Social Inequalities and the Reform of Romanian Public Pension System by Law no. 127/2019

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Abstract

Social protection system had developed in order to ensure the protection of the citizens, but also to maintain the economic growth of the country. The importance of the pension system is given by its social purpose, which is poverty alleviation, adequacy of income and consumption smoothing at retirement. In countries of Central and Eastern Europe, the income inequalities – main cause of poverty, had increased with the economic development. The aim of this paper is to show the changes brought to Romanian public pension system by the Law no. 127/2019 regarding the provided benefits vis-à-vis of social inequalities existing among elderly people.

Key words: pension system reform, public pension system, social inequalities, pension benefits.
J.E.L. classification: H55, I32, I38.

1. Introduction

Pension systems have the purpose to decrease the financial risk associated with the loss of the capacity to carry on professional activities and obtain incomes, risk which cause poverty and is related with severe material deprivation.

It is said about poverty that it is the "mother of all evils". From an economic framework, poverty is the result of income inequalities, which in countries of Central and Eastern Europe (CEE, from this point forward) had increased with economic development (Neagu et. *al*., 2016).

Lewis (1959) describes poverty as a cultural subsystem preserved from generation to generation, in which population does not exceed the financial and material limitations and therefore this burden is accepted and included in their value system. Mojan (2011) stands up against the "culture of poverty" theory, arguing that the poverty is actually a political problem based on the socio-cultural dysfunctions owed to the changes of human values and ethics in a country.

The purpose of this article is to highlight the changes brought to the Romanian public pension system through the Law no. 127/2019 with respect to provided benefits *vis-à-vis* of the social inequalities existing among elderly people.

The paper is organized as follows: the next section is dedicated to literature review, the third section presents the research methodology and the next one presents the revenues of older population and social inequalities existing among them, situation which the new public pension law wants to remove. At the end of the article is found the conclusion of this study.

2. Theoretical background

Social protection systems had developed as an answer to the criticizes brought to the capitalist economic system in industrial revolution time. In that age, from a political economy point of view, Adam Smith stated the concept of free market able to self-regulate (Smith & Cannan, 2003). This theory was argued by Keynes (1936), who claimed that the economic equilibrium and sustainable economic growth need the state intervention. Also, Marshall (1963) showed that the rights and the psychological structure of citizens represent the foundation of social inequalities and poverty, the state having the responsibility to avoid these situations. On the other hand, Marx (1867) have disagreed with the concepts of classical political economy and have reformed its principles, embracing the idea that the state has to create the required conditions to support economic growth. After all these theories, Gough (1979) concluded that the state interventions through social policies has to be correlated with the social-economic interests of the state.

Social protection systems have developed to ensure the protection of the citizens, but also to maintain the economic development of the country. Social protection systems and the national pension systems appeared in a defined framework, regarding the territory. These were organized by state according with political affinity of the period of implementation (Perotti & Schwienbacher, 2009), being configurated in line with governing system, economic and socio-cultural context of the country (Aggarwal & Goodell, 2013). Germany was the first state which has regulated social policies regarding the protection of some working categories against accidents, unemployment and sickness. Chancellor Otto von Bismarck implemented a social protection system based on contributions and solidarity between workers, the funds being redistributed to financial support of the ones in need. The Western and Nordic countries of Europe have implemented liberal social policies, the state intervention being minimal.

The Universal Declaration of Human Rights (1948) highlights the right to social protection and the duty of the state to ensure the social protection of its own citizens, especially the protection of old people, which due to old age find difficult to obtain the revenues necessary to accomplish the basic needs (Begum & Wesumperuma, 2012). Therefore, the state through its institutions, plays the regulator and income distribution role, and so it gets involved in decreasing the financial risk of elderly people providing the financial means needed to live a decent and respectful life (Mitruț & Wolff, 2011).

The importance of pension systems is given by the social aim achieved. In this regard, pension systems have the purpose to ensure and keep a decent lifestyle among older people, especially in conditions of financial instability. Therefore, alleviation of poverty, maintaining an adequate income and smoothing consumption at retirement are the main objectives of all pension systems (Lanoo et. *al*., 2014; Littlewood, 2014).

3. Research methodology

In this paper we have propose to highlight the changes brought to Romanian public pension system by the Law no. 127/2019. The research methodology used is based on the traditional method of investigation, applying the following research methods: literature review method for the information and documentation regarding the legislative elements and their results on the beneficiaries of public pension system; the causal method which shows the cause-effect relationship in taking the new law; the comparative method to highlight the similitudes and differences between the provisions of the Law no. 263/2010 and the provisions of the Law no. 127/2019; the statistical and graphical method to present synthesized and centralized the statistical data and the evolution of economic indicators regarding the revenues of population.

