# FACTS AND PERSPECTIVES OF SOCIAL POLICIES

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**Abstract**

*This study aims to present a short review of the facts and perspectives of the social policies under the terms of the economic, social and political conditions of 2018. After a complicated year, both politically and economically, with deep changes in terms of legislation, 2018 promises to be full of challenges in what concerns the economic, social and political area. The economic and political events of last year (the negotiations on the Brexit, USA paradigm changes, governmental uncertainty in Germany, still visible manifestations of Russia, the still uncertain situation in the European area, etc.) shall have an impact on the evolution of the Romanian economy and on the governmental policies. We hereby intend to analyze the facts and the main potential evolutions regarding the situation of the reforms of the social policies area from the perspective of Romania and of the European Union.*

**Keywords:** *social policies, social protection, economic policies, welfare theory, pension and social securities system.*

## 1. Introduction

This paperwork seeks to find answers regarding the sustainability of the long-term social policy system. Social policies are measures and actions undertaken by the state (strategies, programs, projects, institutions, legislation, etc.) which address the needs of social protection, education, health, habitation etc. In other words, social policies aim at promoting and, as far as possible, supporting the welfare. Social policies aim to change the characteristics of the social life of the community in a direction considered acceptable. The central element is the welfare of the individual, family, collectivity and generally, of the society.

Despite this, the state is just one of the welfare providers, human welfare having multiple sources. Humans are superior and unique beings, whose welfare can be brought by the richness and variety of products on the market, by the income from work (salaries or profit), private income (rent, insurance, loan, etc.). Another source of welfare is represented by social status, family, neighbors, friends, work colleagues and everyone who perceives you as an individual within a community. Finally, another source of welfare relates to the functioning of state institutions, NGOs, foundations or associations which every individual resorts to in his/her current work. Therefore, individuals' welfare cannot be measured by means of a single template, but depending on every individual, his/her desires, aspirations and interests.

Therefore, the main consequence of state social policies is social protection of population, but this is achieved under the joint efforts of all the involved factors – economy, labor market, non-governmental sector, community, state.

Social policies are part of public policies. Public policies consist of the state policies in all the areas relevant for the functioning of a society: economic policies, demographic policies, tax policies, salary policies, policies in the field of environmental protection, urbanization policies, etc. Therefore, social policies represent a set of programs, activities and measures aimed at addressing (elementary) human social protection needs, education, health, habitation and – generally – the social welfare increasing by means of (re) distributing important resources of money, services and time.

Social policy at EU level consists of[1] a set of complementary policies, which have developed and multiplied over time and which act in those sectors of activity affecting or generating the level of individual and social welfare. The permanent concern of the European community on social policy – started with the Treaty of Rome (1957) - has, over time, led to the creation of an "European social model". One of the most important moments of the evolution of this model is around 2000, when the transition from an approach based on the mitigation of adverse social consequences of structural changes, to an approach that aims at modernizing the European social system and investing in human capital occurs – in other words, the transition from a quantitative approach (mitigation of consequences) to a qualitative one (investments in individual). Furthermore¸ an important characteristic of social policy is the delegation of responsibilities regarding the fulfillment of community targets to Member States.

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[1] Politica socială – Institutul European din România 2003, seria Micromonografii – Politici Europene.

The goal of the European Union is to ensure the protection of fundamental rights in the creation, application and construction of EU law. Fundamental rights of EU, in their classic function of defense rights, protects the individuals against public power intromissions of EU institutions. The main values of the European Union: the rule of law, democracy and human rights introduced in its founding treaties, were consolidated by the adoption of a series of documents, which facilitated the fulfillment of certain stages. Furthermore, by means of every step whereby new regulations were established, which led to the development of the Union, new guarantees on human rights were granted[2] .

The Community, and later the European Union, by means of its initial structure as an economic construction and by the modality of making the decisions, succeeded in building an unit and an ability to act which is superior to other European cooperation organizations. The process of integration of this space was achieved by establishing four categories of fundamental freedoms for the European Union Market (free movement of goods, persons, services and capital), to which the following were added: the removal of barriers, the harmonization of legislations, as well as the establishment of an intergovernmental and democratic process of decision-making, in which the application of the acquis communautaire is critical[3]. For the first time in the history of Europe, the Charter of Fundamental Rights of the European Union sums up in a single document the whole area of civil, politic, economic and social rights. The fundamental legal regulations were acknowledged, reaffirmed and developed in the content of the Charter, which fulfills the competences and duties of the Union, but also the principle of subsidiarity. These rights result especially from constitutional traditions and joint international obligations of Member States, from the European Convention on Human Rights and Fundamental Freedoms and the case law of the Court of Justice of the European Union and of the European Court of Human Rights.

The Charter is structured in a Preamble and 54 articles, grouped in six charters: Dignity, Freedoms, Equality, Solidarity, Citizens' Rights and Justice. Therefore, in the 7 chapters, different from traditional constitutions, the Charter makes an explicit distinction between citizens' rights and the rights of all individuals residing in the EU. At the same time, the Charter is an innovation by its content, being much broader than that of the European Convention on Human Rights and Fundamental Freedoms[4] (Fuerea, 2006).

