ISSUES ON FINANCING THE ROMANIAN OLD AGE SECURITY BUDGET

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Abstract:
Social security systems are facing new challenges that differ significantly from those experienced decades ago, and which involve major implications for their financing. One of the most important components of social security systems is the public budget for old age insurances. The paper considers the main sources and constraints of the financing mix for social protection of old age and disabled persons in Romania during 2000–2010. After an introduction about the need of social protection in a society and the forms of social security systems, the paper continue with the particularities of EU member states social protection systems and Romania's position, the paper presents the revenues of public pension budget, their analysis and, finnaly, some conclusions were underlined. The public pension system in Romania is 90% dependent on the number of companies and employees that activate in the economy, on the contributions received from them, filling shortfalls being covered by state budget. I appreciate that social tax burden should not be increased and the problem is not the financing, but the usage of money.

Keywords: *social protection, old age insurance, social contributions*

1. Introduction

Social protection plays an important role in public policy. All public policies have a social dimension. The social rating refers to a set of relations between individuals, groups and institutions. Social protection is a product of deliberate action of public institutions to solve social contradictions. Any system of social protection is based on the principle of national solidarity that guarantees a financial support to individuals and families in case of risks that affect their working ability. Development of social protection is seen as a functional requirement for the company, a response to the problems for making an urban proletariat and the break of traditional social ties. (Frank Bachelet, 2010) Social protection systems have three main objectives: to guarantee access to essential goods and services for all members of a society, to promote active socio-economic security, and to advance individual and social potential for poverty reduction and societal development. Bonilla Garcia and Gruat (2003)

All inhabitants of a country must enjoy a certain standard of living, whether or not they have disposable income, and this minimum standard of living is provided by social protection. Social protection is translated into a policy of insurance against risks of any kind. These assurances are seen as tools for promoting social equity. Social protection is an expression of solidarity and cohesion among people who have and those who do not have, between governments and citizens, and even between nations. We can look at the welfare system as a policy of insurance against poverty. Romania has signed and ratified the Revised European Social Charter of the Council of Europe. (Law No. 74/1999). Following its ratification by Sweden, Romania, France and Slovenia, the Revised European Social Charter entered into force on July 1, 1999. (Romanian Ministry of Work, 1999)

Any system of social protection is organized around two principles: the principle of insurance (French model) and the principle of solidarity (British model). Basically, there is a mosaic of social protection systems, but in the EU countries can identify patterns of 5 family of countries in terms of social protection systems: (Gervasio Semedo, Malik Bensafta, Laurent Gautier, 2010): the liberal and Anglo-Saxon countries (Ireland, UK), social democratic model and the Nordic countries (Denmark, Finland, Sweden), corporatist-conservative model of continental countries (Germany, France, Netherlands), the model of countries from the South (Spain, Greece, Italy, Portugal) and the model of countries from Eastern Europe (Bulgaria, Romania, Hungary, Slovenia, Slovakia, Czech Republic, Baltic countries). Each country has a national insurance policy, which sets out how the participation in the scheme, the range of benefits and financing mechanisms of the system.

Financing social protection systems can be made by contributions, i.e. due to social contributions incurred by employers and employees, or by non-contributions, i.e. on account of taxes. Gaining the right of protection is related to the payment of social security contributions. Insurance fund consists of all social insurance contributions to cover risks. The sources of financing the social insurance fund is established in different ways from one country to another, which is the spirit of the Convention nr.102/1952 (called "Social Security Code"). The convention does not require uniform methods of financing, but only sets some tasks and provides, in general, protection of individuals with low incomes. (http://www.ilo.org) A growth in social spending, the budget deficits have led to permanent changes in the financing of social protection. It is observed in all European countries that financing social security budget is in constant decline of funds from taxes. Welfare system is built so that social responsibilities are shared between private companies and individual policyholders.

