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INTERGENERATIONAL PROBLEMS IN ROMANIA
WITH A SPECIAL VIEW ON PENSION SYSTEM REFORM

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1. INTERGENERATIONAL TRANSFERS. NECESSITY. CONTENTS.

Some components of development represent, at the same time, intergeneration transfers and potential sources of conflict for both overlapping and non-overlapping generations/contingents.

To a transition country, the most important ones – regarding both development (based on mobile targets, i.e. filling the gap as against the developed countries) and intergeneration (competitive, effective) into economic and social zonal structures (EU) – are, among others, the following:

- a) formal and informal education stock;
- b) technologies, i.e. scientific and research potential;
- c) environmental protection;
- d) social security system.

The old question in this context is: „How much should we keep for ourselves and how much should we bequeath to future generations?” The answer, even well intentioned, has to comply with requirements/constraints relating to opportunity, possibility, the gap between the expected effects and the most probable ones in real world etc.

The education stock allows any human community to carry on development. The young generations acquire (through formal and informal systems) knowledge, skills, behaviours to maintain, to preserve (at least) their parents' living standard.

Nowadays, the education stock transfer is extended through continuous (self-) education throughout the active life.

The conflicts between generations mostly take place in the labour market¹ in two ways:

- on the one hand, *the natural desire to replace the elderly in the labour market*; the process is continuous, valid in any place, but its dynamics is more and more

¹ The problems on labour market are more complex than appears at the first time. Intergenerational conflicts are combined with intra-generational ones. Generally, the most discouraged people on labour market are young persons (many of them with higher education) and those of 50 years and more. But the reasons for not finding a new job are different. Not always lack of experience is compensating by higher level of education or work experience compensates the new types of skills requested by production modernisation. In this context also appears many sociological problems. So, statistical data are not relevant. For example unemployment rate in Romania (registered unemployed persons/ civil active population) was at the end of 2000 10.5% (10.3% for women) and the share of registered unemployed persons in total 18-62 years old stabile population was at 7.2%. Looking at this figure we may say that the situation is not so bad, but we need to explain the unemployment situation in Romania taking into account another relevant co-lateral aspects such us: standard of living, average unemployment benefit and average wages at the national level, duration of unemployment, general economic

accelerated (today we seldom think of a single professional career – in the traditional sense – and we very often have in mind professions – related or not to one another simultaneously or successively throughout active life);

- on the other hand, the question of the *compatibility relation* **between the knowledge acquired in school and the labour market needs**; this aspect, occurring very often in the new information-based economy, becomes severer in the transition countries that must face profound restructuring of their national economies and adaptation through the „learning by doing” system.

No **technological progress** can be made without a strong basis provided by the education system – a starting point for further discoveries – or without a strong propensity for the new, as a feature of the demand for jobs and services.

In this respect, **intergeneration transfer is continuous; so are the conflicts, caused by the need for permanent symbiosis of scientific knowledge** (a feature of mature researchers, in second half of their active life and with long experience in research) **and spirit of innovation** (a special feature of the youth).

The transition countries are confronted with a ***new conflict, affecting the overlapping generations in the labour market***. To them the technological progress equally means:

- *importation of technologies from more advanced countries and their soonest implementation*; thus, the national innovation potential is neglected, which brings about brain drain and brain shopping that, in turn, affect the welfare of the future generations of the „donor” countries/areas.
- *local/national research and innovation by using the research potential*.

The complementary (more and more substantial) investment in the research environment adjusts on short term the resources for the present generation’s welfare, but also potentially provides infinite prospects for future population contingents.

Environment protection, of present interest in Romania as well, remedies the exploitation errors made by the past generations and preserves/protects (at least) the environment components to the future.

The expenses implied by such actions are huge and on long term; they affect the generations in different proportions. How much am I supposed to give? Is it ethical to sacrifice myself for a clean/improved environment where (may be) I shall never live? Is it ethical to let my children and grandchildren die only that I live better now, irrespective of how much I

damage/destroy the environment? They are honest questions with only one answer, i.e. the need/obligation to accept some welfare transfer to future generations.

Social security seems to **be the most controversial issue**, at least in this stage of mankind's development when the change in the policies in the field is urgent.

Unemployment is chronic, health care is facing more and severer problems, social and psychical „diseases” expand throughout the whole population. Moreover, the demographic transition has generalised and its effects can be strongly felt in the developing countries as well.

As world's population is ageing, **the social security systems for the elderly have been through much trouble worldwide**. The number of the elderly will be three times as much by the year 2030 (about 1.4 billion as compared with ½ billion at present). The increase will mostly take place in the developing countries that are ageing faster than the industrialised countries due to the wide dissemination of medical knowledge and decline in fertility (World Bank Policy Research Report „Averting the Old Age Crisis” 1994).

The social protection measures taken by communities and families have become weaker. The old assistance systems used by the transition countries cannot be used any longer. The formal programmes developed by richer/more-advanced countries are disadvantaged by the increasing costs that require higher taxes, hinder the private sector growth, but do not protect the elderly. At the same time, many less developed and/or transition countries tend to adopt the same programmes that could not be kept under control by medium and high-income economies. Moreover such (less developed and/or transition) countries have an aged demographic profile/structure with per capita incomes much lower than those of the industrialised countries do.

At the same time, the lasting inflation and the liberal provisions for anticipated pensioning and generous services have increased the social burden (by taxes) and caused quasi-permanent tax evasion.

For example, Romania's social burden, expressed as percentage of the gross income earned by employed person has increased from about 15 percent in 1990 (13 percent insurance paid by the employer and about 2 percent additional pension paid by the employee) to 49-59% at present (30-40% social insurance paid by the employer, 5% additional pension paid by the employee and other 7% health insurance paid by the employer and employee). In spite of the above-mentioned, *the average real pension accounts at present for less than half of the 1990 level and most pensioners live under the poverty line.*

The measures taken to ensure incomes for the elderly the pension system affect the whole population as part of the economy's current product is ceded to pensions. The PAYG-type pension systems do not seem to be efficient anywhere. On the other hand, the private systems based on savings are affected by inflation, thus maintaining/increasing long-term poverty. Moreover, the reliability of the Romanian investment funds was shattered by the so-called mutual funds (CARITAS, SOVINVEST, and FNI) that bankrupt now.

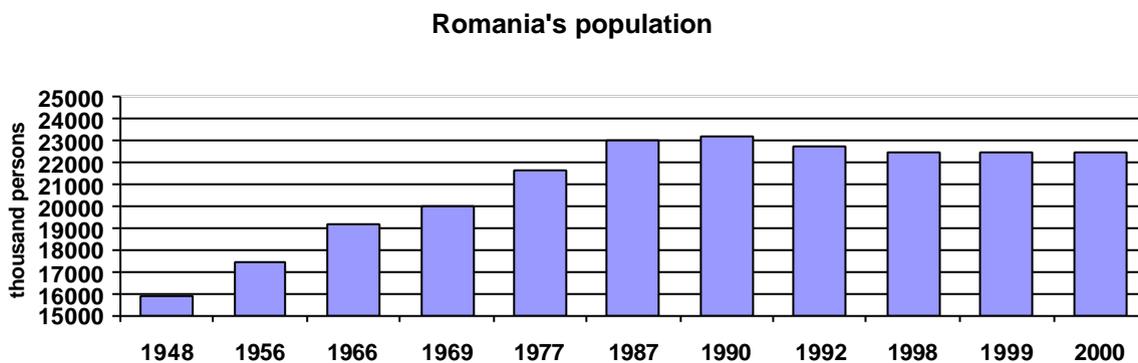
Even the above brief examples **suggest the urgent need for re-thinking the problem of the intergenerational transfers, based on the promotions of sound economic policies aiming at economics growth, effectiveness and competitiveness** in order to allow the elderly to get a fair amount from such growth.

2. DEMOGRAPHIC EVOLUTIONS

2.1. General features

The demographic phenomena and processes determine *ceteris paribus* the amount of labour resources (potential labour force) with a delay of about 15-20 years. The impact of demographic evolution in Romania on the amount of labour available in economy (labour supply) is characterised by the major difference between the evolution of birth rate, fertility and migration before and after December 1989. And that, all the more so as generations significantly different in size develop in an economic system other than the one in which they were born, have grown up, have been educated and have worked, now being confronted with labour market requirements within an economy troubled by the rigors of the transition to the market economy (Graph 1, Appendix 1).

Graph 1



Source: NISES data

If before the December 1989 Revolution the state intervention had been the “modelling” factor of the demographic evolution in Romania, during the first 10 years of transition the demographic policy was a residual rather than forecasted “effect” of transition:

- a) Over the period between the end of World War II and the late 1980s, **the demographic situation** was strongly influenced by the state intervention in population matters. Playing the role of regulator of the demographic behaviour, the state carried out **a forced, coercive natalist policy and a policy aimed at restraining spatial mobility both inside and**

outside the country. The extremely tough legal measures concerning the abortion interdiction taken in 1966 shocked the people. The impact on birth rate was quite significant: in 1967 almost two times more children were born, and the lowering trend of birth rate brought about even tougher laws in 1973 and 1984; but the “record” of the 1960s could not be reached. Such **demographic “waves” propagated over time and influenced the population not only quantitatively, but also structurally.** Thus, the population grew permanently (although at a slower pace) in response to the “demographic norms” imposed by the (unique) central leadership of the state whose purpose was “sufficient population growth” in accordance with the political targets.

Box 1

By population number, Romania ranks among the middle-sized countries, the 40th in the world and 9th in Europe. As regards Eastern Europe, Romania is surpassed only by Ukraine and Poland. The other countries in the area – Bulgaria, Republic of Moldova, Hungary and the countries of former Yugoslavia – are smaller both in population number and area.

The country’s specific conditions: special geographic situation – the junction point of the West and East, of Central Europe and Balkan Europe -, the historical events that had taken place here, as well the political, economic and socio-cultural factors strongly influenced the demographic evolution, with direct effects on the number and state of the population.

Undergoing demographic transition later, Romania’s population covered faster the two stages of death rate and birth rate decrease. One may say that demographic transition has reached the final stage, as the forced pro-natality measures taken by the communist regime could modify on short term the lowering trend of the population fertility.

Nevertheless, by the end of the 1980’s, due to a positive natural surplus and migration, Romanian’s population grew constantly. According the official date, Romanian’s population grew by over 7.3 million people, i.e. a total relative growth of over 46 percent, between World War II and mid –1990s.

Although not quite uniform, that general evolution was characterised by the lowering trend of the annual average pace and growth per sub periods, depending upon the actual specific way the demographic, economic, social, political and cultural factors influence the number of population. Thus, the early post-war period (1948-1956) was characterised by the highest annual average growth rate attend so far, i.e. 1,2 percent; it was brought about by the significant improvement of birth rate through the recovery of marriages and birth delayed by the war.

b) After December 1989, the changes taking place within the Romanian society have significantly modified the population’s dynamics and structure through more or less surprising evolution of the demographic variables: on one hand, the continuation of the previous trend, that is a natural development in the new context of long time accumulations and, on the other hand, unpredictable breaks caused by thoroughly new circumstances and realities.

Box 2

The December 1989 events caused radical and rapid changes in the economic, social and political systems of the Romanian society. The transition to market economy (both the objective itself and the way the process is managed) caused a double recession in Romania: economic and demographic accompanied by a dramatic decrease in the living standard.

The demographic recession is clearly revealed by the lowering trend of population member, first time to occur during a peace period, at the beginning of the past decade. Thus, over the period 1990-1998, the population number diminished by about 704 thousand people, i.e. equivalent to a decrease in the annual average rate by 0.4 percent.

If before 1990 one could theoretically expect that Romania's population would double in 9 years (supposing the annual average growth rate of 0.5 attained between 1977-1990 could be maintained), after 1991 one might speak of **halving or diminishing it to certain levels**. Thus, from an extreme viewpoint, if the population diminished further by the same negative rate (-88 thousand people) registered after 1990, it would reach about 21 million inhabitants on the 2015 and about 20 million by the year 2026. The direct demographic causes of the decline after 1991 are related, on the one hand, to the emigration² at the beginning of the transition (1990-1991) and, on the other hand, to the unfavourable trend of natural growth happened before in Romania's demographic history.

The lowering trend of population number will go on as long as the demographic phenomena follow the present lines: **low fertility** that hardly ensures the simple replacement of generations, **very high death rate**, mostly of **adult persons**, and a **negative migratory growth**.

Therefore, in the past ten years from the beginning of the transition to market economy, Romania's population underwent **several change most of them being negative**. Among them we recall:

² On short and medium term at least, emigration represented, and continued to represent, one of the factors contributing to a reduction in the absolute number of country's population – a phenomenon that, even considered as positive by some demographers, on a medium- and long term is a restriction with negative impact upon human resources and not only.

During the transition years, emigration out of Romania has got entirely another **motivation**. Migration on political reason "ceased place" to the migration for getting higher incomes in the developed countries, better opportunities for professional training and education, less restrictive legal regulations.

