

NECESSITY TO SUPPLEMENT THE PUBLIC PENSION SYSTEM FROM ROMANIA WITH PRIVATE PENSION SYSTEM

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Abstract:

Aging population and the difficulties involved in the social protection systems appears to be a feature of all developed countries. Socio-demographic and economic processes (aging, active population reduction, macroeconomic problems, mainly in countries in transition), which will increase in the coming decades transform the problem of social protecției older people and in particular the problem of effective management of pension a fundamental challenge for both developed countries and those in transition.

To note is that at the moment, the pension system is not completely self-sustaining, the state budget transferring about 2.5 percent of PIB

It was analyzed by the experts in that area if the percentage would rise about three percent, serious problems might occur equilibrium (the effects will be felt in the economy, increased taxation, reduced investment, and so on), and if four percent to reach equilibrium would be lost. Now transfers provides an optimal degree of adequacy of pensions, and Romania would not have problems with transfers, if not intervened global economic crisis of 2008, this affecting the economy and hence government revenue "

Key words: public pension, private pension, Romania, problems

Introduction

The objective of this study is analyzed to describe in more detail under the previous or anticipated changes occurred and is likely to happen in the future, in order to devise a coherent and effective policy in the sphere of pensions.

In the Romania, the problems relating to pension schemes were aggravated by wrong decisions, lack of vision and coherent strategy in the field of political hesitations that led to the postponement of reforms.

Today the pension system in Romania is so an important component of the social protection system and a mirror of the evolution of political economy, cultural and economic demographic of a country or due to globalization, the world in which we live .

The State pension system is currently out of balance, with a deficit of nearly 15 billion euro accumulated over the past decade. Do not sit well either the number of employees in relation to that of pensioners. Thus, an employee claims 1.3 pensioners, but the report could double in the next period, especially in the context of demographic changes, which have affected not only Romania, but also the whole European Union. Our country has a special situation because of the birth of forcing policies during the Communist era, so it's all the more pressing question: Who will pay the pensions of those born in the years' 70? [5.]

Today we face a major problem because the state pension system, introduced at the beginning of last century, collapsed. The state pension system in Romania is currently in a very difficult situation, as it came to a situation where there are more pensioners than employees

The failure may be due to the state pension of two major causes. First is the inefficient investment of money that each employee pays social security. As a practical conclusion drawn is that the state does not invest that money, but gives further to retirees, so say money

does not multiply the contrary. A second issue affecting the state pension is the drastic decrease in the number of employees lately. From year to year the number of those who pay social insurance decreases and therefore increasingly less money in state pension funds.

And traditional pensions are the main form of protection of citizens through social insurance. Pensions are monthly emoluments shall be granted throughout the life of retirement, outgoing people because achieving a certain age or disability, survivors' children up to a certain age and a spouse who is a survivor to provide them are decent life.

The retirement age will be present in Romania by gradually increasing the standard age in relation to date of birth Achieving these retirement ages will be achieved by gradually increasing the standard age in relation to date of birth.

So, in January 2011 - January 2015, the retirement age for women will increase from 59 years to 60 years and that of men 64 to 65 years. After January 2015 will continue the gradual increase of the retirement age only for women 60 to 63 years until 2030, is regulated and increasing the minimum contribution period to 15 years for women and men.

From January 2035, women will retire, as men, to 65 years, to a full length of 35 years of contribution and a contribution by at least 15 years. The measure will apply to women born after December 1970. In January 2011 - January 2015, the minimum contribution will increase from 13 to 15 years for women and men. Also, complete contribution period will reach 35 years for men and women, and until January 2015 the complete women's contribution to increase from 28 to 30 years and for men from 33 to 35 years . After this period will continue gradually increasing only for women 30 to 35 years by 2030.

In the background note accompanying the bill, the draft proposed by the Ministry of Labor, amending Law 263/2010 on the unified public pension system put into public debate shows that equalization of retirement ages fall within the European Commission's country recommendations forwarded to Romania.

Therefore, the pension can be seen from the perspective of a replacement income attributed to individuals whose age no longer allowed to operate in the labor market.

The whole pension system in Romania is composed of three types according to our laws (pillar) separate pensions:

- private insurance system (mandatory private pension pillar representing II)
- representing voluntary private pension (pillar III)
- the public or state representing(Pillar I).

1. State pension (Pillar I)

Until now, the only pension that could benefit the public was kind PAYS (Pay As you go). In this system employees pay compulsory state a percentage of their gross income, and the money is directed to current retirees, without being invested.

At the legal retirement age, as was employee of the state receive a modest monthly amount that is approximately 30-35% of final salary. State pensions offered by the Romanian state has certain **advantages and disadvantages** as services offered in this world

State Pension offers certain **advantages** such as:

- ✚ security, as administered by the Romanian state;
- ✚ Romanian state provides all participants / taxpayers pension fund equal rights and equal benefit after retirement age under the contributions paid;
- ✚ protects the pensions in payment against inflation; increases the real value of pensions to growth and can quickly generate the amounts they assume full pension rights, since pensions are not paid, the contributions paid by the recipient but from the results of the current workforce.

Disadvantages and obligation to the state:

- ✚ mandatory participation of all persons employed in acts of Romania;

- ✚ can not never get you paid pension contributions for death;
- ✚ contributions paid regularly over a period of several years are just directly redistributed to future retirees.

So pension paid is getting smaller with increasing number of retired and decrease the number of active employees.

In conclusion retirement pension type I is mandatory for each Romanian citizen pays a percentage of salary / wages lifetime, planning to retire after age 65 or earlier if retired for health reasons, enjoying contributions are paid over the life of the person at the end of life.