In Romania, social policy is a concerted policy, coordinated by the Ministry of Labor and Social Justice and supported by the activity of other ministers, such as the Ministry of Health, Ministry of National Education and Ministry of Research and Innovation. The fields of activity of the national social policy are the following: **1.** Labor force market (including unemployment) and salary policies; **2.** Pensions and other social insurance rights; **3.** Social assistance and family policies; **4.** Labor relationships, health and safety at work.

## 2. Labor force market

The labor market trust index of Romania[5] shows that more than 60% of the country population believes that 2018 will represent a year of economic downfall due to the following grounds: • 61% of the employees do not expect a salary increase over the next six months • 64.5% feel a greater stress at work • 60% want to change their job in the following year.

The legislative changes in the field of salary, tax and contributions from the beginning of 2018 make Romanian employees to lose confidence in what concerns their future on the labor market. Along with elements perceived to be negative, specific to the companies they work for, these changes make the employees to await a year with more work, more stress and lower income.

According to the answers given within the survey carried out by Undelucram.ro, the largest platform dedicated to Romanian employees, 2018 will bring a massive labor migration between companies operating in Romania.

Not less than 60% of the respondents said they wanted to change their jobs in 2018. The decisions to leave the current job appear to be voluntary, given that 48.3% of the employees are not afraid of being laid off in the next six months. In order to successfully make the step towards a new job in the following year, 61.86% of the respondents said they are willing to take part in advanced courses. 40.9% of the survey respondents declared their ability to be relocated to a different city than the one they are living in order to start a new career. Even so, most survey respondents acknowledge that it will be difficult for them to find a job according to their training and expectations. 44.8% considers that at the time being, there are fewer job opportunities than in mid-2017.

The decision of the employees to search for new opportunities in 2018 is fueled by several factors which, in their opinion, affected and will affect both the income and the professional development. The pessimism that manifests itself in the labor force is, first of all, linked to salary. 61% of the employees do not expect any salary increase in the following six months. Almost 70% of them expect an adverse evolution of income, believing that their salary will lower as a consequence of transferring the contributions from the employer to the employees. Neither the other

[2] Moroianu Zlătescu Irina, Drepturile omului – un sistem în evoluție, IRDO Publishing House, Bucharest 2008, p. 119-120
[3] Peers Steve, Ward Angela, The EU Charter of Fundamental Rights, Hart Publishing Oxford and Portland Oregon, 2004, p.64
[4] Augustin Fuerea, Manualul Uniunii Europene, edition III revised, Universul Juridic Publishing House, Bucharest, 2006, p. 72-73
[5] Radu Ghițulescu, Pesimism pe piața forței de muncă pentru 2018, December 13th, 2017 in http://www.marketwatch.ro

components of the income make the employees feel more confident. 52.8% believe that, in addition to the lower wages they will have in 2018, they will also be affected by a decreasing bonus.

If at the end of 2016 the employees were already planning the holidays for 2017, currently 55.3% of them stopped doing this, saying that they expect to afford less leisure time.

In addition to the lower income, Romanian employees believe that work environment is gradually coming down. 64% claim that during the last six months, the workload has increased, while the support provided by the company or colleagues for the performance of the activity remained the same (51%). Even with a higher workload, work environment, procedures or efficiency remained the same (41.6%), or got worse (41.8%). This leads to a greater stress, felt by 64.5% of the employees. Despite the fact they have evolved professionally in the companies they work for (56.7%), only 18.7% believe that they can advance on the hierarchical scale of the current job. The aforementioned elements make 40.3% of the employees lose their trust in the future of the companies they work for.

## 3. Pension system

For those directly involved in studying, calculating and granting pensions (National Fund of Public Pensions, the Ministry of Public Finance,

Ministry of Labor, Family and Social Protection, National Commission for Prognosis and even the Presidential Commission for the Analysis of Social and Demographic Risks) - the pension system involves a great volume of material, technical and human resources. Furthermore, pensions are always a favorite subject for electoral campaigns; the politicians always promise higher pensions to an electorate they reward or buy. If the issue of pensions and especially the high number of retirees worry the authorities all over the world, in Romania the situation is quite dramatic due to multiple conditions which split the working population. Unfortunately, the intervention of politics in the economy life and structure affects decisively this fragmentation of the population.

The Romanian pension system, as in case of most of the European countries, originates from the system designed by Bismarck about 125 years ago, being "step-by-step" systems.