In Romania we cannot calculate the total migration rate. Lack of a complete legislation upon immigration makes impossible to show by a rigorous statistics the immigration size in our country. Although, presenting emigration situation for Romania combined with repatriation dynamics might offer a relevant image upon external flows of population that can affect our country economically, socially and demographically.

During the last two decades approximately 593 thousand persons emigrated from Romania, out of whom 288 thousand persons during the last decade of the communist era, and 305 thousand persons during the first 10 years of transition. Related to total population of Romania, emigration average rate for the entire period was of 1.3 persons per 1 thousand inhabitants, the extreme annual rates placing between a maximum value of 4.2 in 1990, and a minimum one of 0.6 in 1999. Between 1980 and 1989 annual emigration rate registered a slight but constant trend of increase from 1.1 in 1980 to 1.8 respectively in 1989. The year 1990 marks a peculiar moment: those who in the communist years could not emigrate from Romania due to various reasons left the country in the first months following the 1989 Revolution. In that year (1990), the emigration rate reached to 4.2, compared to 1.8, registered a year before. After this "peak" in 1990 emigration, the situation seemed to calm down, so that in 1991 emigrated less than half number of those who left in 1990, emigration rate reaching to a value close to the 1989 one. For the post-revolution period it was signaled an obvious tendency to reduce the emigration rate, which from 1991 to 1999 lowered to about 1/3, from 1.9 persons respectively to 0.6 persons per 1 thousand inhabitants, this happening on the background of a continuous reduction in country's population size by 700 thousand persons approximately.

Taking into account the dimension of total migration average rate worldwide (approx. 2,3 persons per 1 thousand inhabitants) and at European level, emigration rate evolution can be appreciated as being not alarming for the moment in Romania, due to the important changes it has undergone during these 20 years – from an even more intense centralization and control on external migration flows up to 1989, to a free and too low monitored moving at present.

An interesting aspect to be reported in this context is the number and evolution of repatriated persons, respectively of those who come back into Romania after a period of living abroad. Many of them continue to have double citizenship, some start up business here, others only spend a part of their revenues got abroad. As size, their number is increasing, in 1998, for example, coming to represent over a half of the emigrated person number; the total number of repatriated persons increased by 3.5 times approx. during 1993-1998. More than half of the repatriated person number is males; the same share registers the persons between 18-40 years of age. Children and old people represent each below 10% of repatriated person total number.

Considering by nationality, most of them, as it is normal, are Romanians (approx. 90%), but also Hungarians (4-5%), Germans (approx. 4%), Jews etc. are coming back. The main countries from where they repatriate are: Germany, France, Hungary, Israel, U.S. etc. (for more information see "TENDINTE SI STRUCTURI ALE EMIGRATIEI DIN ROMANIA IN PERIOADA 1980-1999" -TRENDS AND STRUCTURE IN EMIGRATION OUT OF ROMANIA, DURING 1980-1999 PERIOD, authors: Valentina Vasile and Gheorghe Zaman, Probleme economice nr.32/2000, CIDE, Bucharest, 2000)

- **systematic decrease in birth rate and female fertility:** the number of children born by a woman at fertile age diminished from 2.2 in 1989 to about 1.3 in 1998, when the simple replacement of generations would have required 2.16 children;
- **death rate maintaining at a high level or even increase:** the most alarming trend, as the life expectancy at birth could not reach 70 years, but even it significantly diminished with men;
- **very high level of child death rate:** at a rate of 20.5 dead up to one year to 1,000 children born alive in 1998, Romania is last but two in Europe, before Macedonia (22.7 percent) and Albania (33.2 percent);
- **high level migration:** 1990-1991 was the peak years of the Romanian migration, when about 135,000 people left the country forever.

The effects of the trend, demographic themselves, were felt very soon, as follows:

- a) quick diminution in the natural surplus and its changing into negative “growth” in 1992;*
- b) diminution in the population’s rate of growth and “shifting” to rate of the population decline in number;*
- c) speeding up of demographic ageing and increasing “pressure” exerted by the aged population on important systems of the society (health, social care, pension system);*
- d) quick shrinking of the family’s average size (household);*
- e) changes in the territorial distribution of population, in internal migration and in urbanisation.*

In a synthetic form, the demographic evolution i.e. the effect of “conjunctural policies” promoted during the last century of the 2-nd millennium could be shown by means of the pyramid³(Appendix 2).

The age pyramid on January 1, 1999 is quite suggestive of the way the population ageing affected the country’s population. With some exception, the form of the pyramid is similar to the pyramid of the developed countries’ population from economic and social viewpoint. The base undergoes continuous shrinking, frustum –very prominent and vertex – more expanded in surface (if compared to the 1956 and 1977 pyramids) but not consistent enough if compared to the pyramid of the developed country due to a much shorter average life span⁴.

³ In this respect, we selected three moments: in 1956 and 1977 censuses and the data on the population structure on January 1, 1999 provided by NISES. In our opinion, the selection of the above moments at almost equidistant, sufficiently long intervals in the most suitable one to reveal the structural changes that affected our country’s population after World War II.

⁴ The developed countries underwent, particularly after World War II, deeper changes in the age structure, thus speeding up the population ageing: the proportion of the youth diminished continuously, while the proportion of the elderly grew. Most studies and models market out in those countries showed that the main cause of demographic ageing in long term diminution in birth rate and not the increase in the life expectancy at birth. Of

The demographic ageing reached Romania with a delay of 3 or 4 decades as against Europe's average level. The reasons are the same, but such delay is explained by the fact that the demographic transition in Romania was also delayed as against the demographic transition in the European developed countries.

Box 3

In Europe, the share of the population of 60 years and over had already reached 8.8% in 1890, while in Romania similar values were reached in the 1950s, 9.3% in 1948.

Following the intensification caused by the systematic diminution in the birth rate over the period 1957-1966, the demographic ageing slowed down till late 1980s due to the forced pro-birth policy implemented by the communist regime. Since 1990, we have witnessed a new speeding up, but this time the place has been much faster due to sharp and continuous decrease in fertility. The share of the people of 60 and over reached 16.4% in 1992 and 18% in 1997, which values were very close to the level of 17.6% reached in Europe as a whole in 1985.

Thus, the initial gap of 6 decades (1948 as against 1890) between the European and Romanian figures has significantly diminished to a little more than one decade.

2.2. Demographic structures evolution

The major changes in the age structure of Romania's population correspond to the "age transition", i.e. **speeding up demographic ageing** (Appendix 3).

Some 5 decades ago, the country's population was young from the demographic viewpoint: in 1948, the population's average age was 29.8 years, middle age of 25.2 years, the share of the people 60 and over was 9.2% and that of the people of 65 and over was 5.6%⁵.

At January 1, 1999, the average age of Romania's population is 36.8 years and middle age of 34.3 years, while the shares of the people exceeding 60 and 65 years are 18.5% and 13.0%, respectively. One should note that early this year only the population of the 60-64 groups represent 5.5% of total population, that is as much as the population of the large class of 65 and over in 1948 (Graph 2).

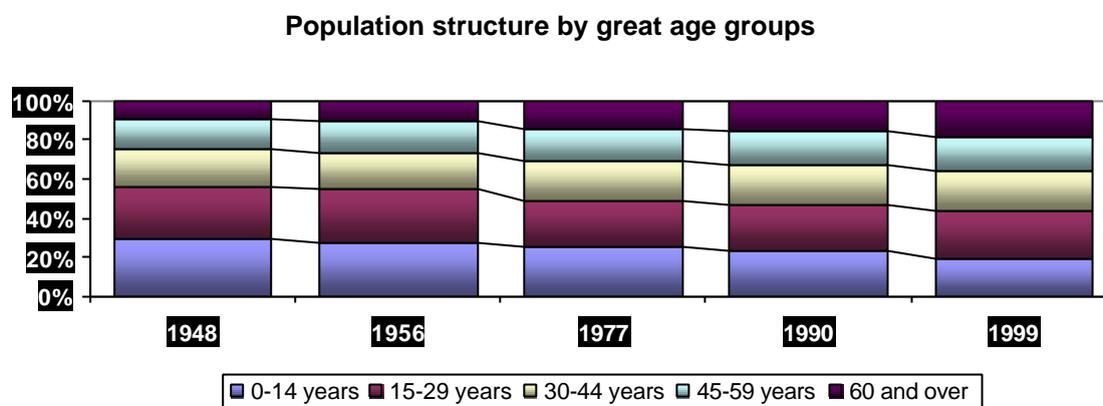
Therefore, after World War II till now there have taken place a change in the share of the population of 60 and over in the sense of its systematic growth and of the population of 0.14 years in the sense of its dissemination. While over the first three decades of the period in view (1948-1977) the growth "lost" 3.5% points from the specific weight, during the next 20 years the loss became almost double. The intensification of the decrease in that share actually occurred after 1990 due to faster decrease in birth rate. Thus, **the diminution of the youth's**

course, the increasing share of the aged population is caused by the successive diminution of the number of the people of the generations that join the existing population and less by the diminution in the death rate, i.e. the increase in the average life span that affects all ages and finally determines the increase in number of the elderly.

⁵ The literature specifies certain "thresholds" for the last proportion, according to which one could identify the stage reached by a population at a certain time from the demographic ageing viewpoint. Thus, if the share of the people of 65 and over is much smaller than 7%, it is a young population from the demographic viewpoint; if the share ranges between 7 and 12% the population to which it belongs is under full process of demographic ageing, and if it exceeds 12%, the total population is already old from the demographic viewpoint.

share from 23.6% in 1990 to 19.0% in 1999 was a major loss to Romania accounting for 4.6 percentage points in 7 years only.

Graph 2



Source: NISES data

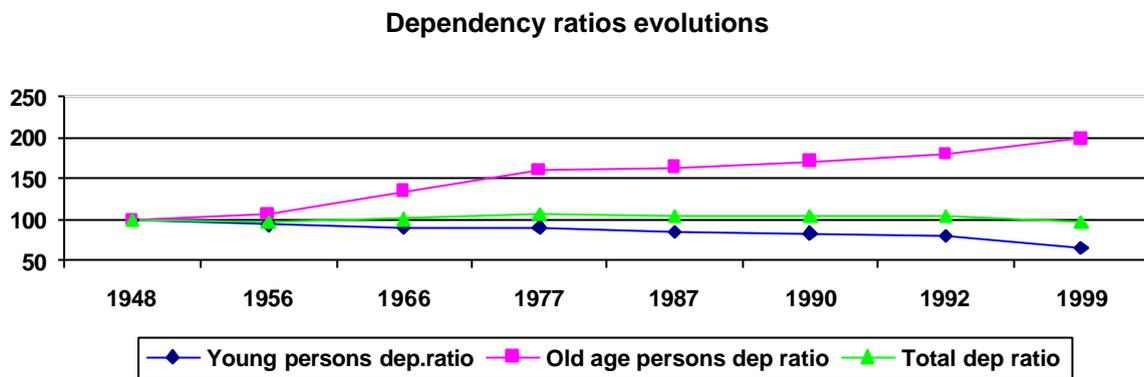
Generally speaking, the adult population (15-59 years) underwent less change as in 5 years its share in total population varied around 61%. Within the above population, one may notice a diminution in the share of 15-29 years (young adults) segment, counteracted after 1990 by the addition to the “baby-boom” generations (1967-1968) of the “plethora” generations of 1974-1977⁶.

The middle segment -population of 30-44 years- maintained a relatively constant proportion, about one fifth of the adult population, while the 45-49 years group become more and more “important”. Thus, from 14.9% in 1948 and 15.3 in 1966, “the old adults” (45-49) accounted for 17% of the adult population after 1900. The trend actually reveals the demographic ageing of the adult population that has sped up still is the general demographic ageing of Romania’s population at increasing rates. As adult populations the support of the working age population and the most important source for recruiting the active population, the process has and will have many and significant effects on the economic and social activity.

As regards **the old population (60 and over) its specific importance increased with no exception** through the period in view, by the compensation for the “losses” caused to the young population. The relative importance of the elderly gradually increases for four decades: from 9.2% in 1948 to about 15.0% in 1989. After 1990, due to the “collapse” of the birth rate, the share of the elderly grew very rapidly and in only 9 years it reached 18.5% actually double if compared to the level attained soon after World War II.

⁶ The generations of the temporary recovery of birth rate owing to the tougher anti-abortion law of 1973.

The change in the age structure, i.e. **demographic ageing, caused the increase in the “pressure” exerted by the young and old population on the adult (potentially active) population** (Graph 3).



Graph 3

Source: based on NISES data

The global demographic dependence ratio was slightly oscillated over the period 1948-1999 in close connection with the natality evolution and average life span. The fertility diminution led, except for the baby-boom period, to a continuous reduction in the young population's dependence: from 467 young people to 1000 adults in 1948, the ratio accounted for only 304 young people to 1000 adults in 1999. But the steady trend of demographic ageing caused the continuous increase in the “pressure” exerted by the elderly on the adults: from 149 old people to 1000 adults in 1948 to 296 in 1999 (Appendix 4).

