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PRIVATE PENSIONS SCHEME - LINKING ELEMENTS BETWEEN ECONOMIES AND LONG-TERM INVESTMENTS

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Abstract

Private pensions can help to find solutions to the demographic challenges of aging populations and changing patterns of workers, and to ensure adequate replacement rates in the future as a complement to state or occupational pensions. The purpose of the research is to analyze and to present the characteristics of the private pension system in Romania. Therefore, the research includes the collection of data on the post-crisis pension system from Romania and their analysis by applying statistical methods. The research results are relevant to all financial specialists and researchers, and I believe that the paper contributes to a synthetic and critical view of existing literature.

Keyword: pension system, public pensions, private pensions.

JEL Classification: A19, E60

I. Introduction

The European Union recognizes the variety of Member States' pension systems if they take into account a set of common principles and goals. These principles refer to: unity in diversity, subsidiarity principle and open method of coordination.

Pension systems in the European Union provide a high level of income security and financial autonomy for the elderly, but statistics show that the poverty rate of retirees is still a reality for many of European citizens. In the European Union and also in

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Romania, it is applied a pension insurance system based on three pillars, namely (Anghelache, 2003: 21):

Pillar I: The public pension insurance system, which includes all employees including residents, based on employers 'and employees' contributions, becoming the "Pay As You Go" principle, respectively, "active generation supports the pensions for inactive generations".

Pillar II: Private pension scheme, funded by employers and employees, until the retirement event of employees, the funds are used for investments, observing the rules and the trend that operate on the capital market. On the basis of this retirement scheme, the person concerned of this pension scheme benefits from a pension which is directly linked to the size of its contributions to this fund.

Pillar III: Individual pension system based on bilateral contracts concluded by employees with private life insurance companies.

Private pension products are individual retirement savings products that are complementary to state pension schemes or occupational pensions but distinct from them. Efforts to develop these markets will complete the provision of pensions through state pension schemes or occupational pensions.

II. Literature review

Private pensions offer guaranteed income, saving flexibility, social and family protection, investment possibilities, and so on. Introducing the private pension system can be the way to the better. Through it, each participant can save for his own future. The advantages of the private pension system as opposed to the public pension system are: long-term money is invested, participants receive the right to property on the personal pension account, also allow for a decent pension retirement age, competition between administrators ensures efficiency and the efficiency of the system, namely effective returns on investments made with participants' money.

Moreover, the system of private pension plans would solve the problem that one now assumes that one generation takes care of the other, pointing to the tensions and inevitable social conflicts generated by the current social security system. Creating pension funds during the working life of workers would allow them, once they retire, not to depend on the younger generations, but to the funds they themselves generated during their active phase. It is about the public application of the elementary principle of cost audit, according to which costs must be recognized when they occur and not later.

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In other words, the cost of retirement benefits must come from products made while working (the system of private pension plans) and not from the goods and services that were subsequently produced by others who have nothing to do with retirees (Social Security System based on redistribution) (De Soto, 2012: 38). If each generation deals with itself, it avoids conflicts between generations that do not have a solution and which have been artificially created by the current Social Security.

The adoption of Pillar II private pension schemes started in Hungary in 1998 although we will see in the following table that Pillar III systems have already been adopted:

Table 1- Introduction of pension systems in Central and Eastern Europe

State	**Pillar II- mandatory private pensions**	**Pillar III- voluntary private pensions**
Hungary	1998	1994
Poland	1999	1999
Czech Republic	n.a	1994
Slovenia	2000	2000
Latvia	2001	1998
Bulgaria	2002	1994
Estonia	2002	1998
Croatia	2002	2002
Lithuania	2004	2004
SlovaKia	2005	1997
Romania	*2007*	*2007*

Source: data provided by the Association for Private Pensions in Romania - http://www.apapr.ro

At present, depending on the state of pension systems reforms, four categories of states are in the EU (Fîrţescu, 2010: 55):

a) with poorly-developed private pension systems that do not intend to change the existing situation, although there is a trend in this direction: Spain, France;
b) with well-developed private pension systems, always relying on these systems: Denmark, the Netherlands, the UK;
c) with public pension schemes such as pay as you go, reformed, respectively by introducing the pillar II - pillar, funded by participating contributions, and complementing the non-financed public system: Bulgaria, Estonia, Latvia, Lithuania, Hungary, Poland , Romania, Slovakia, Sweden;
d) non-funded, traditional social insurance schemes, sometimes together with a minimum level of social insurance, which have switched to a private pension scheme: Germany, Austria, Italy.

III. The evolution of the pension system in Romania

Pension is the monetary rights granted to employees at the expiration of a certain period of activity and at the age stipulated by law or in case of total or partial loss of work capacity (Trufan, 1997: 64). In another approach, the pension designates a rent that requires regular retirement during the life of a pensioner who has acquired rights under a pension plan (Constantinescu, 1999: 240).

In the state social insurance system, the main categories of pensions are targeted (Stefura & Chirlesan, 2010: 50): pension for work done and old age, invalidity pension, survivor's pension. In addition, we can also mention: early retirement and partial early retirement.