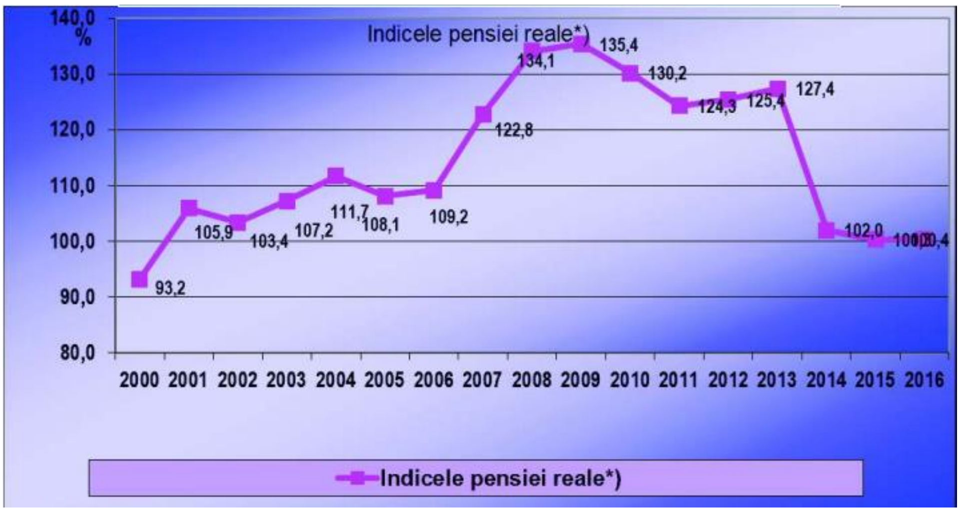
The most important observation for this system is that it has a compulsory nature, which is related to individual labor agreements. The system is supported by three parties: employer, employee and state.

Western Europe took over the Bismarckian system, thus becoming the alternative model to the Beveridgean or Anglo-Saxon insurance system. It is used in many EU Member States such as France, Germany, Austria, Belgium, the Netherlands and Romania.

The characteristics of this model are the following:

- the financial resources are mainly represented by compulsory contributions paid by employees and employers;
- furthermore, there are resources coming from state budget (local or national) allowances or other types of allowances;
- the institutions managing the insurance funds are nonprofit;
- the management and use of insurance funds are made nationally and by means of local tax administration departments.

Image 1. The evolution of real average pension throughout 2000-2016 (%)




**Source:** Constantin ANGHELACHE, Alexandru MANOLE, Marius POPOVICI, Emilia STANCIU - Analiza statistică a situației pensionarilor, Revista Română de Statistică - Supliment nr. 12 / 2016, pp.176.http://www.insse.ro/cms/sites/default/files/field/publicatii/buletin_statistic_lunar_7_2016_0.pdf

At the level of the European Union, including in countries located in Central and Eastern Europe, pension systems are mainly organized as state pension systems, financed and supported by the state budget, a modality of organization with special effects on public finance. Furthermore, when we speak about the way of organizing and financing different types of public pension systems available in the European Union Member States, but especially when we speak about their financial sustainability, we have to take into account the increasingly trend of population aging in conjunction with financial constraints. In order to classify pension systems, the following determinants must be taken into account:

First of all, according to financing means, the following categories are outlined a) pay as to go (PAYG) systems which operate on the principle of social solidarity, namely the employee pays, as long as he/she is active, a contribution which will become the pension of future generations and b) systems privately financed or managed by the contribution of the employee or the employer;

According to legal basis and establishment modality, the following categories are outlined: systems established by law or by collective labor agreement;

According to the participation in the system, they are compulsory and voluntary;

According to the types of benefits: systems where the obtained benefits vary depending on the results of the investment of the assets of the participant's funds and systems where a certain benefit is established and the contributions for reaching the respective benefit are calculated. The great majority of the European countries fall under the scope of this last type of defined benefits, except Germany, Slovakia and Romania where points system is available.

Within the European Union, pension system is supported on three pillars: the first pillar belongs to the pensions regulated under the law, totally financed by shares – social insurance contributions of the participants to the public pension system. It is a pay as to go (PAYG) system under the scope of which fall countries such as Bulgaria, Estonia, Lithuania, Latvia, Hungary, Poland, Slovakia and Romania. The second pillar consisting of pensions established under the labor agreement (by collective or individual provisions) called occupational pensions, strictly connected with the workplace in countries such as ca Bulgaria, Poland, Hungary, Romania or Slovenia. The third pillar, of the individual provisions, with no connection with the occupation. The members are largely employed, without this being absolutely required, under the possibility of collective membership (by trade unions or associations). The participation is not mandatory under the law, the employers or the state can contribute to this system.

Despite all these, in the assessment of the pension plans, we have to take into account what happens in practice and it was noted that the amount saved by the population is relatively stable in a certain period. If a certain saving system is required, the amounts saved by other means will decrease. Therefore, the economic increase should not be connected to the specific arrangements for the constitution of pension systems, to the existence of the accumulation funds, even if they represent important investment sources. Furthermore, the largest part of pension funds is placed, in order to avoid investment risks, in government bonds, therefore in public debts. Indeed, we expect that the management of private pension fund to be a prudential one, therefore, to avoid failure, but relatively small accumulations of system contributions will result. The perception of the differences in the addressing of pension reforms by the World Bank and the European Union is important to us, given that in the treatment applied to World Bank (supported by the International Monetary Fund, in what concerns the low level of income, generally speaking, therefore the level of the pensions, as a modality to control the inflation by reducing consumption). It is obvious that not only Romania has suffered such an influence, but also other former European socialist countries. It should be noted that the differences noted hereby between EU and the World Bank are not directly disputed, but rather by mutual ignorance of the projects of each of the parties. Therefore, in the studies of the World Bank, public pension schemes are deemed inappropriate, difficult to reform and represents a deadlock for the economic growth and the governments of the assisted countries not to repeat "the costly mistakes of industrialized countries".

