

## ETUC SOCIAL PROJECT - SURVEY FOR NATIONAL CONTACT PERSONS

### Trade Union report for Bulgaria

#### National Trade unions that participated in the survey: CITUB

This survey, for completion by the National Contact Persons on behalf of their trade union, is an important source of the qualitative and quantitative information required for the ETUC's SociAll Project. This is in addition to the extensive information about each country's pension system that will already be available to the National Experts from established national and international sources.

The survey will provide the National Experts with:

- Background information, specifically from a trade union perspective, about the country's pension system and attitudes to recent trends in pension provision;
- To outline the challenges in the sphere of pension provision that have been identified by trade unions; and
- Set out the trade unions' priorities and proposals.

The survey is divided into three sections that are summarised in Table 1 below. These relate to the corresponding sections of the National Reports, as outlined in the Methodological Note. Section 4 of the National Reports will also be informed by the information that is provided.

<b>Section 1.</b>	<b>The Country's Pension System:</b> The views of the trade union movement towards the content and the expected effects on the country's pension system of recent reforms and those currently under active discussion in terms of coverage, effectiveness, adequacy and sustainability).
<b>Section 2.</b>	<b>Current Challenges:</b> Trade unions' perception of the main socio-economic and demographic challenges that affect the present and future of pension provision, i.e. deficiencies in people's rights and needs.
<b>Section 3.</b>	<b>Possible Reforms:</b> The trade union's priorities in terms of pension policy and the strategies required to fully achieve the objectives of formal and effective coverage and adequacy of pension provision in the future.

The purpose of the survey is to go beyond the information about each country's pension system that is available to the National Experts from sources that are generally available, with which they will already be familiar, and gain a deep knowledge of the trade union perspective.

The National Experts and National Contact Persons will co-ordinate the gathering of the necessary quantitative and qualitative information from the survey, the interviews and the



desk research. This will provide the basis for the National Report, including an expert assessment of the match/mismatch between trade union objectives and current practice in the coverage, effectiveness and adequacy of pensions for workers and self-employed. The active collaboration of the National Contact Persons will also involve the validation of the national report and contributing to drafting the recommendations.

In line with the requirements of art 17 and following of the Recommendation, and with a consolidated ETUC methodology to gather and elaborate TU inputs, the methodological steps of the research will follow these steps:

- Identify the challenges in terms of people's needs and shortcomings in rights;
- Provide data in support; and
- Elaborate consequent policy drivers to overcome the challenges.

## 1. Indicators

Indicators are required to provide comparable information and evidence on the coverage, adequacy, and effectiveness of pension policy to support the assessments that are made of the current situation and to monitor trends in priority areas. They should provide the National Reports with a realistic assessment (in the view of the trade unions) of what major problems ought to be tackled and to measure the impact of measures that are taken to deal with the financial impact of demographic/labour market/fiscal policy change. This will include projections integrating the sustainability and the adequacy/coverage/effectiveness dimensions, taking account of indicators related to the economic dependency ratio, wage levels, quality of work, etc.

Given this the objective, the areas that need to be covered by the indicators are as follows:

1. Coverage
2. Adequacy
3. Effectiveness
4. Labour Market
5. Sustainability

TU's are also being asked, as part of the Survey described above, to specify the main indicators that they consider, in their national context, best identify the national challenges and support the policy driver proposals. They should also explain, with examples, what they regard as shortcomings in the indicators, given their national situation. This might lead to the development, over the course of the Project, of the ETUC's proposals for integrating the Social Scoreboard, as well as the trade unions' own benchmarking tools.