Birth rate improvement, equivalent through results to the population's “rejuvenation” through the pyramid base, would increase the burden to the borne by the working age population, thus increasing the need for demographic investment (funding of education and health etc.) This situation is far preferable to that one increasing the pressure exerted by the old population on the adult population. Like other investments, the demographic investments will come to a point when they “come into operation” and “pay off”, thus bringing profit to the whole society, that is the advantage of a balanced structure of the generations and bright prospects for economic growth and for the achievement of the sustainable human development in Romania.

2.3. Characteristics of demographic ageing

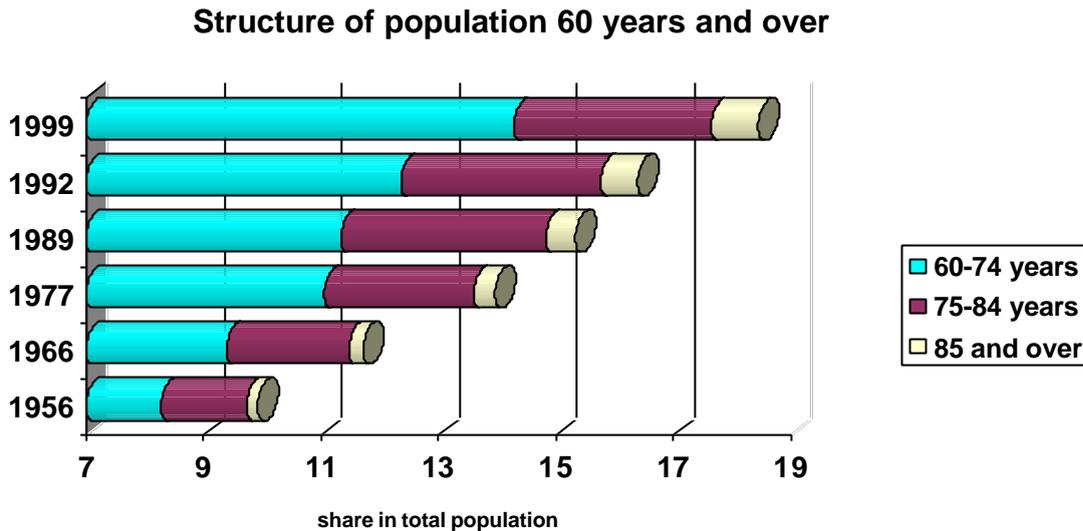
The study of the demographic ageing in Romania based on the investigation of the structure of the old population reveals some interesting aspects.

The first aspect concerns **the different evolution of the number of the elderly per age groups**. Due to the gradual decrease in the old population, caused by the specific action of

mortality at old age, they only groups following a continuous rising trend, valid for either gender, is the group of 85 and over (Appendix 5).

The number of this group, called also “longevous” population is characterised by great positive vitality, being 5.3 times greater in 1999 than in 1956 and 1.5 times greater than in 1989 (Graph 4).

Graph 4



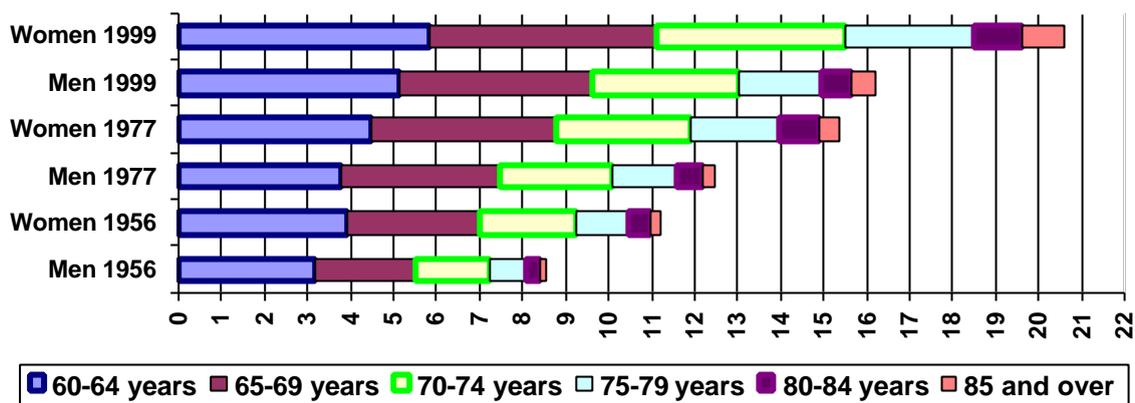
Source: NISES data

The second aspect concerns **the trend in the evolution of the structure** of large age groups. The proportion of the people whose age range between 60 and 74 years or of the old population as it is also called by literature grew continuously so that on January 1, 1999 it accounted for over 14% of total population. It is equivalent to an increase in total proportion of about 73% as against in share attained 4 decades ago (1956). At the same time, the specific weight of the 75-84 year groups, i.e. “old” population, is the only one that showed some diminution in the 1990s. The most direct explanation takes into account the generations that supply this age group. They are the generations that emerged during periods of birth deficit and of life losses caused by the two world wars, including the heavy drought of 1946-1947. It explains the continuously rising trend of the 85 years and over group comprising the numerous generations that had emerged by the first year of World War I.

The third and last aspect we want to point out concerns the **difference between genders** as related to the structure and pace of the evolution in large age group of the people of 65 and over (Graph 5).

Graph 5

Structure of 60 years and over population



Source: based on NISES data

The male over-death phenomenon resulted in a larger number of women than men in each age group of 60 and over. At such age, the gap between gender proportions in women's favour, being equivalent in absolute terms to differences from 50246 people for the group of 85 and over to 131768 people for the group of 75-79 years (Appendix 6).

The demographic ageing process is also illustrated by the population pyramid shape evolution (Appendix 2):

- The population age pyramid according to the census of February 21, **1956** looks "somehow balanced". Having a large base and a sharp vertex, it shows a "young" population from the demographic viewpoint. The triangle shape of the pyramid is affected by some recesses or openings that show the birth deficit during the two world wars as well as the effect of the two-year drought (1945 and 1946), therefore deficits in the generations 1917-1919 and 1942-1946.

- The age pyramid according to the census of January 5, **1977** includes new elements mainly caused by the demographic policy of the communist regime in power at that time. Besides the openings existing also in 1956 but which are identified at ages shifted by 21 years, one could also see two recesses separated by a zone of abnormal widening of the strips. The first recess corresponds to the 10-15 age (1962-1966 generations) and shows the accelerated decrease in birth rate over the period 1958-1966 due to abortion liberalisation in 1957. Unexpectedly enforced, the Decree 770 of November 1966 forbade in a very severe way abortion, thus causing a birth boom in the next two years, and in the pyramid the "abnormal" widening of the classes of corresponding age. After the "baby boom", birth rate returned to the age-old lowering trend and caused a new recess through the 1971-1976 generations (0-5 age). With a

narrowing base and a vertex more firm than in 1956, **the 1977 age pyramid shows changes in the ratios between the large age groups in favour of the elderly and to the detriment of the young ones, that is Romania's population was in full process of demographic ageing.**

- The openings in the 1977 pyramid extended over time and could be also detected in the age pyramid of January 1, **1999**. But here we find three new zones of deviation from a normal development; its show the temporary involvement in birth rate (generations of 1974-1977 and 1989, respectively) brought about on the one hand by together restrictions on abortion imposed in two stages and, on the other hand, by the increase in the fertile female contingent, supplied with the baby-boom female generations. Decreasing birth rate between the two modifications in the legislation regarding abortion caused another recess. Finally, the last recess was caused to the dramatic birth rate diminution after abortion liberalisation, soon after the collapse of the communist regime. Like the other two pyramids, **the 1999 pyramid clearly shoes on one hand the demographic ageing process acceleration and, on the other hand the gender gaps** - up to 30 years of age there is a “surplus” of males and from 50-55 on a “surplus” of women which is mainly the result of male over-mortality.

2.4. The population propensity for action/work

The Romanian labour legislation in force up 1999 was a very permissive one. It stipulated as legal limits of work age 16-56 years for women and 16-61 years for men⁷ as well as the retirement in advance at request, in certain conditions relating to the work period and pension amount (55 years for women and 60 years for men, or depending upon the situation in the labour market -even 50 years for both generations).

At a certain moment, working age population (15-64) is the result of the co-existence of 50 generations, different as regards biological, medical, demographic, economic, cultural and environmental factors that

⁷ In every country labor legislation stipulates the minimum and maximum age to start and to cease work. In this respect, there are major differences among countries: 14(15)-60(65) years. Nevertheless, according to the literature and EU, UNO and ILO papers, the European developed countries currently use as key indicator of labor resources “the work age population from 14 to 64 years” since they estimate that within that age interval the activity phenomenon is significant. The minimum limit is justified by the compulsory schooling (on the average 8 years).

influenced them from birth. The share of the different generations in the total working age population is extremely important since it decisively influence from one period to another the population's contribution to economic growth and social and economic development of the society. The activity rate, territorial and socio-professional mobility, continuity and discontinuity in providing the economy with the human factor, supply pressure on labour demand, as well as the education and knowledge stock are just a few of the features of such contribution.

Due to the lag of about 15 years of the effects of the demographic phenomena and process on the working age population, the result of the pro-birth policy reached a maximum in the 1990s. **In the future they could cause several economic and social troubles due to a significant increase in the share of the potentially active “adult” population (35-49 years) and “old” one (50-64 years). From 2010 on, these cumulated shares could account for three fifths of potentially active population. *The demo-economic, social and cultural consequences of a very unbalanced age structure of labour force will be many, complex and difficult to manage, as well as costly and possible generators of social unrest.***

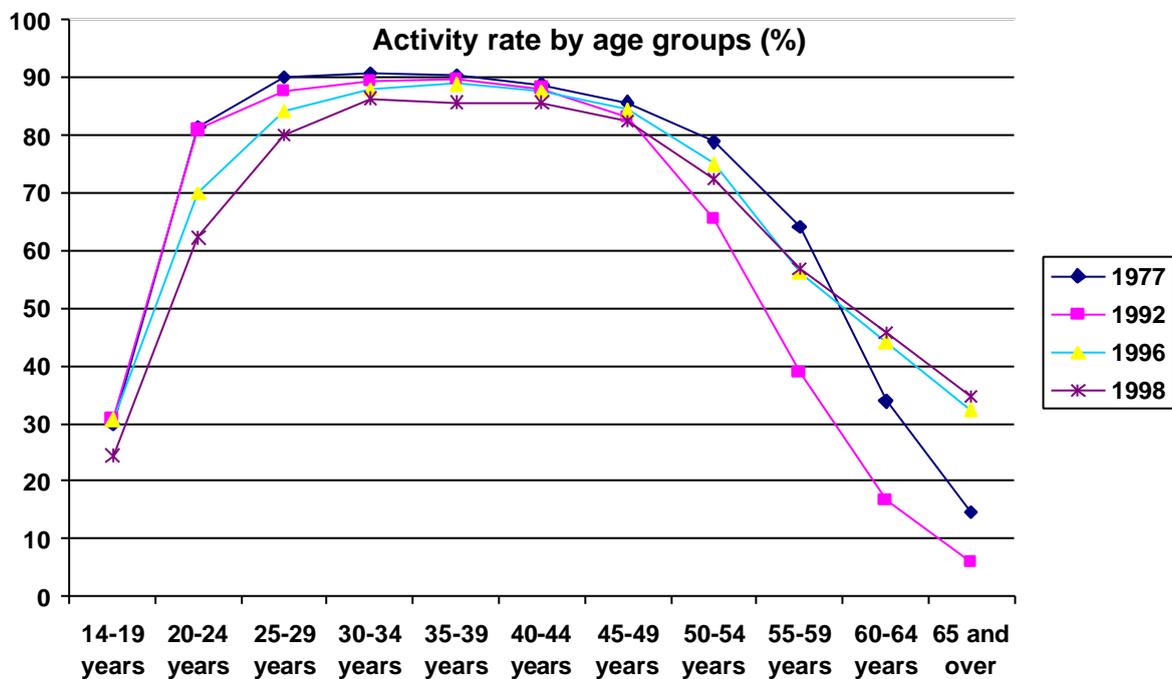
The activity rate per gender and age are a real "model" for the population's participation in activity, a model influenced by several economic, social, cultural, traditional and behavioural factors etc. expressing synthetically the features of a certain development level (Vl. Trebici, 1979).

Until late 1980s, the general activity rate was one of the highest rates in the world, considered as over estimated by specialists, especially due to the total inclusion of the working age population from agriculture in the active population, without making any distinction between the work in agriculture and work in households.