On the other hand, the scope within the EU is that the reform of the pension system is not performed to the detriment of current beneficiaries, therefore not by diminishing the role of the public system, which is the most widespread and will remain the main system, but which, despite this, is not the only solution. By means of reform measures, which could also involve reductions in the amount of public pensions (very generous in certain countries), a fair intergenerational balance, a satisfactory level of pensions, sustainability and modernity should be reached.

Therefore, a retiree can have one or more pensions, financed from a single source or from several sources. Theoretically speaking, the more the pension sources are multiplied, the more likely it would be to cover the requirements of an acceptable standard of living. However, this does not happen automatically, if the amount of the pensions from each source is low, the optimal level of financial resources may not be reached. The most disadvantageous situations, not at all impossible, would be those by which, although there are available several sources of pensions and several types of pensions, the target population is not covered and/or a combined amount of the pensions is provided which would have been provided by a single system / single pension. Normally, it would be desirable to seek high performances in delivering income to beneficiaries within each system/source/pension. If two or more systems do not exceed the cumulative performance that would be achieved by a single one, their introduction is not justified, given that this would imply a higher level of administration costs compared to the operation of a single one.

Table 1: Romanian private pension system (pillar II)

| **ROMANIA** | Retirement age: 65 men / 60 women (in 2015) |
|---|---|
| THE ORGANIZATION OF PRIVATE PENSION SYSTEM | Pillar I - Compulsory:<br>▪ PAYG type –the system of pension points;<br>Pillar II – Compulsory/optional (2007):<br>▪ Defined contributions, individual accounts, Contributions of 2.5 % (of 10.5% of gross salary) – 5.1% as of 2015. In December 2017, it was reduced to 3.75%.<br>▪ There is separation between the manager and the fund.<br>▪ Compulsory for those under 35;<br>▪ Optional for the other employees (35-45 years old).<br>▪ Private pension systems – Pillar II - accumulated, throughout 2007-2017, total funds of RON 38 billion in the accounts of over 7 million participants, thus achieving an average annual yield of 9.1%,<br>Pillar III – Optional:<br>▪ Optional pensions, contributions of no more than 15% of income, individual accounts.<br>▪ In December 2017, the number of participants in Pillar III reached 446 thousand. |
| SYSTEM GUARANTEES | Relative performance guarantee<br>Minimum level of rate of return, calculated on risk levels.<br>Absolute guarantee: The total amount due for private pension cannot be lower than the value of the contributions paid, reduced by transfer penalties and legal fees.<br>Other security elements: Romania has available the widest range of risk control tools: assets separation, actuarial reserves, depository verification, guarantee fund, audit, minimum rate of return. The guarantee fund is intended to cover unpredictable risks and which are not covered by technical provisions. |
| DEVELOPMENT OF THE MARKET AT PILLAR II LEVEL (2009) | 4.57 mio. participants – Pillar II. 12 managers. RON 25.94 billion (about EUR 6 billion), representing 3.70% of the GDP in 2015. In December 2017 the number of participants in Pillar II had reached 7.043 mio. participants. Maximum limits for investments: 20% in money market instruments, 70% government bonds, 30% securities issued by local public administrations, 50% shares, 5% corporate bonds, 5% mutual funds. Maximum fees allowed: Max. 2.5% of contributions. Max. 0.05% / month of net assets. |

**Source**: Adapted after Dan Zăvoianu – Comparation between private pension systems pillar II and the world states market - Communication Department – CSSPP, Bucharest, July 2010

**In Romania**, in the short term, the risk of breakdown of the pension system was removed, in medium and long term, but its sustainability is still questioned. On the background of an unfavorable employment rate, on the background of a rapid population aging and of a demographic involution which is predicted to be disastrous (the National Institute of Statistics predicts that the population will decrease by 2060 by about seven million persons), the pension system will no longer be able to provide the necessary social protection for future retirees and will become a cornerstone of the economy by affecting investment in productive sectors and increasing taxation). After recalculating the pension system in 2010, it became more equitable, being relatively simply to apply and easier to understand. In this context, the measures in recent years have favored sustainability.

In our country, the current pension system is based on three pillars, the same as in case of the European Union Member States:

Pillar I public budget of pension pay as you go with defined benefits, regulated by law 263 of 2010 according to which the contribution of the employee is of 10.5% of the gross salary income and the contribution of the employer of 20.8% in relation to the employee's gross salary.

Pillar II compulsory pension fund, regulated by law 411 of 2004 characterized by:

- mandatory contribution for employees under 35 and optional for those between 35 and 45;
- contribution (in 2013) of 4% of the gross salary income of the employee is a part of the contribution due to Pillar I;
- minimum investment guarantees – actual amount of all contributions minus management fees.

Pillar III of optional pension fund, regulated by law 204 of 2006, where the contribution is optional, is privately managed and the income cannot be guaranteed, it is also optional. The contribution in this pillar is of no more than 15% in connection with gross income, is a contribution jointly paid by the employee and the employer and is encouraged by tax deductibility.