## The challenges in terms of people's needs and shortcomings in rights

When considering the needs of the people and shortcomings in rights in the social protection systems, incl. the pension system, the challenges that lead to this imbalance must always be analyzed. These challenges have different nature and impact on society and the economy, but the biggest one, which puts serious pressure on pension systems and social systems in general, as well as on the labour market and the sustainability of public finances in the present and in the future, is **unfavorable demographic situation and especially the ageing of the population**. These mean less people working relative to those in old age and increased demand on health and long-term care systems due to the increase of the life expectancy. The average age of the population, which from 40.4 years in 2001 reached 43.6 at the end of 2018, and the average life expectancy of the population in 2017 - 2019 has increased by 1 month compared to the previous two years (2016-2018). At the end of 2019, persons aged 65 and over account 21,6% of the country's population. According to the demographic forecast of Eurostat by 2070, the population of Bulgaria will decrease from 7.0 million people in 2018 to 4.8 million people in 2070 or by nearly 31%. **The share of the working age population (15 -64) will decrease from 64.3% to 55%, and the share of the population aged 65 and over will increase from 21.6% in 2019 to about 31% in 2070**. As a result, the dependency age ratio will increase significantly, and if in 2019 each person aged 65 and over corresponds to 3 people of working age, then in 2070 they will be less than 2 people. Changes in the age structure of the population will have significant impact on the number of insured persons and pensioners, and hence on the value of the coefficient of dependence of the system. In the coming decades, Bulgaria will face serious demographic challenges, which will inevitably affect the financial sustainability of the State pension system. These trends have broad economic implications for both pay-as-go and fully funded schemes which call for effective measures to increase coverage in the systems as well as to achieve better adequacy in order to reduce the risk of poverty and to guarantee the efficiency of these systems. This can ensure the long-term sustainability of the public finances of which pension system and social protection systems are part.

## Coverage

According to the Bulgarian social security legislation all types of employees (workers, self employed and other kind of employment) have to be covered compulsory for pensions (old age pensions, invalidity, survivor pensions) and to be protected as receiving a decent replacement income (pensions) at the retirement. This means that everyone must contribute during his/her active life properly and equitably to the common solidarity pension system (pay as you go system).

Due to the changes in the labour market, the number of people employed in the so-called non-standard forms of employment or self-employment in Bulgaria in the last decade has increased. Some of those people are not covered by social security system, incl. pension system and are therefore exposed to greater economic uncertainty.



**The new forms of work pose major challenges not only to the labour market, but also require appropriate amendments to be made in social security legislation to regulate the inclusion of these categories in the scope of all branches of social security related to employment and especially in pension system.**

The most at risk of inadequacy of pension benefits and social-exclusion groups of people who are not at the same time covered or partially covered by the pension system are atypical workers, younger workers, farmers, casual workers, dependent and self-employed. For these categories of persons there are insufficient accumulation in pension funds due to their irregular incomes, gaps in insurance periods and their exclusion from certain insurance risks (unemployment, accidents at work and occupational diseases, etc.).

Another category of persons at risk of inadequate pension benefits are people with no or low education. Almost 2/3 of the population with primary and lower education, as well as more than half of the persons with primary education in Bulgaria, are economically inactive, which puts them at risk of poverty.

There is also a third category of persons, the so-called discouraged people in the age group 15-64, who are not looking for any job and are naturally not covered by the pension system. In 2019, their number is 61.7 thousand people.

**Although the self-employed persons and non-standard workers are compulsory obliged to ensure in the statutory pension schemes, some self-employed persons and non-standard workers have not access** – for instance, because of insufficient income levels. In other cases, even if they are covered, their protection level is lower than that of standard workers. The effect of the frequently interrupted, shorter careers and lower earnings of self-employed and non-standard workers on their pension entitlements can be further amplified by the accrual conditions in the pension system. For the self-employed, identifying the contribution base can be challenging. Most of them, who are insured for old-age pensions, their insurance base is on the minimum income threshold for statutory social security (e.g. in 2019 their average insurance income is about 56% of the total average insurance income for pensions (and for other social risks), because they pay the social contributions on minimum insurance income (minimum threshold is BGN 560 (EUR 286) and they also have some discretion over their coverage so they tend to gravitate towards the lowest level of insurance, at the expense of old-age income safety. Self-employed and non-standard workers are not entitled to additional pension credits (e.g. in case of unemployment).