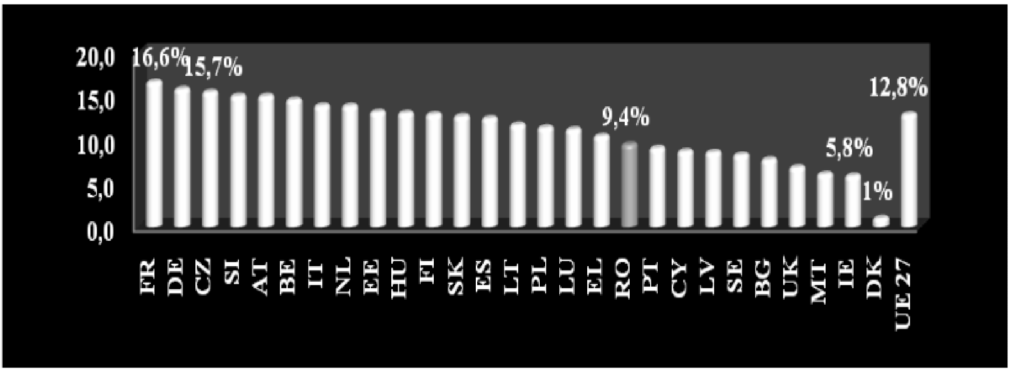
Social protection system is divided into the following sectors: health, maternity, work accidents, occupational diseases, aid for disabled people, unemployed, family benefits, benefits for death and retirement. A social protection system means a system of social insurance against future risks. The first risk is considered to be the one for illness. A second major risk is the risk of aging and loss of work capacity of individuals. This risk is covered by the payment of monthly pensions. The third risk is given by the loss of employment for unemployed people and inability to obtain a monthly income to ensure the existence.

The paper focus on the old age security system, more exactly it analisys the pension budget revenues in Romania during 2000 – 2010. The paper is structured as follows: after the introduction about the need of social protection in a society and the forms of social security systems, the paper continue with the particularities of EU member states social protection systems and Romanian position, in the third part it presents the pension budget revenues, the forth part is an analisys of them and, finnaly, some conclusions were underlined.

2. Particularities of social protection systems in the EU-27

At the European Union level, the social contributions paid by population in 2009 (the latest year for which comparable statistics are available) represent 12.8% of GDP of the 27 Member States, while the European social security funds collected 16.6% of GDP. The share of social contributions in EU's GDP remained between 12-13% during 1999-2009. France is the European state that collects the largest share of GDP to social security budgets, 16.6% in 2009. In Denmark social protection system is financed by employees' social contributions in a percentage of 1% of GDP, but by other taxes. At European level, the largest absolute value for social contributions was received by Germany, over 377 billion euro, the second highest share of social contributions in GDP of 15.7% in 2009. It is followed by Czech Republic and Slovenia, with 15% of GDP. In contrast with Denmark it can be found Ireland and Malta with 5.8% to 6%. According to data released by the European Commission, Romania has a share of collected social contributions of 9.4% of GDP, 3.4 percent less than the EU-27. Of the 27 countries, we identified three countries that grew their annual revenues from social contributions over 15 years (1995-2009), although a decreasing trend was recorded. After Lithuania and Cyprus where have been registered increases in the share of social contributions in GDP of 4.5 percent, respectively 2.1 percent, Romania registered an increase of this indicator from 7.6% in 1995 to 11.1% of GDP in 2000, the year after that it decreased to 9.4% in 2009. Sweden, France and the Netherlands are countries that have pursued a policy of reducing the social tax burden.