After a significant decrease of -4.2% in 1991 as against 1976 (the censuses took into account the active population in the year prior to the critical moment), the global activity rate "recovered" showing that in the last three years (AMIGO survey) about 52% of the country's population was active. The recovery was mostly caused by the systematic diminution in the total population number. At the same time, the economic situation and continuous worsening of real income of the population in the last ten years led to a pro-activity behaviour. The 1991 diminution was temporary, as it was the direct result of very permissive retirement laws. Therefore, the dynamics of the average number of social insurance pensioner was relevant as regards the diminishing activity rates at active ages of 50 and over: if compared to 1989, the number of pensioners was larger in 1990 by about 12 percent (i.e. 270 thousand people) and in 1991 by about 32% (i.e. 717 thousand people). Thus 1991 holds the record regarding the lowest activity rates at the ages at the active life end.

The maximum limit is more complex as it reflects the effects of faster demographic ageing on the age structure of labor force in most of the European countries.

The systematic deterioration of the living standard of most of the population following the severe diminution in the money income and mainly in the pension (about 50% of the 1989 income) as well as the lack of additional income resources for households led in the 1990s to major changes in the propensity for activity of the old people of 65 and over, that is its unusual intensification. While in 1976 only 14.6% of the people of such age considered themselves active and in 1991 much less 5.9%, in 1996-1998 their proportion increased 6 times varying around 34%. **Apparently paradoxical within an interval of only 8 years (1991-1998) after the wave of retirements before them, the population of the terminal active groups of 55-59, 60-64 and 65 and over resumed and intensified its participation in the economic and social activity (Graph 6).**



Graph 6

Source: based on NISES data

The increase was more significant in male population as against female population. It is to note that, as a whole, the activity rate followed a positive trend as its level rose from 1992 to 1998 at a pace of about 12%. The trend was mostly caused by the 13.6 increase in the female activity rate, while the male activity rate was only 10.7% higher (Appendix 7).

The economic crisis –in its form like urban unemployment (about 2.4 times higher than the rural one) living cost and mainly greater household expenses –made many families move from towns to the country side which they belonged. The enforcement of Land Law and better opportunities for housing favoured such a move.

Thus, in 1998 the urban activity rate diminished by 10% as against the rural one. That quite unexpected trend was caused by the lower degree of participation in the activity of the urban population of every age group, except the 30-39 years population. But the most significant diminution in the activity rate in the urban area as against the rural one occurred in the marginal groups of 14-19, 55-59 and 60 years and over.

As regards the first age group the diminution was mainly caused by the difference between the two areas in relation to the access to and propensity for secondary education of the young population. But as regards the groups of 55-59 and 60 years and over the significant diminution in the 1998 specific activity rate of the urban area as against the rural one was surely caused by several factors, among which the most important as influence are:

a) ***spectacular structural changes in the internal migration flows per residential areas.*** In 1997, the migratory flows from the urban area to the rural area reversed in favour of the latter.

The higher intensity of the return from the urban area to the rural one was, the closer the age of the migrants was to the end of active life (55 years and over). In this part of the life, the professional mobility diminished to a great extent in intensity. As of the lay-off of the people close to retirement, the ability to find a job or to change profession is extremely low, all the more so as the prospects for significant and lasting economic recovery are poor. Therefore, they generally prefer retirement before term (in special conditions stipulated by law) and quite often the return to the rural area.

Such direction changes in the internal migratory flows were caused by subsistence migration as the rural area could meet the fundamental need for food at a lower cost than the urban area through large-scale subsistence farming.

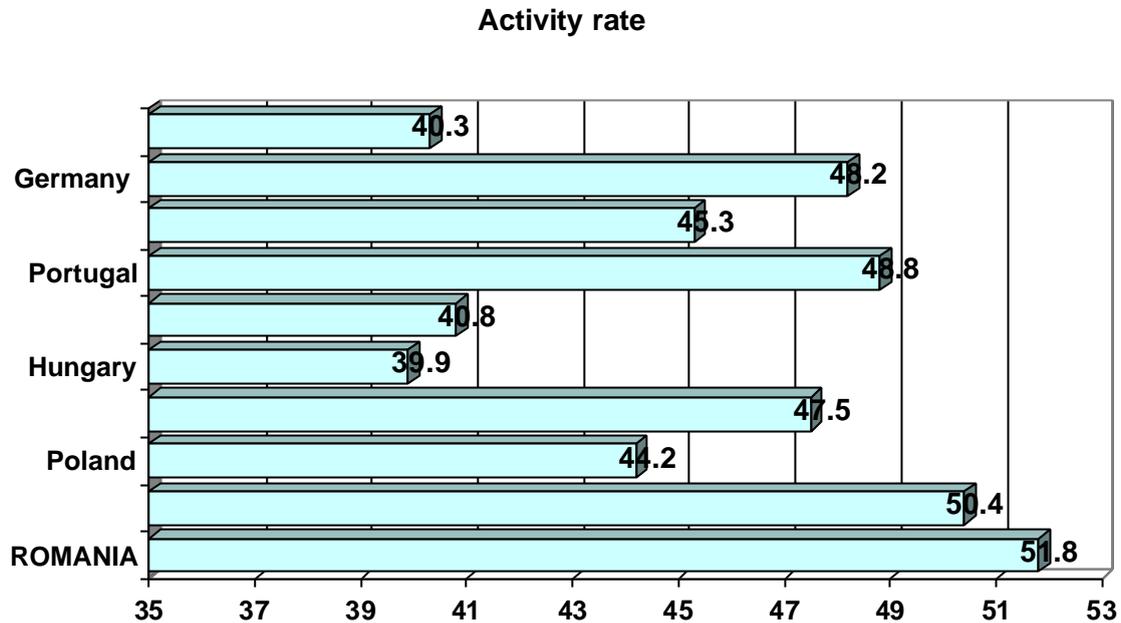
b) ***the specific features of the work in agriculture enable a larger share of the rural population as against the urban one to go on working even after the retirement.***

In 1998, the activity rates per five-year age groups of 65 and over in rural areas exceeded 8 times (65-69 years group) and 15 times (75-79) the similar urban rates. Over 98% of the elderly worked in agriculture and over 95% lived in the countryside.

c) ***the large size of the parallel labour market that cause the non-declaration of occupation.***

In the urban area the phenomenon has significant proportion due to the diversity and complexity of such activity (industry, services).

Evens after the oscillating development in the first 10 years of transition, Romania's activity rate are high (Graph 7).



Source: BIT data

The comparison to some European countries in transition ranks Romania the first (51.8% in 1996), much above the EC average (43.6 in early 1990s) (Appendix 8).

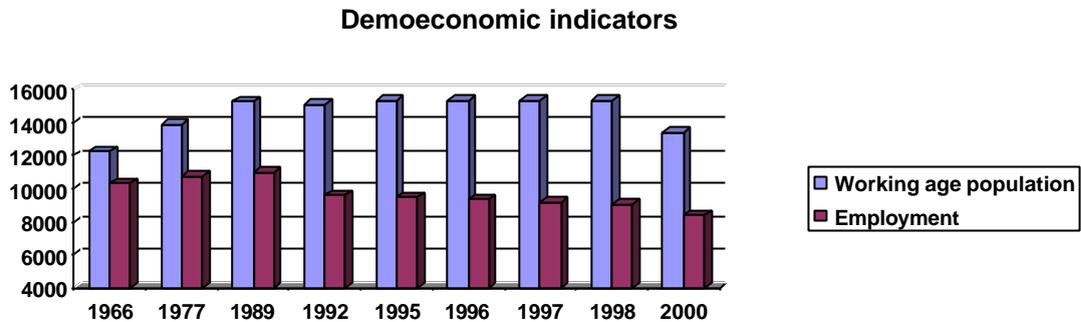
But that average figure is, as we have seen, the outcome of high activity rates of the age groups showing maximum efficiency, productivity or creativity in their work. On the contrary, such figures are found within the old activity groups (60 years and over) mostly including people who carry out subsistence activities (in agriculture or additional jobs).

2.5. The features of the employed population's evolution

The most shocking and alarming process in the employment field in the first 11 years of transition was **severe diminution in the employed population**. *The process reflected both the exigencies of the transition to a new employment model based on different principles and the way the demographic economic and social factors act on the labour market.*

The data of the labour force balance of the period shows that the **civilian employed population diminished by about 2 million people** (Appendix 9). One should note that such trends were new, specific to the transition period, as the dynamics of the employed population had been exclusively positive before 1990. Therefore, **1989 was Romania's "record" year of**

the most numerous employed civilian population: 10946 thousand people. After that year, the trend of the labour force demand was continuously downwards, so the annual average rate decrease over the transition period, reached the alarming level of -2.39% , i.e. an absolute diminution of 240 thousand employed people on the average every year (Graph 8).

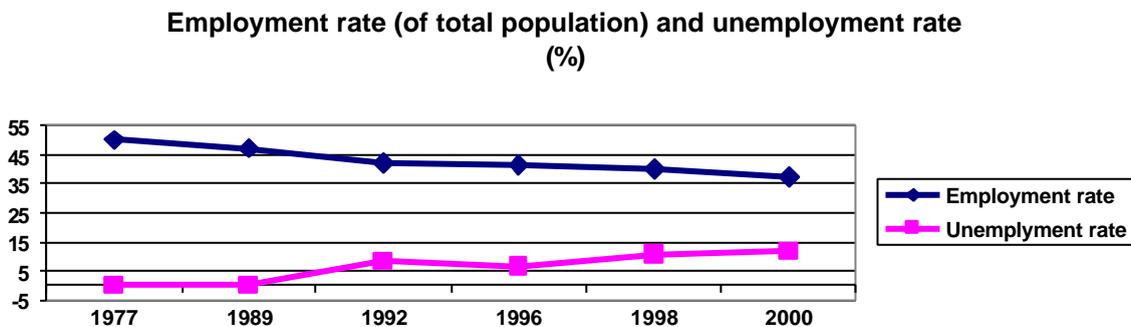


Graph 8

Source: NISES data

The fast worsening of labour force employment is also very clearly shown by the trend of the employment rate; according to the labour force balance data, in 1989 over 47% of total number of the population had had jobs, but the next years the share diminished dramatically – to 42.1% in 1991, 40.1 in 1998 and only 37.5 in 2000 (Graph 9).

Graph 9



Source: based on NISES data

Therefore, the “burden” to be borne by the effectively active (civilian) population grew continuously. **The economic dependence ratio (inactive and unemployed population related to the employed civilian population) increased from 1116 inactive people to 1000 employed people as it had been in late 1989 to 1497 to 1000 in 1998.**

As regards the age structure, the employed population concentrated in the groups with a high potential to participate in work: 25-34 years and 35-49 years (almost 60% of total people with a job). **Considered dynamically, the age group structure underwent major changes.**

Within 8 years, the share of the young employed population (15-24 years) decreased from 19.1% in 1991 to 13% in 1998. The 6 percentage point diminution “cumulated” with 3.7 pp diminution in the 35-49 years group, thus allowing the old groups 50-64 years but mainly the group of 65 and over to significantly grow by 2.2 and 7.7, respectively (Appendix 10). **Moreover, the employment level of the population of 50 years and over in rural areas was 3 times higher than urban one (41.4% as against 13.4% in the same period).** It is a clear proofs the **fast demographic ageing of rural labour force.**

The above aspects bring us to the conclusion that there were **two processes** within the employed population, both having complex causes, almost impossible to be totally determined:

i) The first one, **with a “long-run” evolution – demographic ageing of employed labour force** – is mostly demographically conditioned by the specific evolution of active population. Far from being the only reason, such conditioning bears a strong socio-economic mark caused, on the one hand, by the increase in average life span and in the schooling and professional training interval and, on the other hand, by the diminution in real incomes, in living standard of the population, in general, and of the elderly, in particular.

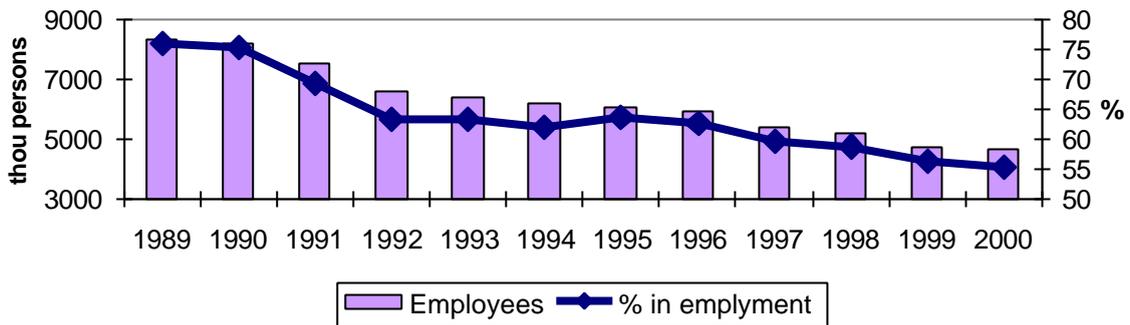
ii) The second process, dependent on a special situation in our opinion, is **the ruralization of employed population.** Like demographic ageing, the ruralization of the effective labour force has been and is caused by economic, demographic, social, political interdependencies etc. **The deep and long economic crisis in Romania has caused changes in the internal migratory flows of the population which – most of it – is looking for making a subsistence living.**

As regards the employment structure in accordance with the education level, trades and professions and with economic branches, the changes were caused by the economic reform and as regards that one by occupation structure was caused by the privatisation pace. **Such structures are themselves transitory/temporary, while the reform and privatisation are ongoing processes** (Appendix 11).