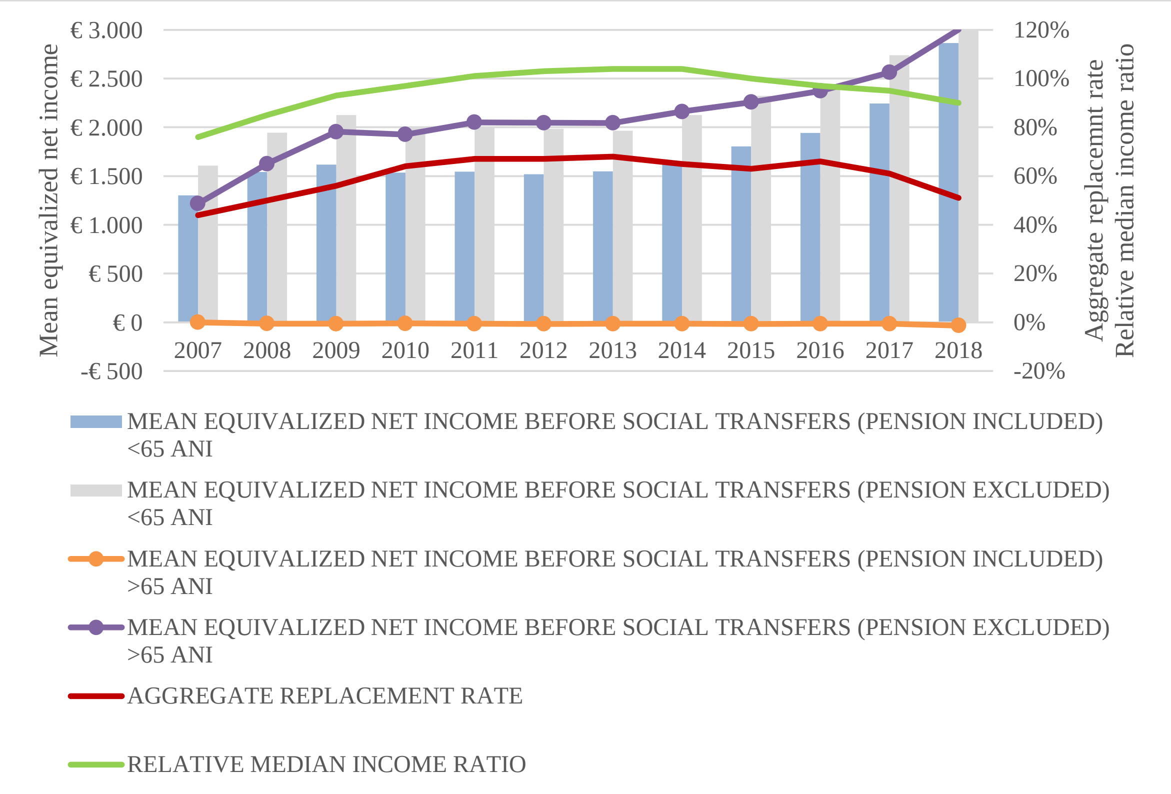
4. Findings

The public pension systems in CEE countries provide four types of pensions, namely: old-age, anticipated, invalidity and survivors. The aim of these redistributions is reducing poverty and material deprivation, but also ensuring similar revenues with the ones obtained in the professional activity period, which should maintain the lifestyle, *ex ante*, retirement. With this purpose, these countries established a minimum level of benefits that must be provided by public pension system (European Commission, 2018).

Organization for Economic Cooperation and Development (OECD, from this point forward) had created an indicator named equalized net income to compare the incomes of population in conditions of equality. In countries of CEE, the equalized net income increased in latest years, but there are differences between age groups, strongly influenced by the distributions made through national pension systems, especially after 65 years old.

The population aged under 65 years in Romania, between 2007-2018 obtained a median equalized net income before social transfers between 1.302 euro (€, from this point forward) and 2.864 €, which after distribution of pension increased by up to 30%. In case of the population aged 65 years and over, it can be noted that the incomes from pensions are, actually, the only resources this category of population dispose. After pension distribution, the median equivalized net income reach 3.000 € in 2018, with 17% more that in 2017. Therefore, the incomes of population aged 65 years and over are comparable with the incomes of population under 65 years. This fact is also showed by the relative median income ratio, indicator which highlights the ratio between equivalized net incomes before and after the age of 65 and which has values between 76% and 104% (Figure no.1).