**Coverage:**

Indicators	2016	2017	2018	2019
Number of employed persons (15 years +) (in thousands)	3 016,8	3 150,3	3 152,7	3 233,1
Categories of workers and self-employed covered by public pension scheme (thousand)	2 765,1	2 779,8	2 790,2	2 794,0
- Workers	2 515,2	2 528,8	2 538,2	2 547,6

Men	1 298,2	1 304,3	1 309,8	1 314,6
Women	1 217,0	1 224,5	1 228,4	1 233,0
<b>- Self-employed persons</b>	<b>249,9</b>	<b>251,0</b>	<b>251,9</b>	<b>216,6</b>
Men	129,0	129,5	130,0	111,8
Women	120,9	121,5	121,9	104,8
<b>of which farmers</b>	<b>37,7</b>	<b>46,0</b>	<b>44,1</b>	<b>30,8</b>
Men	19,5	23,8	22,7	15,8
Women	18,2	22,3	21,4	15,0
<b>By collective occupational schemes**(thousand)</b>	<b>7,3</b>	<b>7,8</b>	<b>8,3</b>	<b>8,7</b>
Men	2,4	2,5	2,6	2,8
Women	4,9	5,3	5,7	5,9
<b>By individual arrangements related to employment*** (thousand)</b>	<b>601,1</b>	<b>614,8</b>	<b>628,1</b>	<b>640,1</b>
Men	347,5	353,7	360,1	365,8
Women	253,6	261,1	268,0	274,3
<b>Percentage of employees and self-employed covered by old age schemes -% of total number of employed persons aged 15+</b>				
<b>By public schemes -%</b>	<b>91,6</b>	<b>88,2</b>	<b>88,5</b>	<b>86,4</b>
Men	51,6	51,6	54,2	83,1
Women	48,4	48,4	45,8	90,2
<b>By collective occupational schemes -%</b>	<b>0,24</b>	<b>0,25</b>	<b>0,26</b>	<b>0,27</b>
Men	0,15	0,15	0,15	0,16
Women	0,35	0,36	0,39	0,39
<b>By individual arrangements related to employment -%</b>	<b>19,92</b>	<b>19,52</b>	<b>19,52</b>	<b>19,79</b>
Men	24,35	24,67	23,82	21,12
Women	18,95	19,40	20,96	18,27

\* The Public Pension System in Bulgaria includes the first pay as you go pillar and the second compulsory funded pension pillar. It covers all persons engaged in paid employment ( employees and self-employed).

\*\* Collective Occupational Pension Schemes include Voluntary Occupational Pension Schemes.

\*\*\* Individual Pension Schemes in Bulgaria are voluntary schemes and can provide pensions for both workers, self employed, but also non-active persons.

The difference between the number of employed persons aged 15+ and the number of insured persons in the Public Pension System shows that this difference increases from 8.4% in 2016 to 13.6% in 2019, which is related to the growing relative share of non-standard employment and other new forms of employment and this adversely affects the coverage (scope) of the pension system.

**Especially important for the Trade Unions is the inclusion of pension system, which is a part of the social protection system as functional for the labour market. It is because "Better complementarity between the labour market and social integration systems (pension and social protection) will help all risk and vulnerable groups to create greater prosperity for Bulgarian citizens and reach stronger social cohesion as well as well being for the population."**

In this relation it is crucial "to qualify the public social expenditure on the inclusion of the non-standard workers, self-employed, not covered by the system as well as the disadvantaged groups (women, people with disabilities, migrants, young and old people and low skilled workers) as necessary investments now and in the future and for benefits (pensions), related to old age, invalidity and death.

## Adequacy

Unsufficient coverage poses major challenges on the adequacy of pensions. As **adequacy is a key condition** for the functioning of the pension system and its positive impact, this means to **"Link adequacy to terms such as a "sufficient and timely" level of protection because it is the ability of such protection to maintain a standard of living"**

Better adequacy allows all types of people engage in employment to have the necessary means to live in dignity and participate actively in society.

The adequacy of pensions depends on the incomes during the active working life, on which the pension contributions are paid as well as the longevity of insurance participation (length of service) in the labour market with regular employment, income and contributions. Therefore, the widespread extension of non-standard employment and the existence of undeclared work lead to a serious challenge on the adequacy of pensions and the high relative share of poverty among the elderly population.

Another serious challenge that influence on the adequacy of pensions in Bulgaria, creating a tension in society and especially among people working in difficult and harmful working conditions is raising the retirement age and phasing out early retirement options in order to respond to demographic ageing and to improve adequacy of pensions.