One should not omit the impact caused by the evolution of the “employers” category on feeding and supporting the system of transfers.

The statistical records reveal **a significant diminution in the number of employees,** by about 3 million people, i.e. over one-third as against 1990. Therefore, their share in employed population diminished from about 75 per cent in late 1989 to less than 56 per cent in 2000 (Graph 10).

Employees



Source: based on NISES data

Moreover, this category of employed population is that one supplying to the greater extent the social funds and supporting the transfers. The legislation in force provides besides the tax on the earned income, a quite big total compulsory “social” fiscal burden: 30-40% for the social insurance, 14% for health insurance, 6% for unemployment fund, 5% for additional pension, 3% for handicapped protection, 2% for the education support, 0.75% for Labour Office financing.

The poor employment in conditions of paid job with undetermined duration caused the diminution in/elimination of the financial resources for the social activities necessary to Romania’s economy.

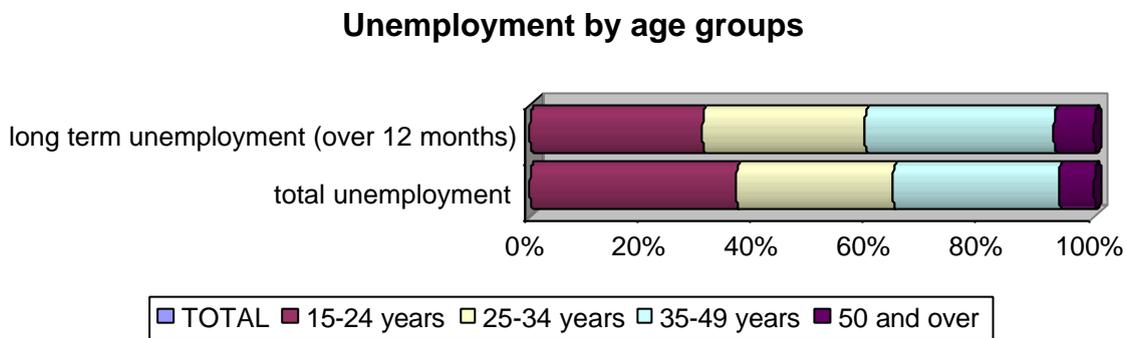
One should not omit that the long-term unemployed and discouraged persons actually cannot be considered as potential labour sources – the first category disqualifies itself by non-working, and the second one comes to self-exclusion. But these categories of population are a **potential source of conflicts** in households due to the lack or lower level of their personal incomes (Graphs 11-12).

Graph 11



Source: AMIGO Survey, 1998 and 2000 (third quarter), NISES

Graph 12



Source: AMIGO Survey, 2000 (third quarter), NISES

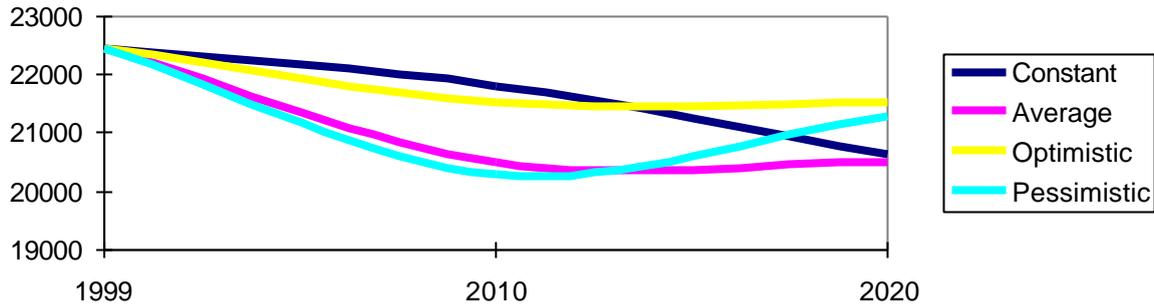
As regards the over 50 age groups, the registration as unemployed is just a transitory stage towards subsistence immigration (return to the rural area and “employment” in the primary sector – agriculture, forestry, fishing etc.) or a last solution till retirement. **Statistically, their share is not very large (about 5-6 per cent of the total unemployed and up to 12% of all discouraged persons, respectively) but if we add the elderly “employed” in agriculture, then their number is large, even alarming** (Appendix 12 –13).

2.6. Demographic trends in Romania at the beginning of the 3rd millennium.

Using specific methods of demographic forecast in conditions of persistent negative natural growth after 1992, the demographic prospects in Romania show a slow but certain diminution in total population (Graph 13).

Graph 13

Population evolution estimations, by variants (thou. persons)



Source: based on NISES data and forecasting.

According to the NISES demographic forecast in Romania based on the 1999 demographic events, **the country's total population is going to diminish by about 1.8 million people by 2020**, the gender ration remaining in favour of the women (Appendix 16).

The main features of Romania's population on the 2020 horizon are:

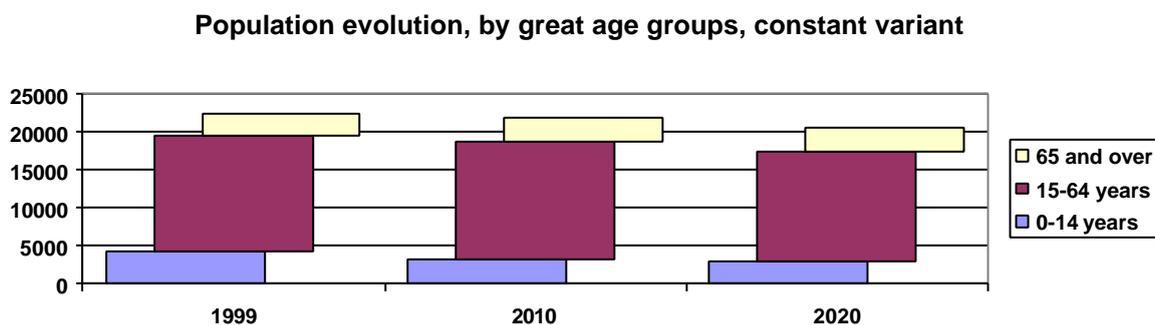
- a) The **total population diminution** will vary between 4 per cent by the optimistic alternative and 9.6 per cent by the pessimistic alternative.
- b) By large age groups, **the young population (0-14 years) diminishes and the share of the mature and old groups increases**. The fertility index remains under the generation replacement index.
- c) The **dependency ratio for the old population will increase** by 3 per cent, from 19 per cent in 1999 to 22 per cent in 2020.
- d) The **working age population (15-64 years) will increase till 2005 (due to the supply with more numerous generations resulted from the pro-birth policy of the communist regime) and then it will diminish** fewer than 14.5 million people in 2020.
- e) Although the population that form most of the stock from which the labour force is recruited will diminish after 2005, something different will happen with another population segment whose level of participation in the economic activity has been higher lately: the old population of 65 years and over. **While at present and even in the near future, such structural changes find expression in coming to maturity of the potential active population, in the farther future they will bring about the demographic ageing of this population with economic, social and even political implications of a complex nature and difficult to manage**. The young generations that will supply the active population in the next years will be smaller in

number, while most of the adult population will be included in the category of the old population (over 50 years).

- f) **The stability coefficient** (the ratio of active population of 15-39 years to the population of 40 and over) **will diminish by 1/3**. In other words, in 2020, there will be 7 people of 15-39 years to 10 people of 40 years and over.
- g) The only variable that cannot be forecasted with some scientific rigour is the **employed population**. Although the lines of Romania's medium and long term development have been presented (through the strategy for economic and social development), the new government intends to carry on the reform, privatisation and restructuring, it is difficult to estimate the dynamics and changes on the 2020 horizon. **The possible parameters of the employed population around 2020 are rather a wish too difficult to fulfil.**

The conclusion of the study of demographic phenomena in Romania is *quite alarming*. The young generations, which will supply the active population in the next years, will gradually diminish in number, while most of the adult population will range between limits of the old active population (of over 50 years) –Graph 14. The trend will bring about consequences on social work productivity, social insurance, labour management etc., while from the social viewpoint it might cause unexpected and uncontrollable unrest.

Graph 14



Source: based on NISES data forecast.

If the level of birth rate and death rate – not quite optimistic – will keep up or even worsen on long term, **the present coming to maturity of the working age population and active population will change into “severe ageing”**. In such conditions, if we take into account the connection between production and labour force and the fact that labour productivity – by means of the technical progress and limited investment possibilities –

evolves slowly at the entire economy level, **this aged structure and the labour force deficit could become factors of slow economic growth or even of unwanted extension of the present economic recession.**

In terms of allocation of global resources, this situation will cause the diminution in the funds allocated to the social sectors of the economy. In other words it might comprise the efforts made so far in the field of sustainable human development during a very difficult economic transition (also due to inadequate management), leaving Romania no chance but economic growth stimulation.

But we could also bring forward another viewpoint on such evolution: considering that economic development in the 21st century will be a qualitative one, based on highly efficient technologies, automation and computerisation, then the question of a potential crisis of labour resources has various connotations. We could say that the occurrence of a possible deficit is not very alarming. But a still important problem is that of the age structure of labour force, very distorted by the demographic waves caused by the pro-birth policy of the former regime. It is a problem that the developed countries that are more advanced in the demographic transition and has more financial resources than Romania and show no such distortion intensity could not properly solve in spite of decade-long endeavours. So it is difficult to imagine and take operational measures when the demo/economic implications of the waves will become “virulent” in an economic environment in transition.

But the natural growth will become positive and the economy will improve and show a durable recovery. It is possible that the estimated demo-economic process will evolve much slowly and will enable the application of a demographic policy and demo-economic solutions to annihilate some of the negative effects of population and labour force ageing.

3. PENSION SYSTEM REFORM

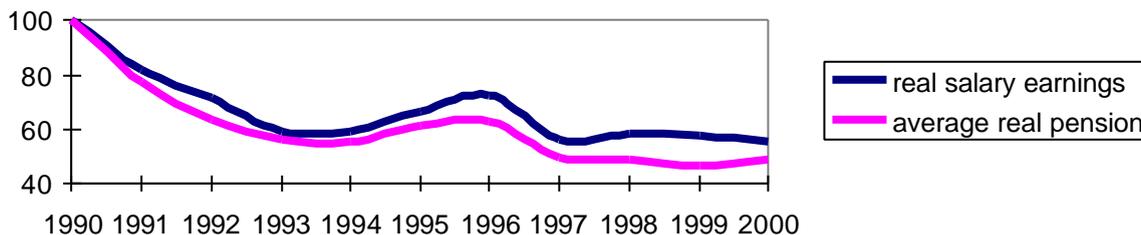
3.1. *The crisis of the present pension system. Characteristics*

During the 11 years of transition, the rate of replacement of pension with salary varied over time and caused miscorrelation among categories of pension or even within the same category. Moreover, **it no longer expressed a normal/adequate/fair relation between the contributions paid and services obtained**. Thus, depending upon the time of retirement, the nominal pension amount for comparable conditions was quite different. Actually, the people retired in the last years received much bigger pensions than the previous pensioners did and in some cases the amount of the pension exceeded the last received wage. Such distortions, real inequities, were caused by:

- **The pension calculation method** that took into account the wage income average⁸ of five successive years selected by the beneficiary from the last ten years of service (according to GD 565/1996);
- **Incoherent measures for the pensioners' social protection** (delayed and/or differentiated indexing, partial adjustments, etc);
- **The labour remuneration policy** (with its own distortions);
- **The failure to correlate the basic incomes from wages and from pensions in order to maintain the purchasing power (Graph 15).**

Graph 15

Indices of real salary earnings and real average pension



Source: Statistical Yearbook, 1999 and Monthly Statistical Bulletin, NISES

⁸ The basic wage and the some benefits with a permanent character (for length of service, work in special conditions, systematic over time work, additional functions, etc).

Box 4

The period 1991-1995 was more attractive to become the calculation basis of the pension amount since the gross wage increase (by negotiations) exceeded the benefits granted by indexing and compensation. The ratio of gross wage increase to indexing and compensation increase varied between August 1991 and August 1995 between 1.41 (August 1992/August 1994, gross wage increase was 110 percent, and indexing and compensation accounted for 78 percent) and 2.94 (August 1994 and August 1995, 50 percent and 17 percent, respectively). The highest nominal increase took place over the period August 1992-August 1993, when the gross wages increase by 283 percent and indexing reached 155 percent, the overtaking index being 1.83.

