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Weekly Briefing

Romania Social briefing:

Social Developments in Romania

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The month of February was eagerly awaited by the employees in Romania for assessing the impact of the fiscal changes in the last period related to their wages, particularly under the gloomy perspectives of a raising inflation and tightening credit conditions. The expected increases are hampered by the transfer of the contributions from the employer to the employee and by some cuts of the allowances that affected a larger part of the employees than previously considered. The principle of social justice – "equal pay for equal work" – is invoked for explaining these movements. Further increases are announced for the healthcare and education staff. The pension system is expected to be reformed, not before other pension increases.

The impact of the fiscal changes on the wages causes complaints

At the mid of this month, the large part of the employees received their salaries for January, the first month that entered under the implications of the fiscal changes announced at the end of last year. The transfer of contributions from employer to employee and the "fiscal revolution" raised a huge debate in Romania in the last months, mainly due to the forecasted negative implications for the level of the wages, under the expected increases of inflation. This dispute was fiercer as the Government announced increases of wages and salaries.

The official representatives expected that only 3% of the employees in the public system will see a decrease of their wage, representing those with "luxury wages". After the day of the payment, the estimations of the trade unions indicated that at least 25% of these employees are in such a situation. For some categories, the increases existed indeed, but not at the expected level, due to the fact that, at the same time, the transfer of contributions and the inclusion of the special allocations for food in the salary occurred. Other categories received less money caused by the fact that the special allowances they used to get were cut. It is not, in fact, a cut in the effective salary, but in the money received monthly, but this affects a large range of employees. These allowances were considered a discriminatory supplement to the salary. In addition, those employed on functions for which tertiary studies are not required and had a supplement for their studies also saw a cut in their salaries, as in the case of some police employees.

The extent of those affected by decreases of wages is not estimated yet, but besides the employees in the public area, those in the private environment will also be affected. Almost two million persons, especially from small and medium sized enterprises, will be in this situation, as their employer has not registered yet the additional acts to the employment contracts for raising their gross wage.

In addition, the Government confronted with an unexpected situation for the part-time employees. Last year, the government imposed to the employers the payment of the minimum full-time wage to their part-time employees, irrespective of the number of hours worked. This year, once with the implementation of the transfer of contributions, part-time employees received much lower incomes, in some cases even being forced to bring their own money for paying their social contributions. The situation was recently solved, but only partially; for the employees in the public environment, the employer will provide for the needed difference for covering the social security contribution.

Another problem regards the persons exempt from the income tax, such as the employers in the IT field, the researchers in companies and the employees with disabilities. For them, the effect of the transfer of contributions is not compensated by the reduction of the tax income. Therefore, a raise in the salary is needed for keeping their revenues at the same level. The solution is under discussions, the actual Government publishing an ordinance through which the State undertakes the payment obligation, under certain conditions, of a part of the social security contributions of these employees.

The wage law was launched under the assumption of receiving the same revenue for the same labour amount and similar activities. This is way some allowances were cut – considering that some categories of employees were favoured through the emergency ordinances that added to their salaries. Under these assumptions, the drop in some revenues are considered fair by the Government. The controversy is far from being ended, as the National Union of Civil Servants consider that the announced 25% increase of the salaries was applied in a discriminatory way and will sue the state institutions.

Further, several increases are announced for two categories of employees: the raises for the healthcare staff in March means that the employees will benefit from now of a salary similar to the one that they should have received in 2022, while the education personnel will see a raise of 20%. In this way, the Government intends to prioritize the fields of healthcare and education.

The pensions budget is ensured for the present and further increases are expected, but critical demographic evolution puts pressure on its future sustainability

The situation of pensions and of the retirees is resumed this year, although the ex-Prime Minister announced at the end of last year that the pension recalculation pledged by the Government could be ready at the earliest in 2019. The revenue for the retired persons would increase both during this year and in the coming years, according to the government's current governance program. Therefore, the aim of the Dăncilă Government is to reduce the current inequities by successive increases of the pension point until 2020. Pensions increased in 2017 in two stages. A similar evolution was registered by the minimum guaranteed pension which, according to the law, is the minimum a retiree can receive. In addition, the reduction of the tax revenue from 16% to 10% lead to an increase of the pensions.

Several other changes are envisaged for the public pensions system. The Labour Minister announced that a new pension law is under discussion, being actually in the project stage. One of the major novelty is brought by the removal from the category of retirees of those that do not have a minimum contribution stage of at least ten years, namely those with the minimum pension. The regulation in the last years allowed the retirees in this situation to receive a pension similar with those of the ones whose contribution totals 15-20 years, according to the Labour Minister. Therefore, the retirees with less than 10 years of contribution will have the status of a person that benefits from social assistance and will be under a special legislation. Under these circumstances, the pension point – the basis on which the pension is calculated – will have a dual evolution: there will be an increase up to the already forecasted level until 2020 for those with a minimum contribution of 10 years, while the others will receive a minimum compensation, whose evolution will not be tied anymore with the development of the pension point. The decision of imposing a minimum guaranteed pension was to ameliorate the situation for the retirees which worked in agriculture and had very small level of pensions.

The transfer of contributions from the employer to the employee is applied to reduce the very large deficit in the pension area, from RON 18 billion in 2015 to RON 7 billion this year, according to the Minister of the Public Finances. Also, the employee's fear of being at risk of not having a pension after years of contributions will disappear.

This is one of the measure taken for ensuring the functioning of the "pay as you go" pension system in Romania, which is put under pressure by the demographical evolution enhanced by the retirement of the "baby boom" generation. Romania also took several other measures for solving the looming crisis, such as the gradual increase of the retirement age to 65 years for men and 63 years for women until 2030, the increase of the contribution period up to 35 years for men and to 30 years for women and the temporary freezing of the state pensions in several stages during 2010-2016 (starting with the economic crisis). In addition, Romania introduced in the years 2007-2008, under the guidance of international institutions, the pension funds privately managed: the mandatory second pillar and the optional third pillar. Still, instead on emphasizing the role of private pensions, the Government took the decision of reducing the share of contributions to the privately managed pension funds (Pillar II) in 2018 to

3.75% (from 5.1% initially), after the three-year postponement of the 6% increase as required by the law.

Romania confronts with aging population and, furthermore, is due to register the seventh most drastic reduction in population over the period 2017-2050, from 19.7 million in 2017 to 16.4 million in 2050, meaning a 17% decrease of population, according to a recent United Nations Organization report. As a result, in Romania, the public pension system can no longer provide adequate pensions for the future generations of Romanians. The representatives of the Association for Private Administrated Pensions in Romania consider that only the continuation of the development of the private pension system is likely to bring improvements to the pension system to meet the expectations of today's active population.