Figure no. 1 Share of social contributions in GDP in 2009

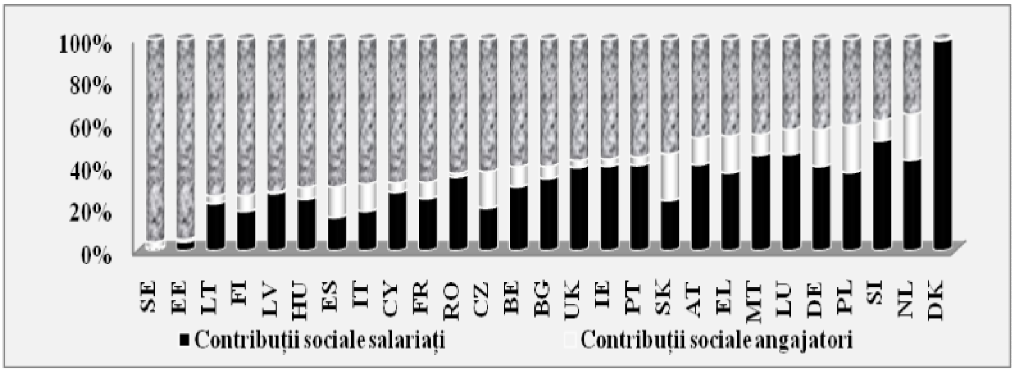


Source: European Commission, Taxation trends in the European Union 2011, Annexes

In terms of structure, social protection in EU drew one third of public resources, only 9 states have the resources social protection less than 30% of government revenue. In Romania, the welfare system have now (2009) 33.4% of total public revenues, over 11 billion euro, up 1.6 percentage points above the EU-27. Romania is the 12th country with the highest share of social contributions in total government income tax. First places in the ranking are held Czech Republic 44.7%, Slovakia 43.9%, Spain 40.7%, France and Slovenia with 39.8%. Sweden (17.5%), Malta (17.6%) and Britain (19.5%) are countries where social protection systems have available under a fifth of collected national tax revenue. In terms of dynamics, the structure of government revenues knows changes in all states. In Lithuania from 2000 to 2009, social protection resources increased from 31.1% to 39.7% of tax revenue in 2009. Along with Lithuania we find Slovakia, Ireland and Poland. Romania is the second European country that knows increases in resources' allocation for social aid payments from 27.8% of total revenues in 1995 to 35% in 2009.

The share of social contributions in total tax revenue is, on average, 33.4%. An analysis of their sources in 2009 revealed that 19.2% are paid by employers, 10% by employees and 4.2% by professional persons. In Denmark social tax burden on companies does not exist. Sweden and Estonia are distinguished by the fact that legal persons bear 95.9% and 94.7%, of total tax contributions collected. According to statistics published by the European Commission in 2009, Romania ranked 11th country among the countries where social tax burden falls on business, over 60% of social security contributions are paid by employers. Among countries where the company supports the highest social contributions are included Lithuania, Finland, Latvia, Hungary, Spain, Italy, France and Cyprus. In 17 of the 27 member states businesses provide more than half of the system's revenues. The happiest employers in this regard are the ones from Netherlands, where social contributions paid by companies are 35.5% of system's revenues and Slovenia with 38.5% in 2009. Bulgaria and Latvia are the Member States which have gradually reduced social tax burden of companies, although the trend is to increase its average. For Netherlands, the situation is opposite, employers' social contributions have doubled in the last 15 years.

Figure no. 2 Structure of social contributions by tax payer EU-27



Source: Data processed from European Commission publication, Taxation trends in the European Union 2011 - Annexes

Social tax burden on insured persons ranges from 15.7% of total contributions in 2009 in Spain and 51.9% in Slovenia, except the extremes of Denmark, Sweden and Estonia. Over 40% of social contributions are paid by the insured persons in Portugal, Austria, Netherlands, Malta, Luxembourg and Slovenia. Romania is positioned in the middle of ranking in this regard. European statistics show a percentage of 34.8% of contributions paid by employees in 2009. In terms of people that provide free economic activities based on a specific profession, they are insured and participate in the financing of social protection. In Poland and Slovakia they pay more than 22% of social contributions in 2009. Among Member States where social tax burden is high for self-employed are the Netherlands, Greece, Germany and Czech Republic. However the situation is reversed. In Latvia, Estonia and Romania the social contributions represent less than 2% of total social security contributions. According to Eurostat database, in 2008 the resources available to social security funds represented 15.2% of GDP, however the expenditures of pension system were 26.36%. The most developed social protection systems are located in France, Denmark, Sweden, Netherlands, Belgium and Austria, where social spending varies between 28% and 30.7% in France.