If, for example, one person retired on September 1, 1999 selected as pension calculation basis the period August 1989 – August 1994, he/she benefited by a surplus of up to 52 percent due to wage increase besides indexing and compensations. If the retirement took place on August 1, 2000 and the selected period was August 1990 – August 1995, then he/she benefited by a surplus in the calculation basis of up to 92 percent. The pension calculated on the increased basis was adjusted with all compensations and indexing granted to the pensioners on August 1, 1991 and also any other increase he/she benefited by that time.

Source: Tribuna Economica, nr. 23/2000, p.27.

To correct the distortions caused by GD 332/2000 based on the Law 19/1990 regarding the public system of pensions and other social security benefits, pension correlation in stages was applied over the period May-October 2000, depending upon the time of pension registration. The differentiated increased rates varied from 0 percent for those retired in October 2000 to 53,43 percent for the people who had entered the system before 1980, provided that the pension level did not exceed the gross average wage in economy indicated by NISES on May 1, 2000. Such increase could only partially cover the diminishing purchasing power. The cost of pension correlation amounted to over 7.000 billion lei to about 2.5 million pensioners.

After October 2000, the monthly pension indexing reached 1.5 percent and the beneficiaries were the people who had a pension not exceeding two average wages (about 4.4 million lei in October 2000), while the minimum pension was to reach 854.000 in December 2000 (minimum age-limit pension, for full length of service, from the national social insurance system), and the total minimum pension (including the additional pension and the contribution to the health social insurance), about 1 million lei.

A defining feature of the system of pension indexing and adjustment/correction is the higher protection of small pensions. Usually, they increased faster than the big pensions. Thus, the scale of the pension amount shrieked at the bottom. Although, necessary and justified in fact by the economic and social conditions, that mechanism (whose expected outcome were less than modest) **caused other inequalities:**

- *on the one hand, it happened that people of different professions, different education levels, having worked in different economic fields received the same pension amount (e.g., doctors, professors, researchers, skilled workers or workers with secondary education);*
- *some of the people received through the present pension system based on the PAYG method more than their contribution.*

Box 5

Characteristics of the public pension systems, 1989-1999:

a) Public pensions schemes:

- Mandatory public social insurance pensions for employees and other personnel assimilated to them;
- Additional pensions, also mandatory, for employees and other personnel assimilated to them;
- Social insurance pensions for farmers, with a voluntary character, introduced in 1992 to replace the pension system for co-operative farmers, abolished along with the co-operative farms.

b) Main limits and regress of social insurance pensions schemes:

- The ratio of the employees contributing to the national social insurance to the pensioners evolved from 3.75:1 in 1989 to 1.10:1 in December 1999; -The increase in the average contribution to the national social insurance from 14 percent in 1989 to 25.5 percent in 1992 and to 37.5 percent in 1999; as most of the contribution was paid by economic agents it brought about higher wage costs with negative effects on product competitiveness and on inflation;
- The emergence in 1995 of major distortions in the budget of the national social insurance for pensions and other social security benefits; so the budgets were balanced by state subsidies and treasury loans, which, in turn, affected the inflationary process;
- The pensions levelling: the ratio of the minimum pension to the average national social insurance pension for full length of service increased from 54 percent in October 1990 to 77.9 percent in September 1999; as for the pensions for partial length of service, the ratio evolved from 67 percent to 108.3 percent;
- Major discrepancies between pensions, depending upon the year of retirement. The average monthly pension of the individuals having full length of service who retired in 1990 amounted to 806.1 thou and that of the individuals retired before 1999 amounted to 1,351.2 thou, i.e. 68 percent higher;
- The farmers' participation in the optional pension insurance is quite insignificant (2-3 percent);
- The social insurance pension of the former co-operative farmers was very small (about 30 percent of the national social insurance pension).

Source: NISES data

After adjustment lasting about one decade (more or less justified and/or coherent), **the present pension system has some setbacks such as:**

- a) It includes only the public pension system, based on the PAYG method;**
- b) It does not stimulate either economic growth or employment restructuring;**
- c) The system of pension incomes replaces to a great extent the measures/policies of social assistance that are more adequate to the elderly.**

Box 6

In order to clarify some of the problems/setbacks of the social security system for the elderly, only in 2000 measures were taken by Law no.17 to regulate on unique basis the status of the individuals with special needs, focusing on the valuation of old age and on the elimination of marginalization on age criteria.

The Law stipulates in principal:

- # the cases when the old person benefits by community services, in shelters or at home;
- # the valuation of the dependent old person's situation, a person needing social assistance based on the national pattern that sets the criteria for the dependence degrees;
- # community care services to the elderly, the way of organisation and granting, employment and payment of the persons in charge of the elderly;
- # the co-operation of local public administration with non-governmental organisations and churches in order to develop and diversify the social services in accordance with needs of the elderly living in such communities;
- # financing of social assistance to the elderly and the way to set the monthly contribution, depending upon the services to be rendered, to be paid by the assisted persons and their legal providers in accordance to their income.

The Law provides the basis to fulfil some major requirements:

- a) Elimination of any incoherence of the organisation and functioning of the present system of social assistance to the elderly;
- b) Priority care provided for the elderly, mainly at home and shelters, only after using the other forms of social assistance;
- c) Development diversification of the forms of social assistance to the elderly in accordance with their needs;
- d) Involvement of the local authority when the old person concludes legal deeds with individuals for their care and maintenance in exchange of personal goods.

d) It hardly solves the problem of inequalities and intra- and intergenerational transfers.

3.2. The need for reforming the pension system.

The reform of the pension system and, generally, of the social security system is necessary in Romania for **at least two reasons** :

- a) To cope with major structural changes in the labour market, with demographic and inflationary pressure;**
- b) Following to political decision on the integration into the EU that requires legal and institutional adaptation, correlation with the *acquis communautaire*;**

The present pension system reached a critical point and cannot solve the general problems of its functioning in the new social and economic conditions (inequalities, social exclusion, long-term unemployment before retirement, no complementary opportunities for incomes for the elderly etc.).

The demographic transition, much faster than that of the developed countries, continuous diminution in the employed population, modification of its structure, in general poorly correlated with the labour productivity and highly dependent on the inflation dynamics, relatively early retirement age, easy retirement before term, as well as the significantly higher number of pensioners caused **several problems within the present pension system consisting of inequality and budget deficit.**

3.3. The objectives of the pension system reform.

In the context of the transition to the market economy and the accession to the EU, a new viable pension system must be created on the basis of several “pillars”, able to provide the elderly with reasonable incomes in accordance with the work done and contributions paid to the pension funds. It seems to be **a natural development and an adaptation to the new internal conditions** and many others⁹.

The direction of the reform of the Romanian pension system followed the EU trend, principles and practices. First to mention is the objective to diversify the income sources for the elderly through **a new pension system consisting of 3 pillars**.

The idea of reforming the Romanian pension system took shape in 1995 with the Project called “Labour force and social protection” financed through a World Bank loan. The main idea was to complete the existing public redistribution system by two more components: a) a mandatory private system based on capitalised pensions, and b) optional private pension schemes based on the classical life insurance systems.

This structure became indispensable as the public pensions based on the PAYG method were not satisfactory and, in conditions of distortion of the pensioners to employer’s ratio, they had no adequate financial support. Further increase in the contribution to social insurance would affect to a greater extent the wage cost, product competitiveness and the very material condition of the active persons.

Thus, **there are 3 pillars of the future pension system:**

(i) A public re-distributive one based on PAYG, method. The payment schemes of that type always imply redistribution between generations. The basic schemes of services always imply intra-generations as well, since the services are not connected with contributions in a correct way from the actuarial point of view. The capacity of redistribution to persons and generations earning small incomes is the great advantage of the public pension funds. But, at the same time, it may be disadvantageous: unless the definite service formula is properly

⁹ Practice reveals that the EU pension systems differ from one country to another and that, in the last decade, they have been reformed to cope with the structural and demographic changes in the society. Besides the national characteristics, the reform of the EU pension schemes has some joint features that, in a way or other, are present in the reform of the Romanian pension system. Such characteristics result from the 1992 Recommendation of EEC Council regarding the convergence of the social protection objectives and policies that in connection with the elderly stipulate the following for the member countries to implement such mechanisms to enable former employees who retired after career to benefit by a reasonable replacement rate over the entire retirement period, taking into account, as required, legal or complementary systems, keeping at the same time the balance between the interests of active persons and of the pensioners; to adopt in due time the pension systems to the demographic evolution, keeping at the same time the basic function of the legal pension schemes.”

conceived or total wage amount at the economy level increases fast enough, we might be confronted with inequitable redistribution, from the poor to the rich.

Strengths and weaknesses of the pension schemes based on the PAYG method

Strengths	Weaknesses
<ul style="list-style-type: none"> -Simplicity and transparency - Low administration costs - Progressive redistribution - Wide coverage - Non-hindrane of labour force mobility - Low risk 	<ul style="list-style-type: none"> - Budgetary obligations - No “option” possibility - Obligations are too high for pension level - Resistance to the social contribution capitalisation

Source: ECE, Economic Survey of Europe 1999, no.3, UN, NY and Geneva, 1999

(ii) The second pillar introduces the mandatory participation in a private pension system. The capitalised pension funds will supplement the reformed public pension system so that the integrated system should be financially sustainable. In this context, the mandatory capitalised pension funds will be the second pillar of the new Romanian pension system. The draft law provides: the funds should be managed by private companies; the members of the public pension system will practically be founding members of the universal pension funds; the contribution by the members of the respective funds will amount to 10 percent of their gross wage; the contributions to the funds will be invested in bonds and securities and in shares, listed at the stock exchange or RASDAQ (over-the-counter-system); the contributions will also be deposited in banks or given as credits. The size of the pensions generated by the capitalised pension funds will depend on the contribution paid and on the incomes from their utilisation.

From the legal and institutional point of view, the implementation of the second pillar requires a special law on the organisation and functioning of the universal pension funds and a commission for the supervision, regulation and control of the pension fund management companies.

Given the importance of the funds, it is necessary to prevent fraud and mismanagement, but it is a burdensome task as the financial and institutions and banks still need consolidation.

The capitalised pension schemes – although much more advantageous than the public schemes from the income point of view –are very risky and require a social assistance system.

Strengths and weaknesses of the capitalised pension schemes

Strengths	Weaknesses
<ul style="list-style-type: none"> -High returns from the investments in securities - The participants are independent and have 	<ul style="list-style-type: none"> - Regressive impact on income distribution - High administrative cost

the opportunity to choose - Major savings and economic growth - Promotion of financial markets and efficient corporate governance - Direct adjustment of pension level	- Limited coverage - Uncertain return (high risk) - Requires a social assistance system - Limitation, in some cases, of the labour force mobility (pensions at the level of the company)
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Source: ECE, Economic Survey of Europe 1999, No.3, UN, NY and Geneva, 1999.

(iii). **The third pillar, the optional private pensions funds, are also financed on the basis of the capitalisation method**, the members contributions being invested in financial assets. The optional character of the scheme enables the high-income earners in active life to enjoy high incomes while retired. The expansion of the above funds depends – like the universal pension funds – on the consolidation and proper functioning of the capital market.

The successful reform of the pension system, besides the methodological, institutional and functional rigors, will depend to a great extent on the mass media coverage of the new system, on the people's potential risks, total replacement rate etc.

According to the national strategy for the country's development on medium and long-term and the Governing Program for 2001-2004, **the reform of the pension system will be completed in 2004.**

The expected outcome is related to:

- **The rationalisation** of the public pension system and the financial equilibrium of the new public pension system;
- **Diversification of the pension sources.** The additional and optional pension schemes are meant to attract persons with a higher saving capacity;
- **Pension re-correlation;**
- **Finalisation and functioning of the institutional system** represented by the National House of Pensions and Other Social Security Benefits¹⁰, and its territorial structures, institutions for the private pension fund management, supervising institutions;
- **Strengthening of social dialogue and correlation of the social partners' interests;**
- **Increasing sources to finance the national economy**, stimulation of labour productivity and productive efficiency.

The public system will be the central, fundamental pillar of social insurance for pensions.

¹⁰ The reform of the political system of pensions required, in accordance with EU practices, the establishment of the National House of Pensions and Other Social Security Benefits (NHPSSH) as autonomous public institution of national interest that controls and manages the public pension system that, based on social partnership, will be headed by a Board of Directors comprising representatives of the Government, employers' organizations, trade unions and pensioners' organizations.

3.4. The First Pillar-Public Pensions schemes. Characteristics

The reform of the public pension schemes started with the adoption by the Parliament, in March 2000, of Law no.19 regarding the system of public pensions and other social security benefits that will be enforced on April 1, 2001.

The public system is organised and operates based on the following *basic principles*:

a) **Uniqueness**: the state organises and guarantees the public system using consistent legal norms;

b) **Equality**: non-discriminating procedures are applied for all public system participants - contributors and beneficiaries – regarding legal rights and duties;

c) **Social solidarity**: public system participants mutually assume obligations, and are granted benefits that are meant to prevent, limit or remove the social hazards stipulated by law;

d) **Mandatory character**: natural persons and legal entities are obliged, in terms of the law, to join the public system, and SS benefits are granted when legal obligations are met;

e) **Contributory character**: SS funds are set up from the contributions owed by public system participants, natural persons and legal entities; SS benefits become payable once SS contributions have been paid off;

f) **Redistribution**: collected funds shall be redistributed to cover the public system mandatory payments, in terms of the law;

g) **Autonomy**: self-management governs the public system, according to the law.

