

DOES THE PRIVATE PENSION MARKET REPRESENT A SOLUTION FOR "OLD" ROMANIA?

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Abstract: "Old Europe" will in a few decades cease to be old only in the syntagm defining the conservatory spirit of the continent. Europe will really grow old not only because of its millennial history, but also by the effective age of its inhabitant. The capacity of the public pension systems to ensure an adequate rate of replacement of the income was eroded during the last decades by the continuous aging of its population. Likewise, during the last decade the public pension budgets have been affected by the financial crisis and the prolonged economic depression that followed.

Key words: *pension funds, private pensions, pension system, public system.*

INTRODUCTION

The aging of the population is by now a reality, to which the European governments have to adapt, especially as in the future decades exists the potential that this phenomenon will induce dramatic social and economic changes.[3]

Romania will make no exception to this trend. On the contrary, the situation will be more serious than in the majority of the countries of the European Union.

The ever decreasing birth rate overlaps in our country the loss of an important part of the population by emigration.[7]

Since 1990, millions of Romanians have left the country and have massively increased the number of Romanian emigrants, up to the point that actually Romania is second on international level, with 10 million Romanians living outside the country, according an UNO report, being overpassed only by Syria, a country devastated by military conflicts.

Altogether, according to the official statistic data, Romania lost in less than two decades, as a combined effect of the negative natural increase and migration about 3.5 million inhabitants. [4]

Furthermore, the most dramatic decrease affected the segment of the young population, leading to a severe aging of the population, which phenomenon will continue in the future, too.

According to estimations in 2030 about a fifth of the population will be over the pension age (>65 years), while during the following three decades, this weight might increase up to a third. [3]

In parallel, the young population, exactly the echelon, which should replace the active segment of the older generations, is and will be continuously decreasing, its weighting will fall under the threshold of 15%. [2]

MATERIALS AND METHODS

This study has been elaborated with the goal to increase the awareness of the role and the benefits of life insurances and private pensions on individual level, as well as on the level of economy and of the national system of social insurances. [17]

RESEARCH RESULTS

From the perspective of the public pension system this demographic evolution can mean only one thing: insufficient pensions and/ or a major budgetary deficit.

The growing imbalance between the number of those who charge the financial resources of the system and those who consume them, cannot result otherwise. [1]

It is to add from the same perspective, that to the discussion of restraining the active population is to add that of the level of employment of this segment of population. [5]

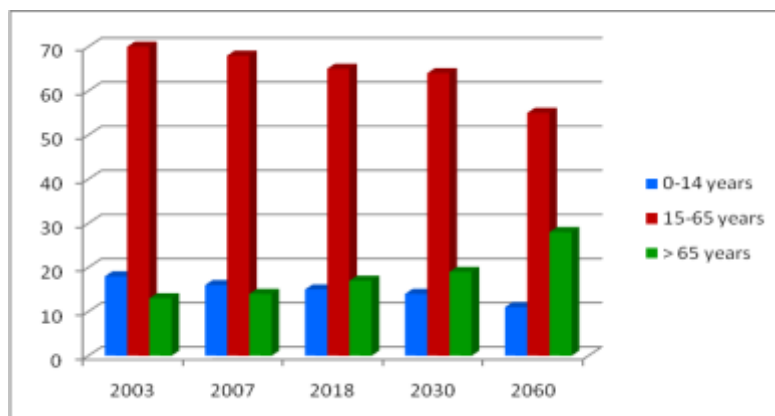


Figure 1. The Evolution of the population on Age Groups – Prognosis up to 2060 (mill.)

Source: Data processed by the Financial Supervision Authority (ASF)[15]

The occupancy rate of the population of the age between 15 - 64 years was in the second semester of the current year of 65.5%, increasing with 2.4 points in comparison with the former semester. [15]

The largest percentage refers to the category of the age between 25 - 54 years (81.6%), while the smaller one refers to the category of the age between 15 - 25 years (25.6%), has recently announced the National Institute of Statistics. [10]

In other words, about a third of the active population is in fact not performing a paid occupation and accordingly is not paying any contribution to the public pension system. [9]

Consequently, it is expected that in three decades a third of the population will have to support directly or indirectly the other two thirds: directly – as supporters of family members, who are not performing a paid occupation, and indirectly – by social contributions generating pensions, social assistance, etc.[6]

Returning for a moment to the global image, we have to say, that in order to improve as much as possible the sustainability of the pension systems, the leading politicians have turned during the last two decades to various solutions to bring more money in the system (76 countries have increased the contributions to the public pension system), or to attenuate the imbalance (55 countries have raised the retirement age), or simply have attempted to reduce substantially the expenses (60 countries have reduced the benefits for the present pensioners).[3], [14]

The threshold of the retirement age has been raised in our country as well, but neither the reduction of the benefits, nor the increase of the contributions can be taken into consideration under the conditions that on the one hand the contributions paid by the Romanian employees are among the highest in Europe and on the other hand the pensions to be paid are considered to be too low. Under these conditions the public pension system functions "at the brink of damage". [7], [12]