**In the period 2015-2019 some measures were taken to increase the adequacy of pensions, namely:**

- A gradual increase in the weight of each year's length of service in pension formula (from 1.1 percent in 2016 to 1.2 percent in 2019);
- Increase of the guaranteed minimum amounts of pensions for employment (e.g. for old age pension): from BGN 157,44 ( EUR 80,5) in 2015 to BGN 213,52 (EUR 109,2) in 2019 and from July,1, 2020 - BGN 250 (EUR 127,8) ;
- Raising the pension ceiling: 2015 - BGN 840 (EUR 429,5); 2019 - BGN 1200 (EUR 613,6);
- From January 1, 2017 until the year in which the percentage for each year length of service from 1.1 percent reaches 1.2 percent, the granted pensions were not updated according to the "Swiss rule", but were recalculated annually from July, 1 each year with an increased percentage of the length of service. This percentage cannot be less than the increase in pensions under the "Swiss rule" (i.e. indexation of pensions is 50% of the

increase in average social insurance income and 50% of the consumer price index in the previous year).

**BUT .....the figures in the table below show that the adequacy of pensions in Bulgaria is low and the relative share of people at risk of poverty, especially those aged 65+, is very high.**

Indicators	2016	2017	2018	2019
Minimum monthly pension for old age – in EUR	81,51	89,83	104,20	109,17
Average monthly pension (PAYGO) – in EUR (for the third category of labour, in which work more then 95%)	186,73	193,98	203,91	216,20
Average pension of a pensioner to the average <b>"gross"</b> 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
Average old-age pension of a pensioner to average monthly "net" insurance income for the country -%	60,5	59,2	57,8	55,5
Average length of service for new granted old age pensions (third category of labour) – in years	35,3	35,3	34,7	34,8
Men	35,9	35,7	35,2	35,0
Women	35,5	35,1	34,5	34,7
Relative share of the poor before social transfers (with included pensions) –in %	26,0	34,5	32,5	38,7
Risk of poverty rate among those age 65 + (in %)	24,3	32,0	29,2	34,6

The data in the table above show that instead of increasing the income replacement ratio (average old-age pension of a pensioner to average monthly "net" insurance income for the country) for the period 2016-2019 it decreased from 60.5% (2016) to 55.5% (2019).

At the same time, the relative share of people at risk of poverty aged 65+ is increasing by more than 10% for the last 4 years.

When it comes to the adequacy of pensions, **it should be noted that one of the biggest concerns of Trade Unions, which is constantly on the agenda of their insistence on the Government, is the low pension amounts of over 58% of pensioners (more than 1,25 mln. people) who receive pensions under official poverty line in Bulgaria – BGN 363 (EUR 185,60) and the high poverty rate of people over 65.**

This means that the **poverty continues to be very serious challenge**. Realized economic growth in the last four years is not inclusive enough to contribute to reducing social inequalities. **There is a significantly higher risk of poverty in some of the most vulnerable population groups, such as the unemployed and retired and the income inequality continues to increase.**

**Social transfers have a very limited impact on reducing poverty and inequality. The share of the population at risk of poverty at the age of 65+ in 2019 for men is 27,2% and for women – 39,5%.**

One of the indicator for the social inequalities in terms of income is the ratio between the income of the 20% richest and the income of the 20% poorest people. In 2019 this ratio is **7,7 times**.

The adequacy and coverage of guaranteed minimum income (GMI) remain at very low levels. After a long stagnation, the amount of GMI increased in 2018 from BGN 65 (EUR 33,23) to BGN 75 (EUR 38,35), but then again 'froze' to this level. And access to social assistance as well as to energy assistance is determined by it, of course, using of certain coefficients, which depends on the type and size of the family concerned.

**Trade Unions make a major contribution to the measures, aiming to improve the adequacy of pensions and all social payments as well as better social protection, which are always their top priority.**

**Better 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 the effectiveness of the pension system can only be achieved on the basis of a close link between incomes, contributions and the amount of benefits (pensions). However, labour market trends, which reflect changes in the nature of employment and new forms of work, affect inequalities in pension rights.