Figure no. 1. Evolution of median equivalized net income, replacement rate and relative median income ratio in Romania between 2007-2018.

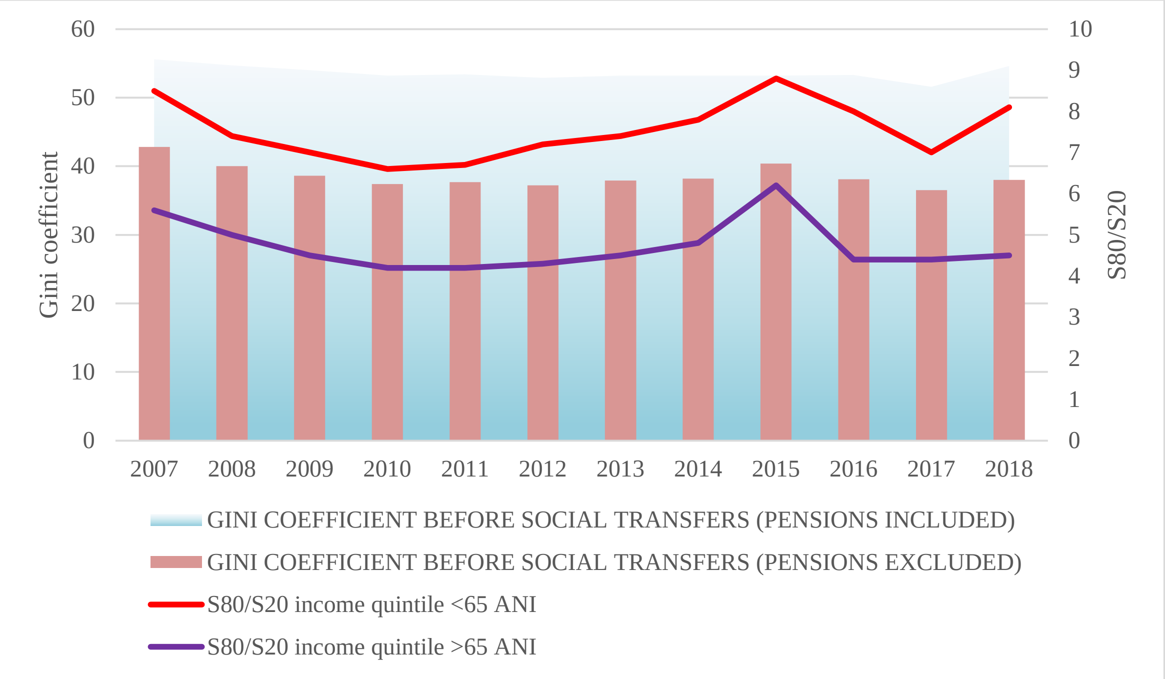


Source: Own processing based on the data available at the Eurostat database.

The capacity to provide to beneficiaries the needed incomes can be appreciated through the replacement rate of incomes earned in the period of professional activity on labor market. In the last years, in Romania, the values of this indicator have constantly increased, reaching the maximum value of 68% in 2013. Since 2014, the replacement rate has decreased, the largest cutback being in 2018 (-10% compared with 2017). According to the World Bank, these values suggest that the public pension system form Romania succeed in providing adequate incomes to the beneficiaries and reduce the financial risk associated to low capability of working, but the differences between population categories regarding income represents a problem. However, decreasing replacement rate of incomes by pensions at 51% in 2018 indicate a losing in the capacity of public pension system to provide incomes similar with those obtained from professional activities, in the conditions in which the average gross income per economy increased with 35% in 2018, compared with 2017.

Income inequality is often express through Gini coefficient, index which shows the dispersion of income distribution from an equal distribution. In Romania, the Gini coefficient has the value 55.6 in 2007, decreasing up to 51.6 in 2017 and increasing at 54.6 in 2018. After the distribution of pensions, these values are reducing from 42.8 in 2007 at 38 in 2018. Even so, compared with other countries of CEE, Romania record the greatest income inequalities. The measure of income inequality is expressed by the income inequality index (S80/S20), computed as the ratio between the incomes from the last income quartile and the first income quartile. In Romania, the income inequality index decreased in the last 12 years, but it has largest vales that the other CEE countries, in 2018 a beneficiary of pension system from the last income quartile collect 4.5 times more money than one beneficiary from the first income quartile.

Figure no. 2. Income inequality in Romania between 2007-2018.



