scope of special pensions. Special pensions have become a way to get a more favourable approach than the public system due to the smaller number of beneficiaries, in general categories of employed people better positioned in society. These pensions are generally, at least 3 times higher than those in the public system and non-contributory. As these pensions cannot be reduced, approaches such as their over taxation have been discussed recently.
- Introduction of monitoring systems of the pension funds by the unions. At the time of the establishment of the Commission for the Supervision of the pension market, the unions and the employers' associations had one representative in this Commission. However, the Commission was transferred under the Authority for Financial Supervision, and the social partners were excluded. Secondary legislation for the administration of pension funds is currently elaborated without consulting the social partners.
- Elaboration and adoption of the law for the payment of pensions in the capitalised pension schemes. These schemes have already started to pay the amounts accumulated in the accounts of those who have reached the retirement age. In the absence of the law to establish the payment method, the accumulated amount is paid as a single payment or in payments distributes over 5 years. However, this is not the right approach for a pension right.
- Increasing the number of people contributing to the system. This implies a more efficient (broad) coverage by reducing illegal work (without legal forms), eliminating the self-employed insurance threshold, substantially reducing tax evasion, and improving the activity of tax administrations in terms of collection.
- Reviewing the occupational pension scheme and involving the social partners in setting up and, especially, in the operation of these schemes, respecting the rules of sound financial management.
- Revision of the decision to privatise the public pension system made by transferring a part of the contribution paid to the public system to the second pension pillar. The level of contribution currently paid is far too low to secure a decent level of pension in the second pillar. The deficit created in the public system by increasing the level of pension adequacy as well as the accelerated aging of pensions does not leave the possibility to increase in the medium term the contribution transferred in the second pillar.
- Promoting measures to reduce the risk of poverty among both workers and retirees.
- Promoting efficient and adequate active measures for those close to retirement in order to keep them active.

With the financial support of the European Union