As a part of **self-employed and non-standard workers** are in the gray, 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 taken into account when calculating benefits.** The fluctuating income of the self-employed and non-standard workers can make defining and paying contributions more complicated



than for fixed wage earners. Income assessment bases that are calculated on previous periods of earnings may not take this into account.

**On the other hand, the requirements for advance payments often hamper the self-employed's ability to pay social contributions if their current incomes fall below estimated incomes.**

**Part-time workers** may have to meet a certain hourly threshold and/or minimum wage threshold to be compulsorily insured.

**Some specific categories of workers may have only partial access: casual workers, seasonal workers. Also temporary and agency workers,** even when meeting the minimum eligibility conditions, can have low benefits, because only time spent in actual employment counts towards their contribution records. Usually non-standard workers have lower benefits because of accrual conditions that differ from those for standard workers.

In order to increase the coverage and effectiveness of the pension system and to improve the collection of social security contributions in 2018-2019, **the CITUB conducted a serious study and analysis of the scope and manifestations of undeclared work in 9 risk economic sectors in Bulgaria** (incl. agriculture, construction, transport, light industry...) together with the General Labor Inspectorate. The purpose of the study was to identify the main reasons for the existence of undeclared work and to launch a broad mass education campaign to tackle this phenomenon. In addition, a mobile application has been developed for reporting anonymous alerts by workers and other types of employees, which are insured by the employer at lower than real wages or who have reduced working hours. ( From June 2019 up to now more than 50 000 signals are submitted on the mobile application and part of them have been checked by labour inspectors. These efforts of the Trade Unions are aimed at guaranteeing the rights of the working people and providing better social protection, incl. pensions and other social security risks – sickness, maternity, unemployment)

## Labour market

The results of the Labour market survey 2019 show that at the end of the year were reached better results, similar to the previous three years - unemployment dropped to 4,2%, employment was 75.0% in the fourth quarter for the 20-64 age group) and wages are also continuing to grow steadily (wages continue to be the main source of income in household budgets). In 2019, the income from the salary is increased compared to the previous year of about 10 % and this is the highest nominal growth in the last 5 years. The relative share of income from this source in the total income of households also increased and in 2019 reached almost 56 %, which is 1.2 percentage points more than in 2018.

**A serious challenge for the Bulgarian labour market is the high share of workers in the minimum wage, which continues to grow as a result of an increase in its amount (from BGN 510 (EUR 260,76) in 2018 to BGN 560 (EUR 286,33) in 2019) and this share is about 18%.**

In 2019 the average monthly insurance income on which pension contributions are paid is BGN 986,52 (EUR 504,41). For men, the amount is BGN 1033,61 (EUR 528,48) and for women – BGN 936,68 (EUR 479,92). Compared to 2016, when the average monthly social insurance income for both sexes was BGN 770,07 (EUR 393,74) and respectively for men - BGN 811,59 (EUR 414,96) ; women BGN 726,26 (371,34), it can be seen that there is a slight increase in the difference between the two sexes.

**The CITUB, as an active partner in the National Tripartite Cooperation Council, proposes the development of annual action plans on pay equality, as well as supporting the collective bargaining as a tool to close the gender pay gap.**

Despite the good results overall, most of the problems did not find solutions and even deepened. Among them are the shortage of workforce, the growing discrepancy in the qualifications for the vacancies sought and offered on the labour market and the regional imbalances. The ratio between the number of people entering in working age (15-19 years) and the number of people coming out of working age (60-64 years) shows that as of **31.12.2019 every 100 people coming out of working age are replaced by 67 people entering in working age**. By comparison, in 2001, 100 people coming out of working age were replaced by 124 young people. According to NSI data, the number of employees over the age of 50 is 35% of the number of all employees in the country.