3. Financial resources of the public pension system in Romania

In the context of the growing phenomenon of population aging that impose a pressure on increasingly greater social protection mechanisms the management of public pension system was a challenge for all countries, including those that are economic developed, with traditional social security systems tradition. Social security reform to ensure sustainability of public pension schemes in Europe was achieved by introducing and implementing in the social security system of two components, a mandatory one, other optional, both administered by private companies. This is the case of Romania, so there are in the Romanian pension system three pillars. The public pension system in Romania works based on the principle of uniqueness, mandatory, contributiveness, gender, distribution, social solidarity, autonomy. The public pension system is regulated by Law no. 273/2010 which cancels old pension law no. 19/2000.

The public old age security system revenues are:

a) Social contribution paid by employers

Romanian companies have to pay social contributions for their employees' pension insurances (CAS). CAS paid by employers is established as a percentage applied to total gross wages of each month. Social security contribution rates are differentiated by working conditions i.e. in 2011 there is 20.8% for normal working conditions, 25.8% special working conditions and 30.8% for very special working conditions. A special working condition must follow the regulations of the Ministry of Health. Some examples of this kind of jobs are in mining activity, the activities with exposure to radiation, the activities of civil aviation (pilots, flight attendants, parachutists, etc..), national defense, public order, artistic activities (ballet, dancer, acrobat, clown, wild animal trainer, lead singer of opera and operetta, waterfalls, etc.). For 2011, 147 companies and public institutions have received admission to special conditions of employment category, reflow that occurs from 2 to 2 years.

Social contribution set in 1973 by 15% was applied until 1989, in November 1990 is increased to 20%, a flat rate for the employer. From 1992 Romania apply different rates depending on the working conditions of employees, increased in February 1999 to 40% for work group I, 35% for work group II and 30% for work group III. In 2001 rates paid by employers were presented as follows: 23.33% for normal working conditions, 26.67% for special working conditions and 30% for very special working conditions.

Table no. 1 Evolution of CAS rates paid by employers after 2001

CAS – Employers (%)	2001	2003	2004	2005	2006	2007	Dec. 2008	Ian. 2009	Feb. 2009 - 2011
Normal working conditions	23,33	24,5	22	22	19,65	19,5	18	18,5	20,8
Special working conditions	26,67	29,5	27	25	24,65	24,5	23	23,5	25,8
Very special working conditions	30	34,5	32	32	29,65	29,5	28	28,5	30,8

Source: Data centralized on http://www.mmuncii.ro/pub/imagemanager/images/file/ Statistica/Statistici%20lunare/Evolutia%20valorii%20cotelor%20de%20CAS%202011.pdf

In the last 10 years the rates paid by employers have had nine changes of rates, the tendency is to reduce them, but was interrupted by lack of money during the crisis that led to a higher CAS owed by employers. So far, Romanian companies bear 66.4% of total share of 31.3% CAS rate. There are other entities treated as employer that it is the National Agency for Work Force Occupation for the unemployed which are in the records, non-profit organizations, individual companies, etc.

b) Social contribution paid by employees

The category of persons insured for old age are included the persons employed by legal forms, civil servants, military personnel, unemployed, administrators with management contracts, members of individual companies, physical persons authorized to carry out economic activities. The CAS rate paid by employees is 10.5%, it finance public pension system and a part is transferred to private pension funds. (Law no. 273/2010) Unlike CAS rates paid by employers, the rates for employees have less frequent changes. Before 2001 it was applied a rate of 15% for employees, but by Law 19/2000 in April introduced different rates of CAS for employees according to working conditions: 11.67% for normal working conditions,13.33% for special working conditions and 15% for very special working conditions. From January 2003 to February 2009 the CAS rate was presented as a single rate of 9.5%, then increased by Law no. 19/2009 to 10.5% and valid until today. Another category of revenues derived from the CAS paid by individuals insured under a personal contract of insurance. In this way are insured lawyers, clerical staff and anyone else who wants to ensure that complete their insured income. People who have individual insurance contracts pay the rate due by employer and employees (31.3%).

c) Other revenues

Although they do not have large values and do not have a decisive impact on the budget, other revenue category includes all the non-tax revenue to the budget, or any other revenue than social security contributions i.e. financial revenues as interest, revenues from services. Interest is received for the financial resources kept in the State Treasury. A failure in attracting contributions generates interest and late payments, determined as for taxes, according to the Fiscal Procedure Code.

