SUSTAINABLE DEVELOPMENT: IS THERE A ROLE FOR THE PENSION FINANCING SCHEME?

ALINA NUTA
PHD LECTURER, FACULTY OF ECONOMIC SCIENCES, DANUBIUS UNIVERSITY, GALATI, ROMANIA
e-mail: alinanuta@univ-danubius.ro

Abstract
The ageing phenomenon affects the entire world. The rate of elderly population is growing in all countries and the sustainability of public finance needs to be ensured. One of the most important instruments that absorb the ageing implication is the pension system, which varies from country to country. This article study the ways in which the design of the pension system in different countries can affect the sustainable development principle of "not compromising the ability of future generations to meet their own needs", starting from the relation between the “pay-as-you-go” financing public pension system and sustainable development.

Keywords: ageing, sustainable development, pension system, fiscal policy,

JEL Classification: Q01, J11, E62, H55

1. Introduction

The declared central objective of sustainable development consists in the idea that one generation should not affect another generation capacity to cover their needs, the consumption of a generation should not affect the consumption possibility of another generation (Nuta, F.M., 2011). In this context, the principle of financing, which is based Pillar 1 of the public pension system, can be interpreted as a clear violation of the concept of sustainable development, because in this pillar, the current generation of retirees affect the financing and consumption of future generation of retirees (equivalent to the current generation of employees) since the benefits are covered by current employee contributions.

On the other hand, sustainable development involves a stable population size, including in terms of population aging. Conclusions of economic analysis reveal that with increasing number of elderly population with changing dependency ratios, there are concerns about the long-term sustainability of providing income in this context.

In the specific literature cannot find approached this perspective on how are financed social benefits provided to pensioners, but rather the authors addressed the issue of sustainability of the pension system in terms of the existence or lack of financial resources to cover the needs of the system.

2. Pension systems characteristics and the impact on sustainable development

The novelty of this paper is generated by the connection of the sustainable development content with the choice of pension system structure from one country or another, ultimately demonstrating that a pension system that is based essentially on the idea of "pay-as-you-go" will affect the sustainable development potential of that country.

In the European Union countries the pension scheme is administered mainly by the state, which generated mandatory public pension scheme that offers income to elderly persons either as a single, centralized, either as alternatives according to business areas. Also, the studies (national reports) show that these public pension systems generally provide a "minimum pension" those who do not qualify to receive a pension based on income obtained throughout life, which in some cases is a particular case of social assistance.

In the EU the diversity of pension systems is caused by different levels that are the reforming process of the pension system, based mainly on defined contributions or benefit system, pension point system, but there are pension schemes that provide a flat rate pension, which can be increased through participation in the occupational or other parallel system (Denmark, the Netherlands, Ireland and the United Kingdom).

In the EU the diversity of pension systems is caused by different levels that are the reforming process of the pension system, based mainly on defined contributions or benefit system, pension point system, but there are pension schemes that provide a flat rate pension, which can be increased through participation in the occupational or other parallel system (Denmark, the Netherlands, Ireland and the United Kingdom).

Thus, in the Member States there are 16 states with the public pension system are based on the principle of defined benefit (DB), 5 states that offer public pension system on the principles of defined contributions (DC), 3 states that offer pension on the principle pension point (PS) and 4 states that provide public pension system that combines all
The table below provides information on pension systems in the EU-28 countries, with a focus on the elements mentioned above (fixed rate and defined benefit or defined benefit in combination with point system), according to the table below:

<table>
<thead>
<tr>
<th>Countries</th>
<th>Pillar 1</th>
<th>Pillar 2-Mandatory (individual capitalized savings)</th>
<th>Pillar 3-Voluntary</th>
<th>Occupational scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Austria</td>
<td>DB, financed by social contributions</td>
<td>PAYG, “statutory pension system” (“Gesetzliche Pensionsversicherung”)</td>
<td>DC from 2003</td>
<td>Mandatory</td>
</tr>
<tr>
<td>2 Belgium</td>
<td>DB</td>
<td>PAYG, including the „Silver Found” covering the pension since 2030</td>
<td>DC from 2003</td>
<td>Saving schemes</td>
</tr>
<tr>
<td>3 Bulgaria</td>
<td>DB</td>
<td>PAYG</td>
<td>DC from 2002, two types of funds: occupational funds and universal funds</td>
<td>DC from middle 90 and Pillar 4 din 2007</td>
</tr>
<tr>
<td>4 Czech Republic</td>
<td>DB</td>
<td>PAYG (Pension Act, 1995)</td>
<td>DC from 1994</td>
<td>-</td>
</tr>
<tr>
<td>5 Cyprus</td>
<td>DB</td>
<td>-</td>
<td>Law of 1984, private sector</td>
<td>-</td>
</tr>
<tr>
<td>6 Denmark</td>
<td>DB, public</td>
<td>(the national old age pension, 1956-folkepension)</td>
<td>-</td>
<td>DC, Individual pension savings</td>
</tr>
<tr>
<td>7 Estonia</td>
<td>DB</td>
<td>PAYG, 1999, State pension scheme</td>
<td>Compulsory funded pension scheme, DC from 2002</td>
<td>Voluntary funded pension scheme, DC from 1998</td>
</tr>
<tr>
<td>8 France</td>
<td>DB+PS</td>
<td>PAYG et régimes complémentaires obligatoires</td>
<td>-</td>
<td>Voluntary, PERP – Plans d’épargne retraite populaires, 2003</td>
</tr>
<tr>
<td>9 Finland</td>
<td>DB</td>
<td>PAYG</td>
<td>-</td>
<td>Voluntary, PERCO – Plans d’épargne retraite collectif, 2003</td>
</tr>
</tbody>
</table>