**The major challenges, which are closely related to the imbalances in the economic, social and educational factors are stand out.**

- Emerging structural unemployment with specific elements of age unemployment, hereditary unemployment, regional unemployment;
- Lower activity on the labour market - about 142,8 thousand neither study nor work;
- The rate of the youth unemployment rate (15-29), which despite decreases in the last 4 years - in 2019 is 6,9%;
- The skilled workforce is mainly concentrated in 10 district cities;
- About 55% of employers state that they have serious difficulties in finding suitable people for key positions (BIA survey);
- Deepening shortage of about 190 professions and positions with average qualification - operators of machinery and equipment, technicians, technologists, mechanics, welders, turners, drivers, crane operators, cooks, etc.;
- Deficit of specialists with higher education in the fields of: information and communication technologies; mechanical engineering and automation; chemistry

and metallurgy; electronics; energy; food industry; tourism; specialists with a profile in high technologies; functional managers, business analysts, financiers, marketing specialists.;

- Productivity of labour: Bulgaria's labour productivity is lower compared to other countries in the region and below that of the EU as a whole. The average productivity growth is 3% per year. If the current demographic trends and labour force indicators are maintained, the growth in Bulgaria will increase to 4% per year by 2040. This will not allow our country to even reduce the income gap compared to those in the poorest EU member state.

Indicators	2016	2017	2018	2019
<b>Activity rate (15-64) -%</b>	<b>68,7</b>	<b>71,3</b>	<b>71,5</b>	<b>73,2</b>
<b>Employment rate of the population aged (20-64 years) - %</b>	<b>67,7</b>	<b>73,1</b>	<b>72,4</b>	<b>75,0</b>
Men -%			76,5	79,3
Women -%	64,0	67,3	68,3	70,7
<b>Employment of the population aged (55-64) - %</b>	<b>54,5</b>	<b>58,2</b>	<b>60,7</b>	<b>64,4</b>
Men -%			65,4	69,2
Women -%			56,4	59,9
<b>Part- time employment – (% of total employment aged 15-64)-%</b>	<b>2,0</b>	<b>2,2</b>	<b>1,9</b>	<b>2,0</b>
<b>Unemployment rate (15-64) -%</b>	<b>7,6</b>	<b>6,2</b>	<b>5,3</b>	<b>4,3</b>
Men -%	8,1	6,4	5,4	4,5
Women -%	7,0	5,9	4,7	3,9
<b>Reducing unemployment rates among youth (15-29)</b>	<b>12,2</b>	<b>9,9</b>	<b>8,3</b>	<b>7,0</b>
<b>Share of early school leavers - %</b>	<b>13,8</b>	<b>12,7</b>	<b>12,7</b>	<b>11,0</b>
<b>Share of 30-34 years olds with complemented tertiary education - %</b>	<b>33,8</b>	<b>32,8</b>	<b>33,7</b>	<b>36</b>
<b>Average monthly salary (in EUR)</b>	<b>484,71</b>	<b>530,22</b>	<b>585,95</b>	<b>651,39</b>
<b>Average monthly social insurable income (in EUR)</b>	<b>393,74</b>	<b>420,03</b>	<b>455,01</b>	<b>504,41</b>
<b>Gender pay gap (economic activity) -%</b>	<b>13,2</b>	<b>12,7</b>	<b>12,5</b>	<b>9,9</b>
<b>Compensation of 1 employed person- %</b>	<b>5,8</b>	<b>10,5</b>	<b>5,6</b>	<b>7,8</b>

Sources: Ministry of Finance – National Reform Programme, National Statistical Institute, National Social Security Institute

**The sustainability of the pension system** is expressed in its ability to integrate adequacy and full coverage.

**The challenge here is the need to make the pension system accessible to all and to ensure that everyone can participate and contribute.**

To a large extent, **the policies and measures taken in the last five years (2015-2019)** to improve pension system are achieving the objectives set for improving financial sustainability by:

- increase of the pension contributions (from 17.8% to 19.8%);
- increasing the revenues in the pension system through better collection of the social security contributions, incl. pension contributions;
- expansion of the social security base - negotiating higher minimum social security incomes by main economic activities and nine qualification groups of professions every year;
- limiting the early retirement opportunities;
- introduction of stricter criteria for granting invalidity pensions;

For the past 10 years, the Trade Unions have been actively supporting government policies to achieve the long-term financial stability of the pension system, as a part of the social protection system. Serious measures have been taken **against the avoidance of social security contributions and to improve controls in order to expand the coverage of insurance (measures to limit over-declared work).**

In addition, the **Trade Unions have always insisted that the rate of the pension contributions as well as for other social security risks have to be determined on the basis of accurate actuarial estimates and an analysis of economic and social realities, as well as an assessment of their financial and social effectiveness now and in the future.**

**Challenges related to the equitable social protection services and decent pension payments refers to:** fair distribution of the funds in the public pension system, which means to limiting the costs of the system that are not linked to a real contribution - early retirement and entitlement regimes; linking the insurance payment with the incomes and contributions and eliminating the pension ceiling and the maximum social security income; removing administratively imposed restrictions on the financial state of the system that distort basic insurance principles; changes in the organization and increased control over the collectability of social security contributions and insurance payments.