Old age persons and other insured persons may receive tickets of treatment. The tickets of treatment may be distributed free of charge or under a co-payment of the beneficiaries. Such contributions paid by beneficiaries are revenues of the public pension system. This category of income is dependent on number of tickets provided by the National Institution for Public Pensions and the percentage of co-payment. For 2011 the price of a ticket varies by resort and hotel class between 301.68 and 499.98 lei lei. (CNPP, 2011) The co-payment for treatment tickets varies depending on the category of beneficiaries between 50%-100%.

d) Grants from state budget

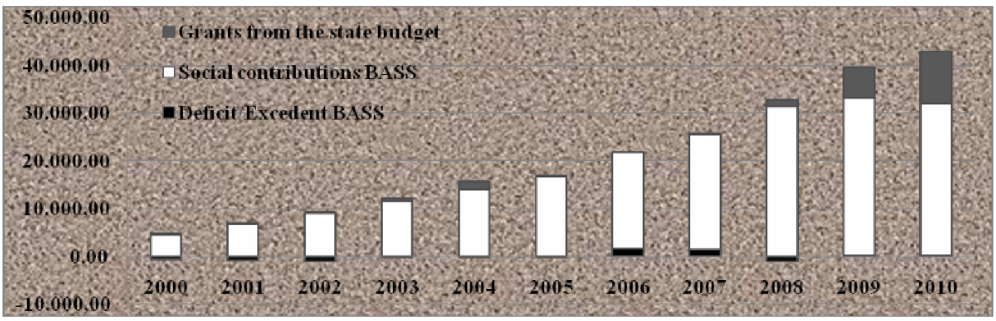
The second category of public pension system revenues are collected from general taxes to the state budget and then transferred to balance the social security budget by the annual budget laws. Although normally would be an exceptional practice, completing the financial resources, today it became a common practice. Public pension system in Romania is based on "pay as you go" principle, workers pay for the retirees who are in the present, following at the time of retirement age the future generations will pay their pensions. Since the number of insured persons is languishing, while the number of beneficiaries is increasingly high, the only viable option is given by subsidies from the state budget.

4. Features and difficulties of the Romanian social security budget

The public pension system budget enjoyed the highest annual amount of money as compared to budgets of the other forms of social protection. A continuous increase in the number of pensioners as a result of aging was accompanied by an increase in the necessary amounts for the payment of pensions and other benefits. The following analysis covers the period 2000-2010 and is based on social security budget executions provided by the Ministry of Public Finance. State social insurance budget covers the resources for pension scheme and the necessary expenses to protect persons which injured at work. From the beginning, it should be noted that over 99% of state social security budget revenues are the revenues of public pension system while the sub-component for work accidents and occupational diseases budget is under 1%, it is negligible.

We can notice that public revenues of Romanian pension system increased, on average, by 24% annually during the 11 years. They cover over 90% of the budget expenditures. During the past 11 years, the largest increase in this budget resources occurred in 2001 when the budget increased by 49%. It is the only budget that does not record decreases in the available funds during the economic difficulties after 2008. This fact is due to pumping money from the state budget. The fact is that these increases are not due, as would be natural, to an increase in social contributions, but to taxes and duties transferred from the state.

Figure no. 3 Evolution of budgetary resources for financing the pension system 2000-2010



Source: Data processed from the budget executions provided by Ministry of Finance