“The implicit liability of the Romanian public pension system (editor’s note, what amount the state should have to pay for all pension rights accumulated in the public pension system, except the special pensions) was of 275 milliard Euro in 2015, almost 4 times larger than the domestic debt of the country”, stated INS, on the occasion of an event. [12]

Since then the public pensions have been increased with 30%, now has been promised a doubling of the pensions up to 2021 by the new Pension Law. [12]

It is to be said, the incomes of the system have not increased substantially in the last years, so that according to different sources the estimated deficit for 2018 will be about 1.5 milliard Euro. [13]

Two pillars for the future pensions

"The history" of the private pensions started in Romania at the of the 90’, when the idea of building a private saving instrument for pensions with the main goal to place at the participants’ disposal a supplementary income started to score points, thus compensating the limits of the public system.

From the idea to the fact, this solution took shape and started effectively to function in 2007 with the introduction of Pillar III for optional private pensions, followed by the introduction of Pillar II for pensions privately administered of compulsory character in 2008. [16]

In September 2018, these two pillars for private pensions could pride themselves upon remarkable performances:

Pillar II: 7 funds with about 7.18 million participants and net assets in administration of about 9,99 bilions of Euro; about 7.8 bilions Lei net profit from investments, corresponding to an average annual economic efficiency of 8.43% from the introduction up to present;

Pillar III: 10 funds with about 465,000 participants and net assets in administration of about 425 million Euro; about 348 million Lei net profit from investments, corresponding to an average annual economic efficiency of 6.47% from the introduction up to present; [10], [17]

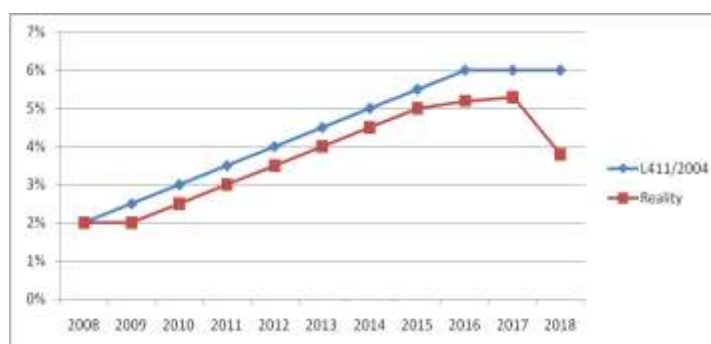


Figure 2. The evolution of the contributions transferred to Pillar II (%)

Source: Data processed by the Financial Supervision Authority (ASF)[15]

In 2009, due to the economic depression took place the first "derailment" from the schedule of increasing the contributions defined by Law No. 411/2004, by freezing the contribution percentage to 2%, against 2.5%.

The delay of one year was not recuperated, on the contrary after 2015 have occurred new delays. [11]

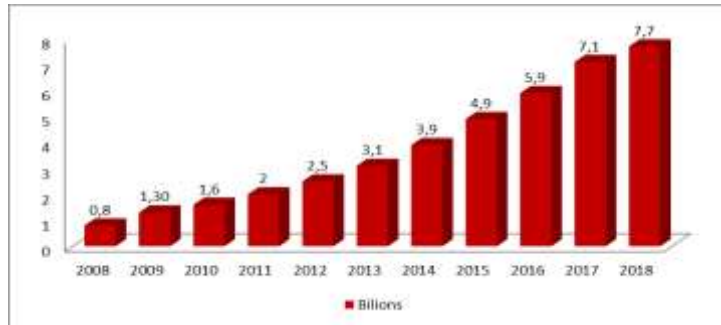


Figure 3. The Evolution of the contribution annually transferred to Pillar II (Billions RON)

Source: Data processed by the Financial Supervision Authority (ASF)[15]

The most recent reduction to 5.1% in 2017, to 3.75% in 2018 corresponds to a decrease of the individual contributions with 12% for the participants who have not benefitted of wage rises in 2018. [9]

And still, at system level the total amount of contributions transferred to Pillar II in 2018 exceeds with about 8.5% the level of 2017, due to the wage rises, especially in the public sector and the number of newcomers. [14]

The APAPR asserts that because of not observing the Law No. 411/2004, the Romanians have 17.8% smaller amounts in their personal accounts in Pillar II as they would have had if the law had been observed (2008-2018). As to the impact on the level of Pillar II (not transferred contributions), this can be estimated of about 1.9 bilions Euro.[16]

INVESTORS

Altogether, with cumulated net assets over 10.4 milliard Euro, the private pension funds (Pillar II + Pillar III) are the most important institutional investor in Romania. Over 90% of these assets are invested in the Romanian economy.[14]

The efficiency realized during the whole period, from their introduction up to now deserves appreciation all the more as it has been achieved by following a conservative investment policy, according to the investment mandate offered by law, which provides that the funds assets to be invested in low risk instruments, bonds and deposits.

