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Romania social briefing:

Difficulties in reforming the pensions system

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Difficulties in reforming the pensions system

Romania should begin preparations for a massive reform of the pension system, given that economists warn about the lack of sustainability of the actual schema, which will worsen starting with 2030. In addition, pressure is also increasing due to Romania's commitment to respect the engagements assumed through the National Recovery and Resilience Plan (NRRP). However, even discussions on measures such as the increase of the retirement age or the capping of the amount in GDP allotted to pensions seem to be sensitive issues.

Discussions about the situation of pensions in Romania continue and will represent a hot subject for the following period. The problems of the pension system are structural: too few contributors and too many retirees, which generates a problem of financial sustainability, which will worsen in the coming years, especially from 2030, once with the retirement of those born since 1967, about 4.5 million people. The latest debate at political level regard the increase of the retirement age at 70 years old, otherwise being difficult to support the pensions for all these people. In addition, the expected demographic changes will reduce the number of taxpayers. Moreover, the debts accumulated by Romania starting with 2019 will have to be paid, letting less room for pensions. The topic emerged since the beginning of the year given the reforms that should take place through NRRP, the debate tapping both the percentage of GDP to which the pension should amount, as well as the commitments made through NRRP and the sources of supply for the pension fund.

In the field of pensions, Romania is committed to completely reforming the pension payment system and applying a healthy principle based on contributivity, that should govern all revenues. The amendment of the pension law is a necessary reform assumed by the Romanian state, but a strict decision in this regard has not been taken. However, Romania' engagements in NRRP regarding pensions include the maintaining of the expenditure on pensions at similar levels, so that no ad hoc increases in short and medium-term are foreseen, unless there are targeted increases for minimum pension recipients to enable them to cross the poverty line. In addition, the government should design and introduce new tax incentives to extend working life beyond the normal retirement age. Moreover, a full reform is envisaged, which will aim at the introduction of a new system based on a stable calculation formula and an automatic indexation of pensions. In this context, early retirement is eliminated, while special pensions are simplified to the extent permitted by the Constitution. Moreover, the engagements also assume the correlation of the retirement age for both men and women with life expectancy until 2035. The private pensions system is going to be better supported for improving sustainability, digitizing the system and allowing a more diversified allocation of assets to increase investment in the local market. Another problem that caught the concern of analysts and population is that the NRRP stipulates that the level of pensions cannot exceed 9.4% of GDP, although the European average is much higher and the pensions in Romania do not ensure a minimum subsistence.

The average pension in Romania in 2021 was RON 1,799 (around EUR 350), a very low level as compared to the actual needs or with other EU countries, this being one of the reasons for the subsequent increases in the last years. The pension expenditures arose at almost RON 80 billion from the public budget, meaning around 6.6% of the GDP forecasted for 2021, which would represent a roughly increase of 10.53% as compared to 2020. In this context, public officials declared that the percentage of 9.4% of GDP provided in the NRRP offers enough space for a possible increase in pensions, as the plan cannot be changed until 2023, nor is there any reason to do so. In addition, the 9.4% of GDP does not include pensions from the defence and public order system, nor the occupational pension system or special pensions. In this context, even if the pensions would be increased based on the law currently existing, such a raise would hit a percentage of 8.42% of GDP, meaning that there are enough funds at the moment if such a measure would be applied before the reform. Yet, the real problem is that the pension increases in the last years are higher than a similar evolution in the wages which are taxed for ensuring the needed money to the pensions budget. The continuation of such a situation put pressure on the budget deficit and public debt, given that, if the funds in the pension budget are not enough, it would be supplemented from the state budget, according to the law.

A draft law was initiated for the elimination of the accumulation of both pension and salary for those employed in the public system and for allowing the optional increase of the retirement age to 70 years. However, some political parties claim that, regarding the optional increase of the retirement age, the provision would not be constitutional because this would mean that persons would give up the right to benefit the money for which he contributed. Moreover, life expectancy and healthy life expectancy in Romania is lower as compared to other EU countries targeted by similar measures. Life expectancy at birth for a child born in 2019 was 72.5 years for men and 79.6 years for women. Healthy life expectancy at birth for women decreased in the last 10 years, being 60.6 years in 2019, compared to 61.9 years in 2009, and remained almost unchanged for men, of 59.9 years in 2019 compared to 59.6 years in 2009. In addition, during the last year, life expectancy fell by 1.4 years, according to Eurostat data.

Life expectancy in Romania is well below the EU average, so that a retired man in Romania lives 6.5 years healthy, while in Germany the healthy life expectancy after retirement is 11.5 years, 12.5 years in Spain 12.5, and 8 years in Poland. For women, the retirement age is higher than or equal to that of other countries in Central and Eastern Europe, but pensioners live less healthy compared to other states.

However, according to economists, the actual retirement age is much lower than the European average, given the system of privileges under which certain occupational categories can retire at the age of 45 and for which, in some cases, pensions are higher than salaries. Therefore, some measures for correcting such situations should be taken, which are quite sensitive for some categories of the population. The last reform on the pension system took place in 2001, when the principle of contributivity was introduced, followed by another change in 2019. The principle of contributivity has been avoided by the introduction of privileged categories and the possibility of early retirement for them, which has been one of the factors that have unbalanced the system. This last change is to be repealed, according to NRRP.

The Government denies the establishment of the retirement age at 70 years old, although this is a possibility for anyone who is willing to remain longer on the labour market; such a provision is mentioned in the law at the moment. However, the pension cannot be combined with the salary. Public sector employees who are also retired have the obligation to choose either to continue working for up to 70 years, with the suspension of the payment of the pension, or to suspend the labour contract. There is a bonus if that person remains only on the labour market and does not receive the pension. A new discussion at governmental level could take into account whether or not to increase that bonus or to address such a situation in the larger framework of the pension reform.

While it is clear that measures should be taken for improving the social conditions for the population, they are limited by the fiscal pressures. This is also leading to misunderstandings between the political parties regarding the issue of pensions increases. The Minister of Labour and Social Solidarity has stated that he will not give up raising pensions in any form, as this is a necessity for Romanian retirees, while the representatives of the other party in the governing coalition stated that the most important is to have a reform that redefines a healthy framework for budget expenditures in the area of pensions in Romania and therefore to prioritize the implementation of the NRRP. Moreover, one of the other tools that could be tackled for solving the situation is a general increase in the GDP, since the percentage allotted for the pensions is depending on the GDP evolution. Economists consider that a real reform means stimulating the increase in the number of contributors, that is, stimulating the labour market, bringing as much revenue as possible to the social security budget. Therefore, measures for ensuring new jobs should be better correlated with an increased capacity for collecting taxes, which is another engagement Romania assumed through NRRP.