



THE QUANTITATIVE EVOLUTION OF PRIVATELY ADMINISTERED PENSIONS IN ROMANIA

Roxana Liliana IONESCU

¹PhD Associate Professor, “Dimitrie Cantemir” Christian University, Bucharest, Romania, E-mail: roxy.ionescu@yahoo.ro

Abstract *An important aspect of our active life is the concern for the future, respectively for old age. The state is actively involved in this field through the social insurance system in Romania. This system includes the state pension and the privately administered state pension. This paper aims to present an evolution of the privately administered state pension.*

Key words:

Pension system,
private pensions,
fund managers

JEL Codes:

H55
H75
J32

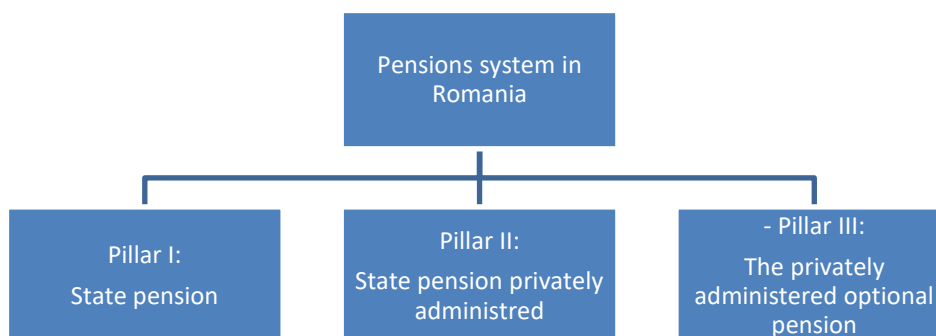
1. GENERAL ASPECTS ABOUT THE ADMINISTRATED STATE PENSIONS

The privately administered pension represents an accumulation product in which the characteristics are strictly regulated by law, both in terms of benefits and the system of commissions. The product is a defined contribution pension, where part of the current contribution to the social

insurance system is distributed to a privately administered pension fund.

The pension system in Romania allows a structuring of these privately administered pensions on two pillars:

- Pillar II: The privately administered state / compulsory pension
- Pillar III: The privately administered optional pension



The private pension system in Romania has multiple security elements, to protect the savings of the participants in the private pension funds:

- the existence of the Commission of Supervision of the Private Pension System (CSSPP) that supervises and controls the fund managers;
- creation of separate assets for the administrator and for the private pension fund;
- the legal provision by which a pension fund cannot go bankrupt;
- the establishment by the ASF (Financial Supervisory Authority) of strict procedures for supervision and administration;
- setting up of deposit banks and their involvement in the pension system;
- existence of financial auditors for pension funds and for the administrator;
- establishing by each administrator of guarantees of net contributions, technical provisions, minimum social capital for entering the market;
- quarterly determination of the minimum rate of return;
- the obligation of prudent actuarial calculations and periodic reporting to the ASF;
- setting up the Guarantee Fund from the private pension system.

2. THE PRIVATELY ADMINISTERED STATE / COMPULSORY PENSION (PILLAR II)

Law 411/2004 regulates the establishment, organization and functioning of the system of privately administered pension funds, the organization and functioning of administrators of

privately administered pension funds, as well as the coordination of the activity of other entities involved in this field of private, distinct, and supplementing the pension granted by the system. public, based on the collection and investment, in the interests of the participants of a part of the individual social insurance contribution.

In Romania, this term of privately administered pension was introduced, in 2007, this being recommended by the World Bank and the European Union supervised. In addition to the public pension system, this being called pillar I, mandatory private pension funds were added, being called pillar II, and also optional pension funds, having the name of pillar III, were added.

For a better knowledge of the privately administered pension system, it will be presented in detail on each of the two components.

Privately administered pensions (Pillar II) are characterized by directing a share of the personal contribution of social insurance, paid monthly in the public system, to privately administered pension funds. Contributions are paid for the entire period in which the person is a taxpayer in the public pension system.

Adhering to the privately administered pension system is mandatory for employees up to 35 years old and optional for those between 35 and 45 years old.

The institution of supervision and control of the privately administered pension system is the Commission of Supervision of the Private Pension System (CSSPP). It authorizes each pension fund constituted by civil society. If it finds that the

minimum number of participants (50,000) decreases during a quarter, the CSSPP withdraws the authorization of the pension fund.

The funds constituted by the administrators of privately administered pension funds are invested by them and are capitalized, each participant having the record of the contributions in an individual account because the contributions are nominal and become the property of the participant, as soon as they are transferred to the personal account of the pension fund.

After choosing a pension fund, the transfer between the funds is allowed, but a person cannot participate at the same time in several privately managed pension funds.

Monthly contributions are withheld by the employer and are exempt from paying income tax. The annual contributions applicable to the monthly gross wage income increased gradually and were: 2% in 2008, 2% in 2009, 2.5% in 2010, 3% in 2011, 5% in 2015, 3.5% in 2012, 4% in 2013, 4.5% in 2014, 5% in 2015, 5.10% in 2016, 5.10% in 2017, 3.75% in 2018 reaching 3.75% in 2019.

The pensionable age is the standard retirement age of the public pension system, when the participant has the right to use the personal asset to collect the private pension, to receive the private pension in the form of a single payment or to continue to benefit from managing the account assets.