Insurance holders¹¹, according to the law, are the persons that can be included in the following categories:

I. The employees working on individual labour agreement basis;

II. The persons who occupy elected positions, those appointed by executive, legislative or judicial authorities, during their legal mandate, and co-operative members belonging to craftsmen co-operative organisations, whose rights and obligations are assimilated, to those of the persons working on individual labour agreement basis;

III. The persons benefiting from unemployment benefit, professional reinsertion allowance or support allowance that are paid, in terms of the law, from the Unemployment Fund (UF) budget, (unemployed)¹²;

¹¹ Insurance holders may be Romanian, foreign or stateless citizens during the periods of permanent or temporary legal Romanian Residence.

¹² The average national gross wage (ANGW) for the year to follow will be projected and made public by NHPSSB.

IV. The persons whose calendar year gross income is equivalent to at least 3 average national gross wages (ANGW) and are, according to circumstances:

- a) Unique partner, associated partners, limited partnership members or shareholders;
- b) Administrators or managers working on administration or management contract terms;
- c) Family partnership members;
- d) Authorised independent workers;
- e) Employees of international institutions, if not insured by the latter;
- f) Land- and forest owners and/or -lessors;
- g) Individual farm-workers or private forest workers;
- h) Members of farming companies or other forms of farming associations;
- i) Persons employed without individual labour agreement, in recognised cult institutions.

V. The persons whose cumulated calendar year gross income amount to at least 3 ANGW, and are included in two or more categories that were mentioned in point IV.

VI. The persons employed exclusively in service providing, working on civil convention terms, whose calendar year gross income is equivalent to at least 3 ANGW.

Other persons who do not qualify for one of the cases described may also conclude a public system insurance contract.

Insurance holders shall pay SS contributions¹³ and are entitled to SS benefits.

Unlike the past situation, the employees and as simulated persons will pay one third of the contribution amount for social insurance, while the employers will pay two thirds of the contribution amount. It will have a positive effect on the social insurance budget.

The monthly calculation basis for the insurance holder's individual SS contribution is:

a) The monthly individual gross wage, bonuses and increments included, that were stipulated by law or the collective labour agreement, and/or the incomes earned by other insurance holders;

b) The monthly insured income, that was stated in the insurance statement or contract, which shall not be less than $\frac{1}{4}$ of the ANMGW;

c) The amount of the unemployment benefit, professional reinsertion or support allowance, according to circumstances.

The SS contribution owed by employers is the difference between the individual SS contribution, and the SS contribution quotas that were set up in the Annual State SS Budget Law, according to work conditions.

The public system¹⁴ grants the following pension categories: **a)** Age-limit pension; **b)** Retirement pension; **c)** Partial retirement pension; **d)** Disability pension; **e)** Survivor's pension.

¹³ SS contributions will be collected and registered by the territorial pension houses, on account of the personal SS code.

Box 7

Age-limit pension is granted to insurance holders who cumulatively meet the standard pension-age and minimum public system contributory period, on the date pension is applied for.

The standard pension-age is 60 – women, and 65 – men. The standard pension-age will be reached in 13 years from the date the present law becomes effective, by gradual augmentation of pension ages, starting from the age of 57 – women, and 62 – men, according to the age augmentation schedule presented in the law.

The minimum contributory period is 15 years both for women and men. The contributory period increase from 10 to 15 years will be achieved in 13 years from the date the present law becomes effective, according to the schedule.

The full contributory period is 30 years – women, and 35 years – men. The full contributory period will be reached in 13 years from the date the present law becomes effective, by gradual augmentation. This augmentation starts from 25 years – women, and 30 years – men.

Insurance holders who meet the requirements for age-limit pension will continue work only with the employer's agreement.

Insurance holders who worked in partly or totally outstanding work conditions qualify for age-limit pension at reduced standard pension-ages. The pension ages that were reduced will not be below 50 years - women, and 55 - men. Insurance holders, whose contributory period is at least 20 years, qualify for age-limit pension starting with the age of 45. Insurance holders who exceed the full contributory period by at least 10 years may apply for retirement pension with maximum 5 years before the standard pension-ages. The retirement pension amount will be set in the same terms as for the age-limit pension.

Insurance holders, who completed the full contributory period, as well as those who exceed this period by at least 10 years, may apply for partial retirement pension with standard pension-age reduction of maximum 5 years. The partial retirement pension amount will be set by reducing the age-limit pension amount according to the actual contributory period, and the number of months by which the standard pension-age was reduced.

Source: The Official Gazette of Romania No. 140/2000.

Territorial pension houses and NHPSSB will keep SS contribution data records as per insurance holder.

Pension calculation

The public system pension amount on the date pension is applied for, is set up by multiplying the insurance holder's average point score¹⁵ (up to value 3) during the contributory period, with the pension point value effective in the month pension was granted.

¹⁴ Insurance holders are entitled in the public system, beside pension, to: **a)** benefit for temporary work-disability caused by common disease or accident unrelated to work, occupational diseases and work-accidents; **b)** benefit for sickness prevention and work-capacity rehabilitation; **c)** maternity benefit; **d)** child-raise or sick-child care benefit; **e)** death allowance.

The insurance holders qualify for the benefits, which have completed a minimum 6 months' contributory period during the last 12 months that precede the risk occurrence.

In the public system insurance holders shall not concurrently be granted two or several SS benefits for the same insured risk, with the exception of sickness prevention and work capacity rehabilitation.

¹⁵ The insurance holder's average point score during the contributory period is the ratio between the number of points corresponding to the sum of contributory period annual points, and the number of years of the full contributory period. The insurance holder's annual point score is the ratio between the respective year's point score, which is the sum of the monthly number of points, and 12. The monthly number of points is the ratio between the monthly individual gross wage, bonuses and increments included, or, according to circumstances, the monthly-insured income, that was used as calculation basis for the individual SS contribution, and the average monthly gross wage in the respective month that was published by the NISES. During the periods when NISES had published only the average national gross monthly wage on an annual basis, the annual insurance holder's point score is the ratio between the monthly average of individual gross wages in the respective year, bonuses and increments included, or, according to circumstances, the monthly insured income, that was used as calculation basis for the individual SS contribution, and the average monthly gross wage in the respective year, that NISES had published. During the periods when NISES had not yet published the average national monthly gross wage, the last value of the average national monthly gross wage will be used (for the entire month).

The insurance holders who, after qualifying for age-limit pension complete a certain contributory period in the public system will be granted a 0.3% increase of the personal points for each additional month, i.e. 3.6% for each additional year.

The pension point value is at least 45% of the average national gross monthly wage (ANGMW) that was projected for the considered year, and will be approved the State SS Budget Law. NHPSSB, in agreement with MLSP and the Ministry of Finance (MF), recalculate the pension point value on basis of a new projected ANGMW value if during certain periods the difference between the actual and projected ANGMW value exceeds 10%.

According to the public pension scheme, the pensions under pay may be updated after the approval of the Law of the national social insurance budget in accordance with the value set for the pension point.

The establishment of the new public pension system will bring about:

- Widening of the coverage of the mandatory insured persons (wage earners, including those working on the basis of a civil convention, peasants, craftsmen and other individuals etc).
- Extension of legal age of length of service by 5 years to retirement;
- Limitation of the basis of calculation of the social insurance contribution to three average national gross monthly wages, thus enabling the people to opt for complementary, optional insurance schemes;
- Mitigation of inequalities through the new pension calculation formula, the updating formula etc.

The new public pension law as well as the complementary package of pension regulations is supposed to restore the financial equilibrium of the pension fund. At the same time, measures shall be taken to change the economic agents attitude about the regular payment of the contribution to social insurance as well and to make the authorised bodies be more rigorous as regards the observance of the requirements for bringing in, granting and managing social insurance funds.

3.5. The Second Pillar – The universal pension funds

The introduction of the pension system based on capitalisation (mandatory/compulsory – The Second Pillar, and optional – The Third Pillar) has profound economic and social implications.

The idea supporting such a viewpoint is based on the need for “correcting” the pensioners’ present state and on their active involvement in sizing their own incomes through increased autonomy of decision on insurance options.

All parties accept this component of the pension reform as necessary: the social partners, the ministry in charge and even many of the potential beneficiaries. Such convergence of opinions allowed the initiation of a draft law “regarding the organisation and functioning of the universal pension funds”. Discussed several times with the social partners, within the Economic and Social Council as well, the proposal took a concrete shape in the last days of the former Government through the Emergency Ordinance No. 230/24th of November 2000.

The Government formed after the general elections of November 2000 withdrew (i.e. cancelled) the regulation and requested further improvement before being adopted.

Now it is being discussed by the Ministry of Labour and Social Solidarity and by the Parliamentary Sub commissions. The Social Agreement Project for initiated by the Government of Romania and the social partners includes as priority action the preparation (by November 30, 2001) of the legislation regarding the Universal Pension Funds.

The withdrawal/cancellation of the above regulation had a strong impact on the social partners who had greed to apply it even if it had some shortcomings. The shortcomings of the EO No. 230/2000 consist in:

a) The fact that some of the suggest hypotheses could not practically be achieved. One of them refers to the management funds whose level of uncertainty as to their profitability was very low (at least in the beginning if the present economic conditions persist). To strengthen the potential beneficiaries’ trust, such funds shall be connected with the real economy, not only with the monetary economy. In this respect, the social partners have different options, some being quite sceptical about the possibility to reach the profitability stipulated by law within Romania’s emerging market economy:

- The trade unions want a higher security (safety of repayment, taking into account the individual’s protection and the priority of the man’s problems: the social component lives through economy” (E. Hossu – Cartel ALFA leader);

- The employers’ organisations have in view liberal solutions to enable the universal pension funds, as private funds, to freely act in the market, without any constraints on the \pm limits of profitability as against some level “negotiated” by the social partners. They think that the higher risk should be assumed by all parties involved.

The two-figure inflation (27 percent in 2001) unstable business environment, inability of the domestic capital to cope with the new situation, low re-ability of the mutual investment

funds, even the population's scarce information on the contents and effectiveness of the proposed system are just a few real reasons of the uncertainty about the expected profitability/efficiency and the very functioning of the system.

b) The fund management model. Although the opinions differ as to the type/model of management of the universal funds (the alternative applied in Chile, more sure, or the Dutch one, potentially more profitable), they are unanimous as to the regulation and supervision of the system that must be rigorous, direct, and detailed and include all aspects (from the licensing procedures to the outcome analysis and profit distribution) and the whole financial circuit (from collection to the personal accumulation funds).

c) The protection measures stipulated by law as to the investment safety degree, replacement rate, preservation of purchasing power of the funds, the bankruptcy level of the funds, etc.

Although in full process of improvement, the regulations regarding the universal pension funds will include **the same general framework** as the EO No. 230/2000:

(i) The universal pension fund is a fund set up on the basis of a private company contract, managed by a pension company;

(ii) The purpose of the universal pension fund is to collect and invest the contributions from the (mandatory and optional participants in the system) in the form of annuity at the withdrawal time in order to supplement the pensions received from the public pension system;

(iii) The participants in such funds could be natural and legal persons (e.g., trade unions by collective joining based on a mandate contract).

The natural persons contributing to the public pension system become also contributors to a mandatory private pension fund throughout the period they contribute to the public funds.

Joining a fund means becoming a member and signing a (individual or collective) membership deed and a contract.

One individual cannot be a member of several funds at the same time and he/she is entitled to only one account with the fund whose member he/she is. The contribution of each member to the fund will be set in accordance with the assignment to one of the categories of contributors to the public pension system¹⁶.

¹⁶ The contributions set by the EO amount to 5 percent each of the gross monthly wage and are to be paid by the employee and employer and 10 percent for the unemployed or those without and individual labour contract, paid from their corresponding incomes. The contribution calculation basis will not exceed the limit of three average national gross monthly wages. The contribution to the funds is not taxable).

(iv) **The members of the funds are owners of the amounts existing in their accounts but are not entitled to receive before retirement the amount existing in the account or part of that amount.** They may withdraw only at the conversion date.

If the amount in a member's account exceeds the level for acquiring a minimum set pension, the beneficiary may opt that the balance amount should be paid as a fixed amount or in instalments.

(v) **The annuities** due to the members of the fund could be: life annuities, survivor's annuities, other types stipulated by the laws in force;

(vi) **The pension fund management companies** will be licensed by the Commission for the Pension Companies Regulation and Supervision: they have a clearly defined activity portfolio¹⁷, represented by fund management services. They issue shares and must contribute to the National Pension Guarantee Fund.