Several studies have emerged in the recent years which relate in detail to public policy alternatives in the field of pensions. Therefore, in 2012 Expert Forum published Working Paper 3 called "Cine va plăti pensiile „decreţeilor" în 2030? Situaţia României în contextul comparativ UE şi 7 scenarii de evoluţie ale sistemului public de pensii" (Who will pay the pension of the children of the decree in 2030? Romania's situation in the comparative EU context and 7 evolution scenarios of the public pension system).

Therefore, according to the most plausible scenario, if the legislation in its current form remains in force, pension fund deficit shall be of no more than 2.5% of the GDP in 2019. In 2042, the fund will reach a deficit of about 1.2 % of the GDP. The pension as a percentage of gross average salary, which is currently of 37%, will decrease to 24 % in 2031. The conclusion of the study is that depending on the alternation of political parties with left or right ideology, the emphasis will be placed either on the social component or on the reduction of the deficit in GDP. In case of the social component, the shares of the contributions directed to pillar II increase to 10%, the deficit of GDP may increase by 0.62% compared to initial scenario, but the replacement rate improves by 2%. If the GDP deficit is to be reduced, the retirement age will be increased to 65 years and as a consequence of a fund deficit of no more than 2% of the GDP in 2019, the fund will be balanced. However, the pension system will be the test stone of any government for 50 years of now on, this is the conclusion of another study called "Riscuri şi inechităţi sociale în România" (Social risks and inequities in Romania) published in 2009 by the Presidential Commission for the for the Analysis of Social and Demographic Risks[1].

According to the respective study, the retired population (aged 65 and more) is in a continuous growth while the number of employees decreases dramatically:

- since 2008, few generations have started to enter the labor market, and the number of employees will not increase much, even in the event of a steady economic growth. As a consequence, the use of immigrants will become a necessity in five or six years, when young labor force inputs will be very low and will be reduced by the increase in the share of students in every group and by the departure of young people (whose number is already very low) to better paid jobs in the West;
- as of 2030-2035, the children born by the transition generation, likely to be less numerous, will enter the labor market. Only the recovery of the fertility rate (which should reach from 1.3 to at least 1.5, the EU average in the medium term and to 1.7-1.8 in the long term), correlated with the regulation of the migratory flows would reduce this process;
- the issue of the elderly without pension and health insurance will be visible especially after 2025, when persons who work illegally or do not work at all reach old age without benefiting from pension or health insurance, and the costs of the minimum services related to them shall be incurred by the social assistance system.

Table 2: Polish private pension system (pillar II)

| **POLAND** | retirement age: 65 men / 60 women |
|---|---|
| ORGANIZATION OF PRIVATE PENSION SYSTEM | Pillar I - Compulsory:<br>▪ Pay as You Go, Defined contributions, virtual accounts (system reformed in 1999);<br>▪ Occupational public pension schemes.<br>Pillar II – Compulsory:<br>▪ Defined contributions, individual accounts;<br>▪ Contributions of 7.3% of the gross salary;<br>▪ Compulsory for those under 30;<br>▪ Optional for those between 31 and 50 years old (introduced in 1999)<br>Pillar III – Optional:<br>▪ Defined contributions, Occupational optional plans introduced in 1999;<br>▪ Personal optional schemes introduced in 2004;<br>▪ Reserve funds, demographic bases; |
| SYSTEM GUARANTEES | Minimum relative performance guarantee<br>Minimum rate of return – the lowest value of the following:<br>▪ the average market yields over the past 3 years minus 4 percentage points;<br>▪ 50% of the rate of return annualized weighted average of the last 3 years;<br>▪ the reserves of the manager must cover potential deficits.<br>If the manager goes bankrupt, the resources of the National Guarantee Fund are used. The amount which cannot be covered by this fund shall be covered by the state treasury. |
| DEVELOPMENT OF THE MARKET AT PILLAR II LEVEL (2009) | 14.36 mio. participants – Pillar II. 14 managers.<br>EUR 43.76 billion net assets. 14.11% share in GDP<br>Maximum limits for investments: 40% shares; 40% mortgage, municipal or corporate bonds; 20% deposits. Statistically speaking – 31% of the assets are invested in shares.<br>Maximum fees allowed: 3.5% of the contributions, as of 2010. Fees depending on the size of the fund: 0.54%/ year of net assets for small funds and 0.06% / year of net assets, depending on yield – transfer of EUR 23 – 42 (<2 years) |

**Source**: Adapted after Dan Zăvoianu op. cit. CSSPP, Bucharest, July 2010

The first stage of pension fund nationalization in Poland was performed in 2013, when the money of the government bonds was moved from Private Pillar to Public Pillar. Polish state left a period of time where

[1] the report of the Presidential Commission for the for the Analysis of Social and Demographic Risks, led by professor Marian Preda PhD, called "Riscuri şi inechităţi sociale în România" (Social risks and inequities in Romania), published in September 2009.

everyone can "choose" to keep the rest of the sums in private Pillar II or to go to state Pillar I. Despite this, at that time, the authorities forbade pension managers to advertise in order to attract participants**,** and who did not make a choice within a certain time was automatically directed to Pillar I[1].