**Tabel 1: Pension systems in the EU-28**
<table>
<thead>
<tr>
<th>Country</th>
<th>System Type</th>
<th>Start Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherland</td>
<td>DB</td>
<td>1956</td>
<td>Pay as you go, Algemene Ouderdosmst wet or AOW</td>
</tr>
<tr>
<td>Portugal</td>
<td>DB</td>
<td>1999</td>
<td>Pay as you go, otwarte fundusze emerytalne, OFE</td>
</tr>
<tr>
<td>Poland</td>
<td>DC</td>
<td>2008</td>
<td>Pay as you go, Voluntary</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>DB</td>
<td>2007</td>
<td>Pay as you go, Voluntary</td>
</tr>
<tr>
<td>Romania</td>
<td>PS</td>
<td>2007</td>
<td>Pay as you go, DC</td>
</tr>
<tr>
<td>Spain</td>
<td>DB</td>
<td>1999</td>
<td>Pay as you go, Mandatory/Public//Voluntary-private</td>
</tr>
<tr>
<td>Sweden</td>
<td>NDC</td>
<td>2007</td>
<td>Pay as you go, Mandatory/Voluntary</td>
</tr>
<tr>
<td>Slovakia</td>
<td>PS</td>
<td>2005</td>
<td>Pay as you go, DC from 1996 and 2007</td>
</tr>
<tr>
<td>Slovenia</td>
<td>DB</td>
<td>1992</td>
<td>Pay as you go, Voluntary</td>
</tr>
<tr>
<td>Hungary</td>
<td>DB</td>
<td>1998</td>
<td>Pay as you go, DC from 2007</td>
</tr>
<tr>
<td>Croatia</td>
<td>Pension = PP x PF x APV (personal points, pension factor, actual pension value)</td>
<td>Pay as you go, DC from 2002 (Act on Compulsory and Voluntary Pension Funds)</td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>NDC</td>
<td>2007</td>
<td>Pay as you go, Voluntary</td>
</tr>
</tbody>
</table>

Source: Countries reports ASISP 2013 European Commission, DG ECFIN, The 2012 Ageing Report: Economic and budgetary projections for the EU27 Member States (2010- 2060), pag. 87-90

Note:
- DB: Defined benefit system
- DC: Notional defined contribution system
- PS: Point system
- FR: Flat rate

The decision to reform public pension systems in countries such as Bulgaria, Estonia, Latvia, Lithuania, Hungary, Poland and Slovakia, Romania, who turned the public pension system in two-pillar pension, mandatory public and mandatory pension with private administration is an important step for ensuring the sustainability of pension systems in those countries, including the principles of sustainable development regarding the provision of resources for all generations.

Most public pension systems provide financing on the principle of pay as you go, system which requires that the resources generated by social contributions imposed on employees and employers are used to cover the financing needs of current pensions in the public system, which generates the idea that pensioners are people assisted by the state in terms of financial support, eliminating the idea that these people contributed a lifetime, before retirement, to the system for ensuring their financing at this stage.

In this regard, we argues that PAYG system affects sustainable development, thus creating conditions for deteriorating future generations financial situation, especially considering the current and future evolution of ageing phenomenon.
Thus, given that the decision makers who manage public pension system does not realize this, the conditions for sustainable development will be irreparably damaged, the pressure on public systems become more intense, with the possibility that these systems lead to consistent public financial imbalances.

3. Conclusions

One of the most important measures to provide financing of the future generations based on own resources system contributions transferred to the state is that of boosting private system development, the second pillar pension, by increasing the contribution percentage that supply the individual funds, on the one hand, and, on the other hand, granting tax incentives to encourage saving as a way of providing the resources necessary after the moment of their retirement.

Thus, in essence, encouraging current employees for the establishment of founds that would ensure future revenue is the most important objective of the decision-makers. A further reason is the fact that the population of Europe is aging in the world with a percentage of 23% population aged 65 and over at the moment, estimated to maintain in the first place in 2050 when the percentage will be 34%.

4. Acknowledgement: This work was supported by the European Social Fund through Sectoral Operational Programme Human Resources Development 2007–2013, project number POSDRU/159/1.5/S/142115, project title “Performance and Excellence in Doctoral and Postdoctoral Research in Economic Sciences Domain in Romania”.

5. References

Nuta F. (2011) Public environmental spending and the economic growth in Romania, EuroEconomica 3(29)/2011, ISSN 1582-8859