Source: Own processing based on the data available at the Eurostat database.

Income inequality in Romania is a threat for the beneficiaries with incomes from the first income quartile in the case scenario in which the provided benefits will have a growing rate slower than the incomes from the last income quartile. To eliminate these situations, in 2018 was proposed a new law regarding the public pension system, normative act which was adopted in 2019.

Law no. 127/2019 regarding the public pension system has a new functioning principle, which is the available principle. According to the principle, the persons which has not complete the minimum contribution stage can choose to give up the pension and receive the social allowance provided in the legislation regarding social assistance.

The new law is redefining the benefit categories and includes new eligibility criteria for accessing the benefits of public pension system (Table no.1). The minimum contributory stage, the complete contributory stage and the standard retirement age remain unchanged, but there are established some noncontributory periods which will be integrated to contributory stage. If the minimum contributory stage is fulfilled, the periods in which the insured person followed and graduated a university (bachelor, master or Ph.D), completed the military training, was in sick or maternal leave, was the beneficiary of unemployment allowance or invalidity pension, or has other periods stipulated by Decree-law no. 118/1190, all these period will be considered as contributory stage.

Law no. 127/2019 regulates the social insurance contract, concluded between an individual and National House of Public Pensions with the object to complete the contributory stage. This contract is concluded for maximum 5 years only if the minimum contributory stage of 10 years is fulfilled.

The monthly insured income represents the base for benefit computation, the amount can be at least the average gross income per economy.

Table no. 1. The benefits of public pension system under the Law no. 127/2019

Benefit		**Legislative changes against the Law no. 263/2010**
Pension	**Old age pension**	The complete contributory stage includes the integrated noncontributory periods and it is 35 years. The retirement age is reduced for: - individuals which have reach contributory stage at job with particular/special working conditions; - individuals which have contributory stages in invalidity condition; - women which gave birth/adopted at least 3 children and rise them until the age of 16 or age of 13 in case of adopted children and fulfill the minimum contributory state; - the people living and/or working in the administrative-territorial units at least 30 years in industrial areas with high pollution or within 8 km around them.
	Anticipated pension	- fulfill the minimum contributory stage, including the integrated noncontributory periods; - maxim 5 years before the standard retirement age. The achievement of standard retirement age will remove the penalties and the amount of pension will be recomputed.
	Invalidity pension	Are eligible the individuals which: - does not fulfill the criteria to access the old-age pension; - have the working capacity decreased due to working accidents, professional illness, other diseases or accidents due to participation at the Revolution of 1989. The medical practitioner of the National Institute of Medical Expertise and Capacity Recovery will release the medical decision regarding the working capacity in 45 days. Individuals having the 1st grade of invalidity benefit also from an attendant allowance, financed by the State Budget, represented 50% from the minimum gross basic salary of the month for which the payment is made. The achievement of standard retirement age will be recomputed the amount of the pension including the integrated noncontributory periods.
	Survivors pension	The survivor spouse will benefit from survivor pension also: - death of the supporting spouse have followed a working accident or a professional illness, regardless the age and the time of marriage; - have in care children under 7 years old; - does not earn incomes or the amount of incomes is lower than the average gross income, for 6 months since the death of the supporting spouse.
Minimum pension		It is financed from the State Budget and is provided to the resident beneficiaries in Romania, according to contributory stage: - contributory stage of 10 years – 40% from the minimum gross salary per country; - for every extra year of contribution is added 1%, until a maximum level of 75% from the minimum gross salary per country. Minimum pension in case of beneficiaries of survivors pension is 35% from the minimum gross salary per country for every survivor entitled.
Other social insurance benefits	**Monthly support for surviving spouse**	It is provided if the survivor spouse, beneficiary of old-age pension: - fulfill the complete contributory stage; - have the standard year of retirement; - didn't remarried; - the marriage persists at least 10 years. $Monthly\ support\ =$ $25\%\ \times amount\ of\ deceased\ supporting\ spouse,$ maximum 80% from the minimum gross salary per country.

		The monthly support for surviving spouse is financed from the State Budget.
	Spa treatment	The spouse of insured person/pensioner, which does not benefit from the benefits provided by public pension system can receive tickets for spa treatment, with full payment of their value.
	Death allowance	It is given in 3 days from the request in cases in which the deceased person: - was insured in the public pension system for minimum 3 months; - had the employment relationship interrupted by leave; -wasn't insured/beneficiary of public pension system, but the request for allowance is made by a family member which is insured/beneficiary of public pension system. The amount of death allowance cannot be smaller than the average gross income per economy.