The Government of Warsaw announced in 2016 the largest restructuring of the pension system of the past two decades, and, as a consequence the authorities are going to abolish privately administrated pensions, the so-called Pillar II, as of 2018. (Reuters news agency). The money shall be transferred to a Reserve Fund and several private mutual funds. Polish government will transfer about a quarter of the assets of about PLN 140 billion, (about $ 35.2 billion), currently held by private pension funds to a single investment manager called the Demographic Reserve Fund, and OFE private funds will be closed[2].

Table 3: Hungarian private pension system (pillar II)

| **HUNGARY** | retirement age: 62 men / 62 women |
|---|---|
| ORGANIZATION OF PRIVATE PENSION SYSTEM | Pillar I - Compulsory:<br>▪ Pay as You Go (system reformed in 1995);<br>Pillar II – Compulsory (1998 - 2010). Optional after 2011.<br>▪ Defined contributions, individual accounts, Contributions of 8% of the gross salary (potentially 2% extra);<br>▪ Compulsory for those under 35 years old;<br>▪ Optional for the other employees.<br>Pillar III – Optional (1994):<br>▪ Defined contributions, individual accounts.<br>Pillar IV – Optional (2007):<br>▪ Intended for occupational pensions. |
| SYSTEM GUARANTEES | No performance guarantees, only indirect guarantees.<br>▪ Hungary has a special fund to protect capital accumulation, financed by mandatory quarterly contributions, between 0.3 and 0.5% of the contributions<br>▪ Special fund protects total benefit of retirees and the accumulated capital of taxpayers in case of insolvency.<br>Performance goals must be established, but the failure has no consequences. |
| DEVELOPMENT OF THE MARKET AT PILLAR II LEVEL (2009) | 3.02 mio. participants - Pillar II.19 managers.<br>EUR 9.63 billion net assets. 10.34 % in GDP<br>Maximum limits for investments: 50% shares, 30% bonds, 25% mortgage bonds, 10% in real estate funds, 5 % in hedging funds.<br>Maximum commissions allowed: 4.5% of the contributions, 0.66% per month of net assets – management fee. |

**Source**: Adapted after Dan Zăvoianu op. cit. CSSPP, Bucharest, July 2010

In 2010, the authorities of Budapest used the justification of the anti-crisis fight to take over in the accounts of the state both the government bonds held by the pension funds, thus canceling a significant part of the public debt, and their share portfolio. At that point in time, the value of the total assets of private pension funds of Hungary amounted to about EUR 15 billion.

In 2011, Hungary nationalized private pension system. By means of the new pension legislation, EUR 11 billion passed from pillar II to public pension budget, endangered by collapse. The employees were no longer bound to contribute to private pensions and acquired the right to choose the pension system to contribute at.

As part of the compulsory pension insurance, Hungary operates a so-called mixed system consisting of 2 levels. The first level (pillar) operates as a pay-as-you-go service and represents a proportion of 3⁄4. Level II is a private pension scheme which operates based on the principle of capitalized contributions under a private pension system and represents 1⁄4. The minimum insurance term within pillar I is of 15 years for partial pension and 20 years for full pension[1]. There is no minimum term established for pillar II. The contribution of the insurants in level I of social insurance is of 8.5% and for the members of the private pension scheme is of 0.5%. Insured persons shall be entitled to disability pension in the following situations:

- have lost 67% of their work capacity as a result of health deterioration due to a physical or mental illness and no improvement is expected for one year.
- have fulfilled the required service/insurance years;
- do not work regularly or have a salary that is considerably lower than the salary before the invalidity;

[1] http://www.contributors.ro/economie/ce-nu-se-spune-despre-banii-din-pilonul-ii-de-pensii-cine-are-acum-1-000-de-euro-acumulati-poate-avea-peste-25-000-de-euro-la-varsta-pensionarii/

[2] http://adevarul.ro/economie/business-international/polonia-desfiinteaza-pilonului-pensii-banii-vor-transferati-fond-rezerva-mai-multe-fonduri-mutuale-private-1_577b63e05ab6550cb8925659/index.html

[1] https://www.pensiata.ro/pensia-europeana-si-internationala/pensia-in-ungaria/

the minimum insurance period required is different depending on age.

## 4. Social assistance

A short history of social insurance of Romania reveals[2] that the pension system dates back to 1895 when Mines Act was implemented and the first rules of social assistance were legalized. The workers' rights were in a first stage granted by mutual support between them. Once with the emergence of Mines Act, the introduction of compulsory social insurance for miners and workers in the oil industry was established. On this occasion, both the right to pension and the right to compensation in case of work accidents were institutionalized, a mutual aid fund and a pension fund were established and were supported by the mutual contributions of employers and workers. Later, in 1902 by means of Missir Law, due to the organization of professions, a social insurance system for various categories of craftsmen was established. Subsequently, Niţescu law places on legal basis the principle of compulsory insurances for accidents, illness and old age of all employees in corporations. In the interwar period, the first private social insurance systems emerge, operating in parallel with the compulsory state social insurance system. While state system belonged only to the holders of labor agreements and craftsmen, private system attracted various social categories such as the Romanian Orthodox Church and the members of the creation unions. After the great economic crisis of 1929-1933, Ioaniţescu law unified social insurances throughout the entire national territory. The law establishes the principle of contribution and solidarity, sets the contribution rate to 6% of the salary and guarantees the state pension system. Before the outbreak of World War II in 1938 a new law which tried to keep insured persons under surveillance was adopted.