3.6. The future of the pension reform in Romania

Although delayed, **there is a general consensus that the pension reform should go on the basis of several pillars.**

The three pillars of the reform have reached different **implementation stages**:

a) The First Pillar – The reform of the public pension reform. Measures are being taken to make it operational from April 1, 2001:

- *Adaptation/completion of the legislation*; a regulation (emergency ordinance) is being prepared in order to clarify the controversial problem of Article 180 of the law referring to the calculation of the “pension points”.

For the persons receiving pensions, a provisional score will be set:

- For the pensioners being paid over the period 1968-December 31, 1997, the provisional score for 2001 will be set by the ratio of the present amount to the value of the pension point established by the budget. Therefore, their pension will not diminish;
- For the pensioners being paid over the period January 1, 1998 – March 31, 2001 (who benefited from the advantageous provisions of Decree 565/1996), a theoretical score will be set in accordance with the score of the newcomers.

¹⁷ The pension company's sole purpose is to manage the fund, to represent the fund within the relations with third parties, to provide annuities and to carry on other activities directly related to the main activity as provided by the regulations of the Commission for the Pension Companies Regulation and Supervision.

As regards the new pensioners, the provisions of the new law will be enforced, so that the pension level is calculated in accordance with the individual average score set through the calculation algorithm and the value of one pension point.

- *Functioning of the institutional framework*: the completion of the institutional construction that implies the implementation of the Strategic Development Plan of NHPSSB (effectively functioning from the 1st of February, 2001) and the clarification of some technical problems to enable the system operation (the transitory information system, staff training – the trainers’ training already in progress at the county level).

- *Effective widening of the contributors’ area and implicitly increasing efficiency of the contribution collection*. The law includes among the contributors other three categories: self-managed workers, the unemployed and independent individuals working on the basis of a civil contract. The concerns are the identification, monitoring and control in connection with the observance of the law.

- *Building the social insurance budget*: to ensure the payment of the existing pensions without delay or interruption; to allow the finding of the elements required for the application of the new law (valuation of the pension point, quarterly indexing of pensions etc.).

- *Mass media coverage of the reform contents through a campaign of information* on the reform novelty and the practical effects on each citizen.

b) The Second Pillar – The mandatory private pensions. The emergency Ordinance withdrawn from the Parliament by the present Government is in full process of revision and improvement “to recover the lost time” and to correct the inadequate application of the other components of the pension reform. Sub-commission was set up within the Parliament Chambers to thoroughly review the Ordinance.

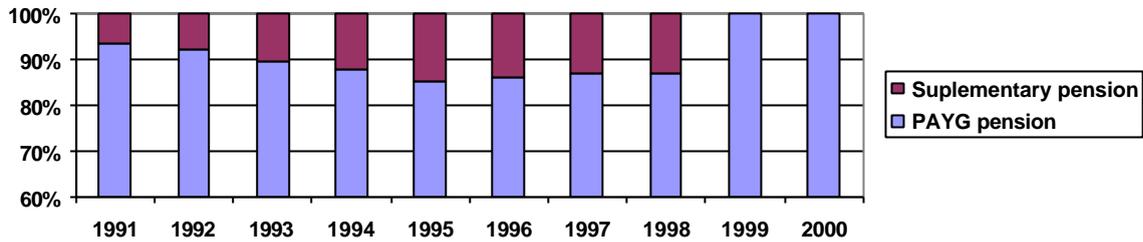
The main issues to be discussed are:

- *The way of introduction*: directly into the mandatory system for all categories of population already considered by the law or after a period of transition when it functions as an optional system? Most opinions favour the first alternative that is safer for the system and clearer for the beneficiaries.

- *The initiation of the institutional construction* by creating the Supervision Commission.

- *The clarification of the technical procedures* for licensing the market operators in order to allow their qualitative selection based on performance, responsibility, prestige, financial and managerial ability in order to minimise the risk of bankruptcy/operational failure/collapse of the system.

Structure of total average pension



- *The state's role in implementing and operating the private pension system: the Government's responsibility, control/monitoring (to what extent) etc.*

In some way we can say that in Romania already exists a "form/variant" of compulsory private pension known as "supplementary pension sister". Each employee contributes to supplementary pension fund with a sum represented 5% of gross wages. After retirement each person receive "supplementary pension" which represent around 15% of average pension from PAYG system. This fund was administrated by the state, by the same institutions like the pension funds from PAYG system. Started with January 1, 1999 the supplementary pension, statistically was included in PAYG pension together with 7% contribution for health assurance Graph 16.

Graph 16

Source: based on NISES data

c) The Third Pillar – The market already show the existence of some insurance forms equivalent to the optional private pension system. Some Romanian and foreign insurance companies (ASIROM, ASIG, AIG, Netherlander etc.) use life insurance systems based on capitalisation and annuities. Although informal, that system is present in the Romanian market bet still at an early stage on a small segment of population. The establishment of the legal framework will allow the increase in the number of beneficiaries entering the system due to the higher safety of the amounts capitalised on the basis of the life insurance principle, etc.

The delay in applying the pension reform based on combined insurance systems is equally advantageous and disadvantageous:

- (a) on the one hand, **the costs rise:** the more we delay the reform, the higher the costs are;

The demographic evolution in Romania can no longer support a social protection system exclusively based on social solidarity; the trend of the main demographic indicators is against the present pension insurance system:

- The population, birth rate, fertility are diminishing and the population pyramid becomes the "population cylinder" (Appendix 15);
- It was on the 1-st of January 2000 that the number of people over 60 years exceeded by 36.8 thousand the number of the people of 0-14 years for the first time in the past four decades;

- The evolution of the dependence ratio is unfavourable, the employed active population can no longer support, the inactive segments through traditional protection systems;
- The population categories called “the old adults” (over 50) and “the young elderly” (60-74 years);
- The demographic transition is accomplished with small incomes and in an inefficient economic environment.

The social assistance reform could be viable, if the active “self-protection” measures exceeded the temporarily corrective passive measures.

As for Romania, non-reforming the pension system is more costly than reforming it. While the introduction of the combined system of insurance by public and capitalised pensions will cause deficits of about 5 percent of GDP in the beginning that will later diminish, non-reforming the system the debt will be greater (as share in the GDP) and later it will increase (Appendix 16).

(b) on the other hand, we could have **temporary benefits** as well:

- we learn more from the construction/implementation mistakes made by other countries that initiated the reform before us;
- we could improve/adjust the general framework in accordance with the new trends. In this respect, it is worth mentioning the opening in the near future of Romania’s labour market (elimination of the compulsory visa for Schengen area, accession to the UE), with huge implications as regards the size of the population segment contributing to the pension system;
- re-thinking of the correlation between different stapes of the economic reform and the pension system reform, timing, legislative incoherence, etc.
- the population’s readiness to be achieved by information on the benefits of the combined pension system (stimulation/modelling of some market behaviours in this field as well).

Another unsolved problem is the pension re-correlation. The measures taken in 2000 did not clarify the matter. There still are major non-correlations, unbalances between pensions. The problems are expected to be solved in 3 years for several reasons: on the one hand, there are financial constraints that cannot be solved sooner; on the other hand, there are some technical aspects, partial re-correlation, etc. that require a solution in stapes. Thus, a “re-correlation model” takes shape. The main idea is to gradually diminish the inequalities by increasing the pension amount received by the persons already in the system to the level of the amount received by those who will join the system after April 1, 2001.

Thus, on the 1st of April 2001, there will be 3 categories of pensioners:

- (i) the persons retired by December 31, 1997 who were included in the previous re-correlation but whose pensions are under the average pension;
- (ii) the persons retired in accordance with GD No. 565 whose average pension per group of pensioners is about 2.800.000 lei, much bigger than the general average of about 1.500.000;

- (iii) the persons who joined the system in accordance with Law No. 19/2000 and have an estimated replacement rate of about 55 percent. The smaller pensions will increase faster than the bigger pensions; the pensions that, according to the “payment level”, exceed the amount resulted from the number of points multiplied by the value of one point will not change.

We have presented only the “hottest” problems that must be solved; otherwise the expected efficiency of the system will stay away from the real one.

In conclusion, the question is not about “reforming or non-reforming” the pension system in particular and the social security system in general, but about finding a “fair” intra- and intergenerational balance of the shared expenses on the reform.

4. DO THE INTRA AND INTER GENERATIONAL CONFLICTS AND INEQUITIES WILL BE DIMINISH IN THE NEAR FUTURE?

The problem of the intergenerational transfers seems to become more acute in Romania. The economic transition as well as the demographic one, the endeavours aiming at the sustainable economic development and integration into the EU pose problems that were minimised or even ignored not very long ago. **Romania's population is ageing; major structural changes are taking place in age groups, trades and professions,** etc. Even the **life span partition model is changing**, the young ones are learning more, and the elderly are retiring later. **The labour content is changing** (the ratio of physical labour to intellectual labour is changing in favour of the latter), so the elderly may be active to a very old age having a higher working efficiency. The model of the new economy is multiplying the opportunities for jobs, for the diversification of consumption and services, but it is also increasing the risks.

The social models recognised in the past as being efficient are no longer operational. There are dysfunction, breaks, adverse effects and things must be changes. The old inequalities are amplifying and new ones are occurring and new solutions or mechanism to eliminate them are being required.

The main and more acute problems in this matter, for the near future, referring at aspects such as:

(i) **Intergenerational problems in Romania during the transition period** to market-oriented economy are becoming **more complicated and complex as a result or radical changes in the property right system** of SOEs restructuring and privatisation. They are involving in a more comprehensive manner several aspects concerning the behaviour and conflictual amplitude generated by wealth distribution and creating within a more or less transparent and clear legal framework. In this sense we mention for example the conflicts between former and present owners (including heirs) of houses, lands, plants, buildings and constructions abusively nationalised under the communist regime. An interesting intergenerational conflict has to be taken into consideration as regards young and old generation on problems of adaptation to the new conditions, adequate convergent/divergent perceptions of emergent market economy and concrete ways of solving the social and economic problems even in the framework of the same party organisations;

(ii) A more in-depth analyses of harmonising conflicts and interest between different generations is needing comprehending surveys and researches at micro and macro societal levels taking into account the diversity of aspirations and ideals line on a different philosophical streams and political doctrines, on the combinations between the necessity and creativity

developing of preserving valuable traditions and that of permanently innovativity under the famous requirement of “destructive creation” under the new circumstances of market globalisation, of new global challenges and opportunities offered by e-society as well as by challenges and threatens ecological disequilibria;

(iii) The social and economic costs of transition are differently influencing the welfare position and perspectives of present day generational patterns, the old generation being the most deprived due to unequal eroding and de-correlating impact of inflationary processes on pension level of retired at different period of time (moments);

(iv) A sorts of intergenerational conflicts and discrepancies is represented by the rapid/fast changes of technological progress applied in waves (vintage capital) process implying not only a shift in skill patterns but new knowledge which are less accessible to older generations.

(v) The richer experience of the older generations sometimes could be contradicted or denied by a larger capability of young generation for acquiring new professional qualifications and rapid adaptability to changes in sciences and technologies. That is why the new economy and IT society are the preferable domains for the young generations and not for older ones which try to keep the pace with the new knowledge but not with the same efficiency that the young generations. Parallel with the above mentioned contradiction it is worst to mention the existence of complementarity between older and young generations from the view point of two mention aspects;

(vi) As far as the approach of pension systems from the view point of intergenerational convergences/divergences the economic crisis in Romania has sharpen the ways of optional solving the problem on short term whereas on medium and long terms new opportunities in this respect are opened. It is quite interesting to notice that throw pension system which could be perceived or design under the circumstances of the emergent market economy new opportunities could be put in practice by an introduction of several complementary pillars offered by the pension schemes used in mature market economies and adequately adopted to specifics of Romanian circumstances. We have in mind a gradual development of many folded combinations between system of public pensions with private universal pension fund under different possibilities of involvement in the insurance of a decent level of living standard of the third generation. By this combinations new bridges of social and economic intergenerational

solidarity are set up and new forms of diminishing inequities and discrepancies between individuals of different ages can be established;

(vii) In view the starting of negotiations of Romania's membership to EU, the intergenerational interests will acquire in our country a new dimension related to the adoption of the *acquis communautaire* and other single market and social regulating mechanisms which directly or indirectly are rising many aspects aiming at reaching economic and social cohesion at different moments and for simultaneous generations entity which is undergoing a continuous process of institutional and legal reforms.

Abbreviations

(ANGMW)- Average national gross monthly wage

(ANGW)- Average national gross wage

(EO)- Emergency Ordinance

(GD)- Government Decree

(MF)- Ministry of Finance

(MLSS)- Ministry of Labour and Social Solidarity

(NHPSSB)- The National House of Pensions and other Social Security Benefits

(NISES)- National Institute of Statistics and Economic Studies

(PAYG)- Pay as you go

(PC)- Pension Company

(SS)- Social Security

(UF)- Unemployment Fund

(UPF)- Universal Pension Fund

(SOEs)-state ownership enterprises

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