#### Projections for the main macroeconomic indicators

% of GDP	2020	2030	2040	2050
<b>Expenditures of the state budget – total -%</b>	<b>39,8</b>	36,9	37,1	38,5
<b>- incl. expenditures, related to the ageing of population</b>	<b>18,4</b>	17,3	17,5	18,8

With the financial support of the European Union



<b>Expenditures for pensions -%</b>	<b>8,6</b>	<b>8,0</b>	<b>8,1</b>	<b>9,1</b>
<b>Population over age 65 as % of the whole population</b>	<b>21,7</b>	<b>24,6</b>	<b>27,9</b>	<b>31,4</b>

Source: National Reform Programme – 2019 Update, Long term sustainability of public finance, Ministry of Finance - <https://www.minfin.bg>; Country Report Bulgaria 2019, Updated medium-term budget forecast for the period 2021-2023, Ministry of finance

In order to achieve better pension adequacy and, at the same time, to ensure the sustainability of the pension system, a very important factor is to determine the rate of the pension contribution according to actuarial estimates rather than political or business pressure.

#### **Required rate and actual rate of the pension contribution (PAYGO) , 2018-2050.**

Year	Dependency ratio - %	Income replacement ratio - %	Required rate of pension contribution – (PAYGO) - %	Average actual rate of pension contribution (PAYGO) - %
2018	74,2	41,6	30,8	16,6
2019	73,2	40,5	29,7	16,5
2020	72,6	40,1	29,1	16,4
2021	72,0	39,8	28,6	16,3
2022	71,6	39,4	28,2	16,2
2030	73,0	35,3	25,8	15,9
2040	72,2	34,3	24,8	15,9
2050	81,6	34,5	28,1	15,9

Source: National Social Security Institute, Actuarial report 2019

**For the current and future sustainability of the pension system, one of the major challenge is also collective and joint financing through fair and progressive taxation, which is the right and the best way to build long-term and sustainable protection for all.**

**Next one is the rate of collectability, defined as the ratio of the revenues from social security contributions received in the funds of the solidarity PAYGO system to the due income from social security contributions (according to plan).** In the last five years it is improve from 94,5% (in 2015) to over 100% (in 2019).

**The serious challenge is also the lack of regulatory decisions to guarantee the personal capital of the insured persons in the second-pillar funds and develop payout phase standards that guarantee lifetime supplementary pensions, such as the intent of creating the second pillar. This means to apply adequate mechanisms to modernize pensions from both statutory pillars.**

## Consequent policy drivers to overcome the challenges according to Trade unions.

### In the field of the pension system:

- Starting with the participation of the social partners a process of reflection and **development of an objective mechanism for updating the social benefits**, incl. all types of pension (contributory and generally available), with a view to increasing their coverage and, above all, their adequacy and transparency.
- **Decisive measures to increase the adequacy of pension benefits, especially their minimum amounts**, to guarantee a dignified existence. Improve the link between length (periods) of insurance and the amount of pension benefits and increase the weight of each year length of service in the pension formula (from 1,2% to 1,5%).
- Development with the social partners of a time-bound program **to achieve replacement of pensions from the solidarity PAYGO pillar at the individual level of 65-75 percent and at least 15 percent of the "second pillar"**, so that the replacement rate of about 80 to be guaranteed in the future.
- Taking regulatory decisions **to guarantee the personal capital of the insured persons in the second-pillar funds and develop payout phase standards** that guarantee lifetime supplementary pensions. Apply adequate mechanisms to modernize pensions from both pillars and make their calculation more transparent.
- **Increasing the diversity, coverage and efficiency of pension system and** taking measures to manage the **risk of long-term care**.
- **Increasing the income protection for self-employed, freelancers, seasonal workers employed in flexible and non-standard forms** of work, etc. and to stimulate their participation in the public pension system.
- **Stimulating the emergence of new, voluntary forms of insurance** and / or unemployment insurance, company funds, incl. conferring powers and responsibilities on trade unions (social partners).
- Measures to improve the impact of social transfers to reduce poverty (critical situation).
- **Formation of a social component, which should gradually increase as a share of GDP and reach the average European levels of this component. Gradually making social protection policies an equal priority for fiscal and economic policies.**