2. Obligatory private pension (Pillar II)

Mandatory private pension is in fact a part of the state pension administered by private insurance companies. Currently, each employee pays for state pension 9.5% of salary. Starting next year, part, ie 25% of the 9.5% that is approx. 2% of salary will be transferred to a private pension company. This means that part of the state pension will be managed by private pension companies. Percentage of private pension of 2% will be increased gradually to 6% by 2016 or even earlier.

Conclusion: The pension Pillar 2 does not require any effort employees financially. 2% is subtracted from the 9.5% pay state pension fund. Since 2008 every Salar has the ability to manage their future pension percentage of opting for joining a private pension fund. No employee will be out of pocket money for this type of pension, only to join a private pension fund which is to manage the amount of 2% deducted from the payment of contributions to state pensions to invest it, following the retirement age to have the opportunity to receive the full amount invested once or in several installments. Nobody can guarantee that you will receive more than the amount deposited over the years as a contributor to your private pension fund.

3. Voluntary private pension (Pillar III)

Voluntary private pension is not mandatory. By choosing for Pillar 2 pension you can invest for a better life in your old age. Voluntary private pension offers the possibility of life during a period of at least seven years to invest a percentage of up to 15% of its earnings each month to a private pension fund. You can get your investment from the age of 65.

Disadvantages: Each employee will have to pay contributions to a percentage of up to 15% of salary.

Advantages: Reached retirement age will receive a higher pension, your pension received by amount paid over the years to state pension funds and private sectors.

Compared with mandatory private pensions (Pillar II), voluntary private pension (Pillar III) there are no limitations based on age. Thus, to receive money from private pension, you must give money to at least 90 monthly contributions, even if not consecutive and have more than 60 years. Certainly choosing for voluntary private pension after age 60, you can have a decent life only pension deserved, without having to make loans to banks to be paid utilities or call the goodwill of relatives or children help for your material.

The first two types of pension are required, each employee pays every month a percentage of earnings, retained automatically redirected state and private pension funds, calculation of monthly income by the employer. The last type of pension is not mandatory, every Roman citizen could opt for a voluntary private pension does not even teach on activity in Romania, is to work abroad: Italy, Spain, etc., paying a monthly / quarterly or annual a private pension fund in the country and return when you receive a pension in old age have not even worked in Romania.

Pay as you go scheme that builds public pensions is a permanent debt whose payment depends on the charges and their degree of collection. To keep the system solvent, the

contribution rate and operates in the replacement rate. If it hits the fiscal constraints, the state has an arbitrariness to the benefits of a taxpayer's future. This phenomenon occurs frequently in Romania, when the promises of "decent pensions" contributions are paid on behalf of those in charge (in the labor market). At the same time, one that pays the public pension system acquires an asset, but a virtual wealth. Therefore, the taxpayer can not make a comparison between what pays today with the benefit received in the future, because not dispose of his own capital to make the update. This capital consists of all contributions. Because of this, the taxpayer can not calculate the rate of return on contributions you paid. In other words, taking into account the future value of money and that there is no active today who pays social contributions not receive the same amount in the future, in the form of pension. This means that part of the income payer shall be confiscated, and shrinking the welfare of both present and future well-being is based on a promised pension. For this reason, those who argue that the state must respect the right to a pension only, not an actual payment equivalent to contributions paid, committed an error of judgment.

Pension calculation does not take into account the time value of money, but the salary of a person in relation to the average gross wage in the economy, which covers only part of what a person paid the social insurance system, even if one takes into account the inflation rate, as provided nr.263/2010 Law.

As a **conclusion** it is important to note that the implementation of private pensions is keen to ensure future retirees pension income in addition to that they will receive from the state. Basically, private pension does not affect the state pension, which does not change in any way, but complements it, your retirement income is thus higher.

Conclusions and suggestions

According to the analyzed situations it is worth noting that both the state and taxpayers lose. Therefore, it is necessary that the current public pension scheme to be replaced with a capitalization scheme ("pension funded") by creating a reserve fund pensions

There are countries in which such public pension reserve fund plays a "buffer" to balance the public pension system, while in others, the same type of fund is used both as a "buffer" and for savings and payment system pensions. There are three options that can create a reserve fund pensions, depending on the intended purpose:

- + passing all those who pay the PAYG scheme to a pension fund. That means a massive loan through bonds, on the "clean - break". It is impossible in the current budget deficit ceiling;
- + the establishment of a reserve fund that allows capitalization, but keeping the PAYG system. Reserve Fund as an additional scheme to the public for stabilization (balancing the budget) and savings;
- + gradual passing from PAYG scheme to a pension fund, establishing a reserve fund in the first round. All those entering the labor market pay the reserve fund, and those who are paid out of the PAYG system and the reserve fund;

The public pension system is not enough to be made explicit duty corrections in public pensions, but it is necessary to implement policies in relation to "public debt default" in the public pension system. In these circumstances, we can overcome the financial sustainability phase of the public pension system is only achieved by adjusting benefits or contributions. Moreover, we have seen in recent years as adjustments made on the side benefits (pensions) have made temporary adjustments in the public budget, but did not change the pension system, whose configuration depends too much on elections and too little saving. More interventions in the pension system that was intended to balance the budget have been challenged in court, so their effect fades and we return to the same reference system

Market failure or paternalistic approach according to which people think nothing at present, and that the state must care for their future welfare , are arguments to preserve the public pension system in its current form . But the behavior of people who give more importance to this than you their perception of the future value of money while under the influence of interest rate is not linked to the public pension system . As for market failure , it is as common as state failure . Recent years have proved that the state would be a creditworthy borrowers than private operators . On the contrary . State to borrow from private operators is a good debtor only through force , not through the prism of its financial results

Voluntary private pension should be part of anyone 's financial plan passed 30-35 years , given that the pension provided by the state is often quite small

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