In the case of the participant's death, the amount from the personal fund is inherited.

If a person contributing to a compulsory private pension fund wants to find out how much money

they have saved in their personal account, they can find this information if they access the fund manager's website. In Romania, at present there are seven administrators of the pillar II pension funds (compared to 18 existing at the time of launch):

1. Aegon pensions - company for the administration of private pension funds S.A.
2. Allianz-tiririac private pensions private pension fund administration company S.A.
3. BCR pensions, company for the administration of private pension funds S.A.
4. BRD company for the administration of private pension funds S.A.
5. General management company for private pension funds S.A.
6. Metropolitan life management company of a privately administered pension fund S.A.
7. NN pensions management company of a privately administered pension fund S.A.

Usually, the administrators inform the clients, by a letter sent annually about the amount accumulated in the account of each participant at the end of the previous year.

The mandatory private pension funds (Pillar II) reached, in the first semester of 2019, a total number of participants of over 7.1 million Romanians. The net assets (contributions transferred - 37 billion lei and net gains from investments - 6.7 billion lei) were 43.7 billion lei.

According to APARP, the total return achieved by all Pillar II funds from the beginning (May 20, 2008) to the end of 2018 was 127.1%, ie an average annualized yield of 8.03% for the entire

operating period of Pillar II. This indicator is well above the total inflation rate for the period analyzed (36.3%), respectively the average annualized inflation rate for exactly the same period (2.95%).

Fund managers invest the contributions of individuals in different portfolios based on:

- Government securities, over 60%
- Shares listed, with 18% -20% percentage,
- Bank accounts with a percentage of 4% -6%.

Smaller weights are allocated to:

- Municipal bonds
- Supranational bonds

- Mutual funds
- Derivative instruments
- Alternative tools.

The Association for privately administered pensions in Romania (A.P.A.P.R.) publishes the situation of privately administered pensions. The following graph shows their evolution in the last three years according to the number of participants in the compulsory private pension funds. The data presented in the following graphs are for December of each year from 2016-2018.

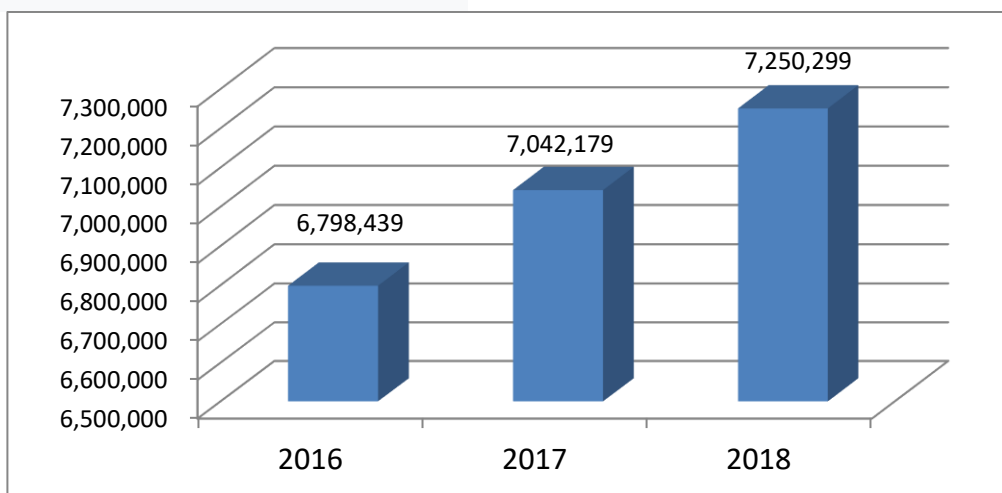


Figure 2. Number of participants in privately administered mandatory pension funds

According to the chart above, a gradual increase in the number of participants in the compulsory private pension funds can be observed every year. Thus, as of December 31, 2016, the number of participants in the Second Pillar of pensions was 6,798,439, reaching the number of 7,250,299 participants at the end of 2018. Comparing the values for the two years, we can see an increase of 451,860 participants at the level of 2018 compared to 2016. It is also observed that the number of participants in the Second Pillar of

pensions in 2017 (7,042,179) increased by 3, 5% compared to 2016.

3. CONCLUSIONS

The diversification of the pension system is based on the reduction of the population of Romania generated by the decrease of the birth rate and the increase of the number of emigrants. Also, at the same time, there was an increase in the number of retirees and an increase in the

unemployment rate. Their effect was amplified by the financial crisis of 2008.

The privately administered pensions (Pillar II) were created with the purpose of supplementing the state pension in order to obtain a higher pension at the retirement age.

REFERENCES:

- ❖ Bistriceanu Gheorghe, *Asigurări și reasigurări în România*, Editura Universitară, București, 2006;
- ❖ Cace Corina, *Asigurările sociale – management, evoluții și tendințe*, Editura Expert, București, 2004;
- ❖ Chasard Yves, Preda Marin, *Politici sociale în Europa*, Institutul European din România, București, 2000;
- ❖ *** *Constituția României*;
- ❖ *** *Colecția Revistei de Asistență Socială*;
- ❖ *** *Colecția Revistei Raporturi de muncă*;
- ❖ *** *Colecția Revistei Tribuna Economică*;
- ❖ *** *Legea nr. 263/2010 privind sistemul unitar de pensii*