By way of consequence the pension funds own currently about 18% government bonds of Romania (respectively about 7% of the public liabilities of the country). [9]

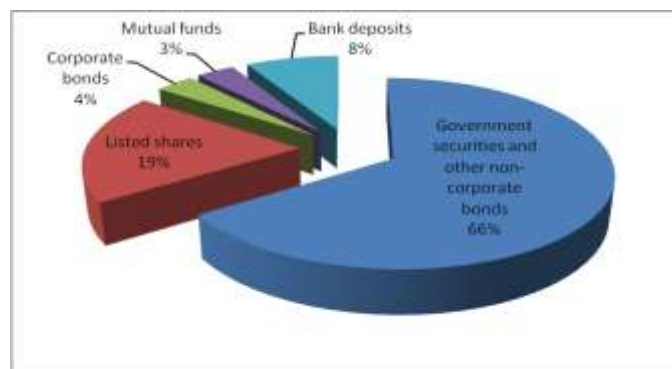


Figure 4. Current Investments (30 September 2018) of the Pension Funds (Total assets administered: 10.4 bilions EURO)

Source: Data processed by the Financial Supervision Authority (ASF)[15]

On the other hand, at the Stock exchange in Bucharest (BVB), the private pension investors own about 20% of the shares freely transacted, with a value of about 1.7 milliard Euro, ensuring about 15% of liquidities. [17]

Among the largest possessions at BVB are included BT, Romgaz, Petrom, FP, BRD, Transgaz, Electrica, Transelectrica – in the case of some of these companies, the investments performed by the pension funds playing a decisive role in their listing at the stock exchange. In fact the continuous development of Pillar II essential for the promotion of BVB to the status of an emergent market, according to financial analysts. [14]

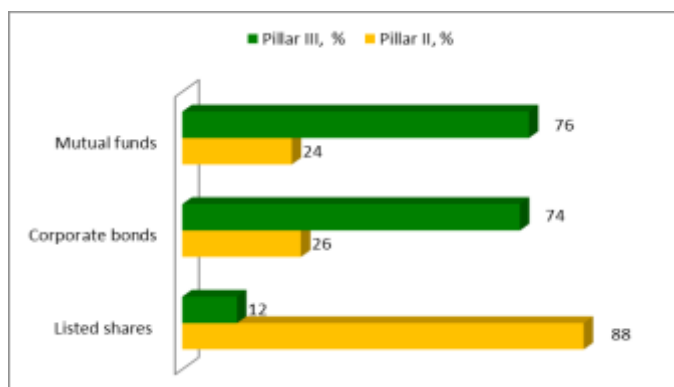


Figure 5. Distribution of pension funds (Pillar II, Pillar III)

Source: Data processed by the Financial Supervision Authority (ASF)[15]

Considering a larger perspective, in order to maintain the high performance level of their investments the private pension managers have need of both a diversification of the opportunities offered by BVB and a broadening of the investment universe in the sense of access to other type of instruments. [6]

Restricted to a much too “tight” equity market the pension funds could take into consideration to place a greater part of their investments abroad, what would represent a considerable loss of opportunity for the Romanian economy. [9]

In order to avoid this it is necessary that BVB to offer a better sectorial diversification and more public offers.

On the other hand, leaving the scope of BVB, the capital of the pension funds could activate much better in the real economy, provided the law would permit their access to infrastructure projects, including PPP, private equity, real estate etc.

For the end of the current year the pension funds managers expect the volume of the net assets administered to raise to 10.9 milliard Euro.

Under the conditions of maintaining the actual contribution percentage during the next year the amount of the contributions should reach about 2 milliard. Accordingly the assets in the system will get close to 13 milliard Euro. [8]

Beyond the touchy subject of the contributions the managers will have to bring up the matter, which has been delayed for too long time: the law concerning the payment of the pensions, lost for several years in the legislative circuit, this law, which has to set forth who and under what form the private pensions will be paid has yet not been passed.

In the absence of this law, the pension funds already effect payments under an extemporary regulation. [10]

CONCLUSIONS

After more than a decade of functioning, the first thing to say about the private pension funds in Romania is, that they have proved to be professional institutions, stable and transparent, in fact they are the only financial institutions in Romania, which have worked not experiencing any collapse or questionable situations. On system level the private pensions are perhaps the most transparent financial market.

It is worth mentioning, that in spite of the remarkable investment performances, the saving amount is under the initially estimated volume.

The cause for this situation cannot be found in the management quality, but rather in the way the system was affected – by freezing or reducing the contributions to Pillar II by government decision.

More precisely, the private pension funds have paid up to now pension rights in a total amount of 322 million Lei for 48,112 participants, cumulated on the entire system.

Let's not forget, that the actual payments at this stage refer to special situations – death, invalidity, etc. – and in less than a decade, the system will start regular pension payments to all participants, who in 2007, when the private funds have been established, were about 45 years old.

At length the digitalization of the private pension system is another important issue, especially from the perspective of the younger public. In order to achieve this goal, legislation needed to be amended, so as to permit on a large scale online login and digital communication with all participants of the system.

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