Source: Law no. 127/2019 regarding the public pension system.

Social protection right is respected in community and international framework, the new law regulates the receiving benefits in case of nonresident people. The benefits provided by public pension system require the communication of a life certificate in each semester by the nonresident person, which has to be authenticated by a legal authority from the residence state.

Fulfilling the eligibility criteria to access the public pension system benefits must be notified to National House of Public Pensions in 30 days, if the person is a resident or in 12 months, if the person is nonresident, through a retirement request and the documents which prove the fulfill of eligibility criteria. Submission of required documents after the legal term will determine the provision of benefits to begin with the effective date of submission. In 10 days from the submission of documents, National House of Public Pensions will release and will communicate the decision to the applicant, which can obtain only one type of pension. The released decision can be attacked at the competent court, in 45 days from the release day.

The computation of benefits is made using a pension points system, the algorithm being presented in Table no.2. The pensions are provided at the place of residence or in bank account of the beneficiary, case in which the transfer will be notified at the place of residence. If in three successive months, the beneficiary cannot be found to receive the pension or the bank transfer notification, beginning with the next month the payment of the pension will be suspended.

Table no. 2. The computation of the pension

$Pension\ benefit = Total\ number\ of\ pension\ points \times value\ of\ a\ reference\ point$	1. $Monthly\ pension\ points = \dfrac{salary\ earnings\ (monthly\ insured\ income)}{average\ gross\ income\ per\ economy}$ The monthly pension points is diminishing if the insured person is contributing to a privately managed pension fund with the value of the ratio: $\dfrac{social\ contributory\ rate\ owed\ to\ public\ pension\ system - contribution\ rate\ to\ privately\ managed\ pension\ fund}{social\ contributory\ rate\ owed\ to\ public\ pension\ system}$ 2. $Annual\ pension\ points = \sum Monthly\ pension\ points\ obtained\ in\ a\ year$ 3. $Total\ number\ of\ points = \sum Annual\ pension\ points + number\ of\ pension\ points\ for\ the\ potential\ stage + number\ of\ pension\ points\ for\ the\ integrated\ noncontributory\ period$

	4. $Value\ of\ a\ reference\ pension\ point = \frac{\text{value of pension point}}{25}$ Value of pension point = 75 lei (in 09.07.2019) = 1.265 lei (beginning with 01.09.2019) = 1.775 lei (beginning with 01.09.2020) = 1.875 lei (beginning with 01.09.2021) The value of the reference point will be indexed, every year beginning with 2022, with the average annual rate of inflation and with 50% from the real increase of average gross income per economy, according with the publications of National Institute of Statistics.
Integrated noncontributory periods	- for invalidity pension = the gross amount; - for university studies = 0,25 pension points; - for military service = 0,25 pension points; - for the periods with unemployment allowances and sick leave allowances = the amount of the allowance; - for maternal leave = 0,25 pension points.
the potential stage for beneficiaries of invalidity pension	- for 1^{st} grade of invalidity = 0,50 pension points; - for 2^{nd} grade of invalidity = 0,35 pension points; - for 3^{th} grade of invalidity = 0,15 pension points.

Source: Law no. 127/2019 regarding the public pension system.

The entry into force of the Law no. 127/2019 will lead to the re-computation of all pensions in payment, to include the integrated noncontributory periods. In case of amount differences will be provided the most favorable amount for the pensioner or the minimum pension.

Law no. 127/2019 foresees the obligation of beneficiaries to present all the documents needed to establish the right to public pension benefits and also to notify any change which have an impact on eligibility criteria or on the amount of pension, in 15 days from the change occurrence. The legal entities which have the right to certificate the information needed to establish/revision the social rights of a beneficiary have to give the required documents in 30 days from receiving the request. Not providing by the beneficiary and by the legal entity the documents requested is a contravention and is sanctioned according to the law in force.

5. Conclusions

The foundation of social protection system and pension system is the right of population to social protection, in the context of income inequality which leads to poverty. This right was different accomplished, according with the government system and the political ideology. The democratic systems embrace the individual participation to ensure the financial risks, which show up growing old, issue also found in CEE countries.

The income inequalities recorded especially in Romania conducted to the implementation of a new law regarding the protection of older people. Law no.127/2019 change the eligibility criteria through the inclusion of some noncontributory periods in the computation of the provided benefits. We consider that these changes will have a positive impact on the beneficiaries, but in the current demographical situation, should be taken measures to consolidate the sustainability of the budget, which deficit increased in the latest years.

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