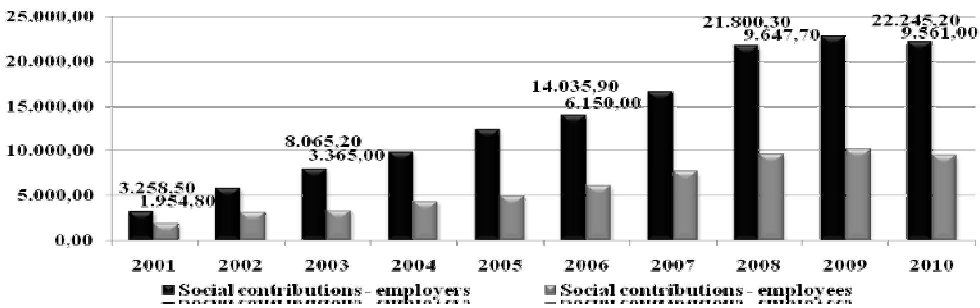
Normally, the grants from state budget should be complementary and should achieve financial failure in exceptional cases. The amounts paid by the Romanian government for pensions are huge. In the pre-crisis period the largest transfer of money from the state budget was in 2004, of 1.76 billion lei, but in 2009 and 2010 the amounts transferred are several times higher. They explain the financial year surplus, not an actual surplus. In 2009 BASS income increased by 23.8% over 2008, it reached 40.64 billion lei. This increase is due to increased state subsidies by 4.6 times from 1.38 billion lei in 2008 to 6.4 billion lei in 2009, while social contributions increased by

5%. In 2010, a decrease in the number of employees and number of companies had been followed by a decrease in social contributions by 3.8%, but BASS resources increased by 5.5% due to higher subsidies from state budget to 10.95 billion lei, maximum from the last decade.

Structural evolution confirms an increased dependency of pension system to state budget and a lack of budget receipts from CAS. The share of budgetary resources from contributions for the state social budget decreased annually from 92.1% in 2000 to 74.2% in 2010. Between 2006 and 2007 the budget was not supplemented by transfers. In counter-balance, the reduction is covered by an increase in grants from the state budget from 2.3% in 2000 to 25.6% in 2010. The third category of financial resources in the BASS, the non-fiscal revenues are insignificant in the overall budget. They dropped both as value and weight, from 508 million lei in 2001 (6.7%) to 79.4 million lei in 2010 (0.2%). Regarding the composition of these non-tax revenues, it is simple, after 2006 budgetary classification is divided into three categories. In the first category are the financial incomes from the Treasury as interest and other amounts for outstanding and unpaid revenues, exceeding 10 million lei annually after 2007. An important share in non-tax revenues is given by receipts from beneficiaries of treatment tickets which must bear a part of the cost. These kinds of revenues are continuously growing. In 2009 these revenues have exceeded 80 million lei, by 4.75 times more than in 2000, and the highest percentage of non-tax revenues of 70.9% as opposed to 4.9% in 2001.

CAS receipts from population are the cornerstone of retirement budget. Any volatility of this leads to an increase in inability to cover his duties. Old-age social contributions tax burden press on employers that provide 70% of CAS revenues in the last century, while only 30% are insured by employees. The two CAS's distributions received from employers and employees do not know significant progress from one year to another, the CAS revenues policy remain constant despite there were some changes in percentage shares. The main source of public revenues of the Romanian pension system is given by CAS receipts from companies.

Figure no. 4 Comparison between receipts from employers and insured persons (millions lei)

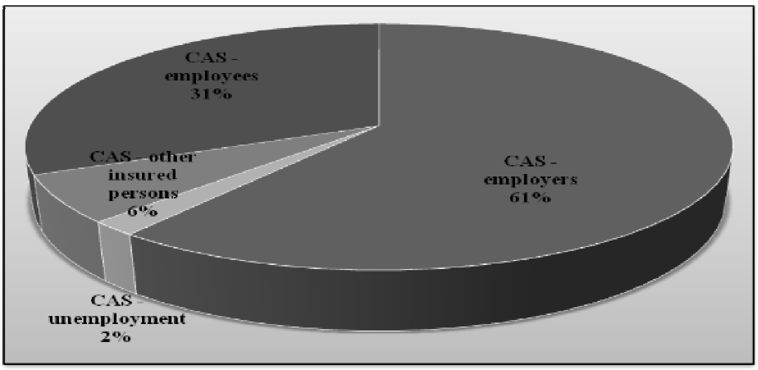


Source: Data processed from the budget executions provided by Ministry of Finance