From the legislative point of view, communist system focused on the modification of previous laws, by Decree 409 of 1945 which provided the increase and indexation of pensions. The last law on social insurances which was adopted by the communist power in 1977 established restrictions on insurance rights.

After 1989, a difficult period of legislative changes in the field of social insurances started, the following being included:

- Law Decree no. 70/08.02.1990 – whereby changes were made to the age pension regime;
- Law Decree no. 118/1190 amended and republished – on granting rights to persons persecuted for political reasons by the dictatorship established as of March 6th, 1945, as well as to those persons deported abroad or prisoners;
- Law 42/1990 – for honoring martyr heroes and granting rights to their successors, wounded persons and persons who fought for the victory of the Revolution of December 1989;
- Law 73/1991 – for establishing social insurance rights and for the amendment and supplementation of regulations of social insurance and pension legislation;
- Law 1/1991 amended and republished – on the social protection of unemployed persons and their reintegration into employment.

The effects of all these contradictory evolutions can be summarized as follows:

- the increase of the total number of retirees from 3.58 million in 1990 to 5.401 million in November 2013 (+50.8%) under the decrease of the number of employees from 8.156 million in 1990 to 4.378 million in September 2013 (- 46,32%);
- dependency rate[3] decreased from 3.43 in 1990 to 0.92 in 2101 and 0.93 in 2013;
- the effective retirement ages were below standard retirement ages: in 2009 the differences were between 5 and 7 years[4];
- dramatic decrease of real net average pension (1990 – 100%) throughout 1990 - 2000 (minimum value of 44.3% in 2000), slight increase throughout 2001-2006 (57-58% in 2006), than the spectacular growth over 2007-2009 (the maximum value being reached in 2010 at 123.8%) and relative stabilization of 2011 - 2012 around the value of 117%;
- replacement rate[5] calculated based on the average pension for normal retirement age and average net salary increased from 48.6% in 2000, to 65.3% in 2010 and 58.2% in 2013 (based on the average net salary of the first 9 months of the year).

Despite all these, we believe that the real reform of state social insurance starts with law no. 19 of 2000, which determines the possibility of access to the social insurance system of all income-producing persons, without being limited to labor agreement holders.

## 5. Work relationships, health and safety at work

Many of the jobs created in the global economy of today[6] are ecologic jobs, the so-called green jobs, as well as jobs in industries created to mitigate adverse impact on the environment, by developing and

[2] www.filbuc-caa.ro Scurt istoric al asigurărilor sociale în România Apariţia sistemului de securitate socială în România. Sfârşitul secolului XIX – Primul război mondial.

[3] The dependency rate is the ratio between the average number of employees and the average number of retirees.

[4] Mihai Șeitan, Mihaela Arteni, Adriana Nedu, Evoluţia demografică pe termen lung și sustenabilitatea sistemului de pensii, Ed. Economică Bucharest, 2012, p. 28

[5] Replacement rate is the ratio between the value of the pension (average simple, average value for the normal retirement age and full term of contribution) and the value of average salary (gross or net), in other words how much of the gross / net average salary is replaced by the average pension

[6] National strategy in the field of the occupational health and safety for 2017-2020

implementing alternative technologies and practices. While green jobs are welcome because they offer new employment opportunities, it is important to be set up and monitored so that new potential dangers and risks to be known and eliminated or mitigated.

Education also plays an important role in the development of knowledge/skills in the field of hygiene, body health and integrity, for those integrated in the education system of Romania.

The health and safety at work is perhaps the most important chapter of EU policy on employment and social affairs[7]. The fundamental goal of this chapter is to prevent potential malfunctions within labor system, so that human resource activity can work with maximum efficiency. Human resource is at the forefront, the most important goal being the protection of life, integrity and health of human resource, as well as the prevention of accidents and occupational disease risks.

It is well-known that the scope of the "Community strategy 2007-2012 on health and safety at work"[8] was the continuous, sustainable and homogeneous reduction of work accidents and occupational diseases. Despite this, within the European Union:

- Every year, over 3 million employees suffer a work accident involving absence of more than 3 days from work and around 4000 employees die in the same type of accidents;
- 24.2% of the employees believe that work can affect their health and safety;
- A quarter of the employees consider that their work affect their health[9];
- Over 3% of the gross domestic product of EU represents the level of direct and indirect costs generated by medical leave;
- Last but not least, social insurance costs that can be related to occupational diseases or work accidents are very high.

By taking into account all these aspects, "National strategy on health and safety at work for 2017-2020" is correlated with EU strategic directions and with the "European Pillar of Social Rights"[10], a document that takes into account the dynamics of recent changes at EU level as well as the changes in the labor market. Therefore, according to the pillar, workers are entitled to a high level of protection of their health and safety at work.