- Modification of the methodology for determining the national poverty line and adopting the Eurostat SILK method and developing a "plan" for linking the Guaranteed Minimum Income with it, based on a comprehensive analysis of the laws related to the implementation of support measures and policies to poor, socially disadvantaged and vulnerable groups and to promote social inclusion.

#### In the field of the labour market:

- **Minimizing the negative effects of new forms of work** (non-standard work, work platform "0-hour work", etc.) on the economy, which means to formalize this work and bring them to the formal economy, **to increase wages so as to fully compensate for the reproduction of the labour force.** This requires active measures in both the public and private sectors.  
**One option is for companies to raise wages in sectors** where relative wages lag significantly behind the EU average to encourage trained staff to stay in the country. **Another possible solution is targeting demographic trends, where the proposal is to change attitudes "children and careers, not children or careers",** including the creation of public and private parent support services;
- **Long -term solutions are related to serious and purposeful investments in people's health and education, in science, culture and sports.** "These sectors are key to building, maintaining and developing human capital, both quantitatively and qualitatively," the experts wrote in the report, including lifelong learning, pre-school education and disease prevention;
- **A very important step is to eliminate the gender pay gap and gender pension gap, including through mandatory pay transparency measures, as well as to promote women's access to the labour market and increase the number of women in management positions in enterprises and organizations.** With the creation of equal working conditions, including measures to reconcile work and family life and reduce the gender pay gap, the poverty rate among working women in Bulgaria is expected to be halved.
- **The principle of accumulation and transfer of rights must apply to all cases of change of status,** incl. and in a cross-border dimension that has not been taken into account in the EC proposal now. The CITUB considers that this is a gap that should be filled.

#### In the field of the remunerations:

- **Reduction of low-paid workers to less than 15% and of the working poor to 7-8%.** The amount of the minimum wage is a mandatory minimum standard and the mechanism for its formation should be oriented towards significantly exceeding the official poverty line and approaching a 50% ratio to the average wage of the country.
- **Introduction of minimum wage for graduates - minimum wage x 1.5;**
- **Introduction of an upgrading minimum wage, such as "living wage";** overcoming drastic inequalities in wages;
- **Active participation in the Alliance for Convergence of Wages in the EU;**
- **Adequate protection of workers in the digital economy** in order to prevent the emergence of a new, digital precariat, active participation in the process of modeling the future of labor.

#### **In the field of the social assistance:**

- Conducting a comprehensive reform of the social assistance system, **using the official poverty line as a criterion for access.**
- **Introducing the individual programs and schemes that should be consolidated and transformed into a single social transfer, supplementing the household's equivalent disposable income to the poverty line.** This will, on the one hand, improve the purposefulness and reach of people currently supported and, on the other, a real tool in the fight against poverty and social exclusion.
- **Creation a national map of social services,** which has to be developed together with the municipalities to overcome inequalities in the distribution of resources and improve the quality of social services. In this context, a new Agency with supervisory functions and a new methodological framework for its functioning should be established, which can be funded by a project under the ESF.
- **Applying effective measures to improve the impact of social transfers to reduce poverty (critical situation).** Gradually making social protection policies an equal priority for fiscal and economic policies.
- **Increasing the diversity, scope and efficiency of social services and taking measures to manage the risk of long-term care.**

**All the measures listed above, which relate to the coverage, adequacy, efficiency and sustainability of the pension system, as well as measures in the field of the labour market**



**and social assistance, have a direct effect on the social protection for all and on ensuring decent and sufficient funds and living standard for workers, retirees and people in need.**

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