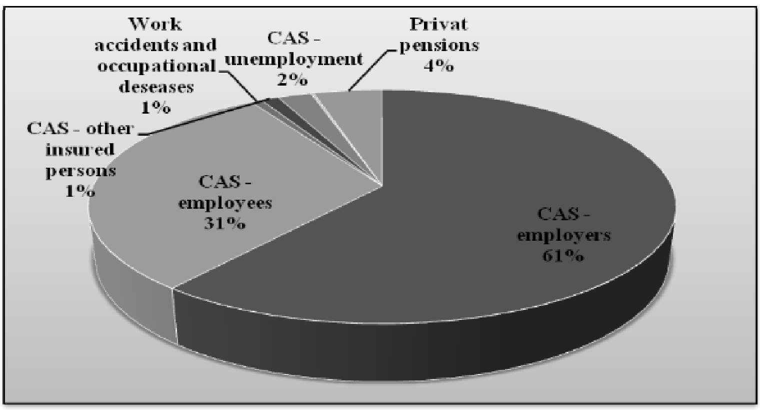
Revenues from social contributions were more than 31.8 billion lei in 2010, 6.7 times more than in 2000 to 4.7 billion lei. Two thirds of them are CAS collected from companies. This income grow annually since 2002, the amounts increased from 5.7 billion lei in 2002 to 22.2 billion lei in 2010, but in a downward rhythm that culminated with the decrease in revenues during 2010 as compared to 2009 due dismissal of employees and failures during the crisis. Although is not an employer, the National Agency for Work Force Occupation supports the old age insurance for unemployed persons. The evolution of the receipts from this category continue the upward trend of unemployment rate, from 183.1 million lei in 2002 they reached 765.9 million lei in 2010.

The second source for financing the Romanian pension system is CAS paid by employees. The share of these revenues increased from 28.4% in 2002 to 33.5% in total contributions in 2010, representing almost one quarter of total revenues of the budget. In terms of dynamic, it shows an increasing trend but with alternative rhythms, however the values are exceeding annual CAS paid by companies. For example, in 2007 as compared to 2006 employees supported by 26.1% more social contributions than the employers, while companies are growing their payments by 19.5%. In 2010, the decrease was the same 4% for both CAS paid by employers and by employees.

Figure no. 5 Old age social security - social contributions structure in Romania



2001



2010

Source: Data processed from the budget executions provided by Ministry of Finance

Other categories of persons that are not employed in according to an individual labor contract can participate to public old age security system based on individual contracts (freelancers, people working abroad, etc.). Revenues from these sources exceed 404 million in 2010, they register an annually upward trend unaffected by the economic crisis. The explanation is simple, an increase the number of registered freelancers was driven by legislative gate way to escape from the minimum annual tax, which led to higher receipts. Unlike the other social security budgets in Romania, the old age security budget do not enjoy consistent European funds. The National Institution for Public Pensions drew 18.99 million lei until 30 June 2011 by Operational Programme Administrative Capacity through three projects totaling 22.34 million lei, of which European participation is 85%. (Structural Funds, 2011) All projects involve using the funds for improving county government pension institutions.

5. Conclusions

In conclusion, the public pension system in Romania is 90% dependent on the number of companies and employees that activate in the economy, on the contributions received from them, filling shortfalls being made from the state budget. We appreciate that tax burden should not be increased and the problem is not the financing, but in the usage of money. BASS faces two constraints increasingly larger. The first is given by introducing in 2008 the second private pension pillar that leads to giving up to 8% of CAS paid by employees in 2008, 12% in 2009 and 15% in 2010, i.e. over 1.56 billion lei in 2010. Under legislation adopted, contributions paid to private pension pillars will increase while the annual budgets must find alternative for covering the gaps without resorting to the state budget or through fiscal adjustment path. The second constraint is given by the accumulation of outstanding obligations to BASS. According to the lists published by National Agency for Fiscal Administration on June 30, 2011, over 595 of the 159,000 large, medium and small tax payers had to pay arrears to the old age security budget. The biggest debtor is the National Coal Company 2.2 billion lei, but we can find Romanian Railway Company, The National Company of Lignite, UCM Resita, Oltchim, CET Brasov and Iasi, RA Romsilva, etc.

6. Acknowledgements

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