In this context, general goals of National strategy on health and safety at work for 2017-2020 are the following:

- a better implementation of the legislation on health and safety at work, especially in microenterprises and SMEs;
- the improvement of the safety and of the protection of workers' health, especially of those from economic activities of risk, in the priority areas of action, with emphasis on the prevention of occupational diseases;
- the simulation of joint actions with social partners, by the awareness and involvement in the management of health and safety issues at work and the materialization of an efficient social dialogue;
- the appropriate management of the issue of older workers in the context of the general phenomenon of population aging, respectively of active labor force.

The specific goals of the National strategy on health and safety at work for 2017-2020 are the following:

- the improvement of the legal background of the health and safety at work;
- the support of the microenterprises and of the small and medium sized enterprises in terms of the compliance with the legislation on health and safety at work;
- the improvement of the process of observing the legislation in the filed of health and safety at work by actions of the authorities with duties in the field;
- the approaching of the phenomenon of labor force aging and the improvement of occupational disease prevention;
- the improvement of the collection of statistic data
- the consolidation of the coordination with national partners to reduce accidents at work and occupational diseases.

These specific goals shall be achieved according to the National actions plan for the implementation of the national strategy on health and safety at work for 2017-2020 which is an integral part of this document.

## 6. Conclusions

As shown above, the trends in the evolution of population structure in our country are negative, and we will see an accelerated aging of the population. Currently, the population over 65 is of 3.3 million people, namely 16% of the total population. In 2020. the retirees will account for 3.6 million, namely 17% of the total population of the country and by following the same upward trend, by the middle of this century, the retirees will account for 30% of the total. Simultaneously with the aging of the population, we are witnessing the decrease of the birth rate and the increase of the dependency ratio of the elderly[11].

[7] Policy substantiated on article 137 of E.C. Treaty.

[8] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions of February 21st, 2007 called "Improving quality and productivity at work: Community strategy 2007-2012 on health and safety at work" [COM(2007) 62final].

[9] European Working Conditions Survey, 2010

[10] European Pillar of Social Rights, CE 2017, cap.2

[11] proiectarea populației active la orizontul anului 2050 (projection of the active population in the horizon of 2050) – INS, 2013

By taking into account this situation, it is noted that the current level of social contribution is unsustainable in the long term. In this context, Romania proposes that between 2014 - 2020, according to the Partnership Agreement with the European Commission: "70% of the population between 20 and 64 years old must be employed" - in what concerns the employment rate, a key element in supporting a viable pension system; and "the number of persons exposed to poverty and exclusion risk must decrease by 580 000 (compared to the levels of 2008).[12]"

2018 started with the enforcement of certain legislative changes[13] affecting most of the population, but also the business environment. The most important changes aim the following: the transfer of the social contributions (pensions, health) from the employer to the employee, the amounts being retained and transfer by the employer; the increase of the national gross minimum wage from RON 1450 to RON 1900; the decrease of the income tax from 16% to 10% and the decrease of the pension contribution share to Pillar II from 5.1% to 3.75%.

Therefore, the level of the contributions calculated to a gross salary decreases by 2 percentage points, from 39.25% to 37.25%. Out of this amount, 35% is incurred by the employee, 25% for pensions and 10% for health. On the other hand, the employers should increase the gross wages by about 20%, so that the net income of the employees remain unchanged or should offset this difference by amounts representing extra pays or bonuses. Self-employed persons, such as lawyers, journalists, writers, notaries or physicians will pay social contributions calculated at the level of the national minimum wage, not related to the amounts earned from the activities carried out, as before. The share of social health insurance (CASS), established as of January 1st, 2018 to 10%, shall be due by natural persons who have the status of employees or have the obligation to pay the contribution. Those who are not exempt will pay CASS if they receive annual earnings amounting to at least 12 minimum wages (namely RON 22,800 to a minimum wage of RON 1,900), from one or more sources of income, such as independent activities, rental or leasing activities, investment (interest, dividends etc.), agricultural activities, association with a legal person or other sources. If the threshold of RON 22,800 was exceeded, the taxpayer must submit to ANAF, until January 31st, 2018, form 600, where the taxpayer will mark that the threshold was exceeded and will pay CASS contribution for 2018 in a fixed amount of RON 2,280, paid in 4 quarterly installments. The contribution is calculated by applying CASS share of 10% to the equivalent threshold of 12 minimum gross wages of RON 22,800. The payment deadlines for each installment amounting to RON 570 are March 26th, June 25th, September 25th and December 21st, 2018. Child raising allowance will increase from RON 1,233 to RON 1,250, being related to the Social Reference Index (ISR), instead of the minimum wage. Minimum allowance is established to the equivalent of 2.5 ISR, and the maximum allowance to RON 8,500.

Despite all these, the legislative changes of the beginning of 2018 were performed without a thorough study of the impact on the Romanian socio-economic environment, thus generating new problems on the labor market, in the sustainability of social programs and in the predictability of business environment.

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[12] Partnership Agreement proposed by Romania for the programming term 2014 - 2020, 2013

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