All social security schemes, ie pensions, want to achieve a balance in three goals: to provide income for a decent living standard, to ensure income according to participation in solidarity and activity (national) throughout life, complete non-substitution and systematically, leaving a smaller or greater part of the obligation to provide livelihoods in old age (Tufan, 1997: 65).

Romania was one of the first countries in Europe that has introduced a workers' pension insurance law as early as 1912 (it should be noted that regulations on pension rights existed since the 19th century, referring to officers and the administration public, the number of people covered being insignificant). In 1933, a total insurance bill was voted, and since 1947, with the passage to the communist stage, the insurance system was taken by the state, the funds being included in the state budget.

The pension law from year 1977 is considered to be the most important because it has retained many of its stipulations ,, including eligibility criteria, until 2000 when Law 19/2000, which entered into force on 1 April 2001, was passed.

The period following Communism did not stop the political intervention in drafting and implementing decisions relating to the pension system.

The National House of Pensions and other Social Insurance Rights (CNPAS) did not have a real independence in managing the funds, developing and adopting strategic decisions. As a result of the events, after 1990, there was a need to reform the pension system in Romania, taking two types of measures (Stefura & Chirlesan, 2010: 38):

- Short-term, emergency measures: adjusting benefits through repeated indexation in response to their deterioration by inflation;
- Long-term measures consisting of the separation of pension funds and their management of the central state budget and administration, the extension of the

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contribution period and the tightening of the conditions for early retirement (the reform was implemented by the 2000 law, only applied in 2001).

The public pension system is regulated by Law no. 263/2010 on the unitary pension system, as subsequently amended and supplemented. The public system is organized and functions with the following basic principles: the principle of uniqueness, equality, social solidarity, obligatory, contributory, distribution, autonomy (Colomeischi, 2014: 116-117). In accordance with Art. 51 of the Law no. 263/2010, the following pension categories are granted in the public pension system, also called Pillar I: old-age pension, early retirement pension, partial early retirement pension, invalidity pension, survivor's pension (Law no. 263/2010).

The Romanian state introduced the private pension system in 2007, following a model that has been tested and proposed by the World Bank. We can consider it one of the most difficult reforms to which Romania has been subjected, but also a success. The multi-pillar private pension system is composed of the pillar II-mandatory and the pillar III-optional private pensions.

The success of the introduction of the private pension model in Romania has been threatened by the lack of reforms in the public pension system. Introduced in 2007 and put into operation in 2008, the privately managed pension system for two decades will take on some of the contributions without providing any benefits.

In Romania, besides the public pension system, the pension system also includes the privately managed mandatory pension system which is regulated by Law no. 411/2004 on privately managed pension funds modified and supplemented by Law no. 23/2007, as well as the privately managed voluntary pension system which is regulated by Law no. 204/2006 (www.mmuncii.ro).

The privately managed Private Pension Fund (Pillar II) system aims to provide a supplementary pension to the public pension, through compulsory collection and investment of part of the individual social security contribution. Pillar II is the name given to the privately managed pension scheme with defined contributions mandatory for people under 35 and optional for people aged 35 to 45 (www.asfromania.ro). This system is based on the following principles:

- the obligation to participate in the scheme for persons aged up to 35, new to the labor market or already insured and contributing to the public pension system;
- optional for people aged 35 to 45 who are already insured and contribute to the public pension system;
- equal treatment for all participants;

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- contributing, capitalizing and investing assets prudently and effectively;
- guarantee the solvency of privately managed pension funds (Colomeischi, 2014: 162).

According to Colomeischi Tudor, the private pension is "the amount paid periodically to the participant or his successors, in addition to and distinct from that provided by the public system." Thus, the private pension is set by the monthly transfer of a share of the social security contribution paid in the public pension system to a privately managed pension fund.

Pillar III is a voluntary pension scheme administered by private companies, a system based on individual accounts and voluntary participation. The most important feature of this pension system is flexibility. In contrast to mandatory private pensions, Pillar III legislation does not prohibit age-based voluntary retirement, who can contribute up to 15% of gross monthly earnings. The main advantages that the optional private pension offers to participants in the system are (Colomeischi, 2014: 258): ensures a higher income; money is the property of the employee; offers the possibility of choosing the pension fund; ensures transparency; payment of the contribution is made automatically; ensures pension security; offers flexibility in receiving the pension; offers the possibility of inheritance; has tax deductibility.

IV. Analysis of the private pension system in Romania

The private pension system evolves positively from the start, a steady increase in the value of participants' personal assets, despite the economic situation faced by the country. The analysis of the private pension system in Romania is aimed at presenting the situation of the total assets of the private pension system, the number of participants, the value of their assets and the value of the contributions to the private pension funds.

Starting with 2013, the Financial Supervisory Authority coordinates the activity of the companies managing the Pillar II and Pillar III funds. In Table 2 is the list of companies from the maarket of the administered private pension fund.

On funds market of mandatory private pensions there are 7 private companies that are authorized to administer these funds, while companies authorized to manage voluntary pension funds are in number of 10.

As can be seen from Table 2, most of the private pension fund participants are in the second pension pillar (Pillar II), occupying a considerable share in the total number of participants. The share of each category of participants is calculated below.

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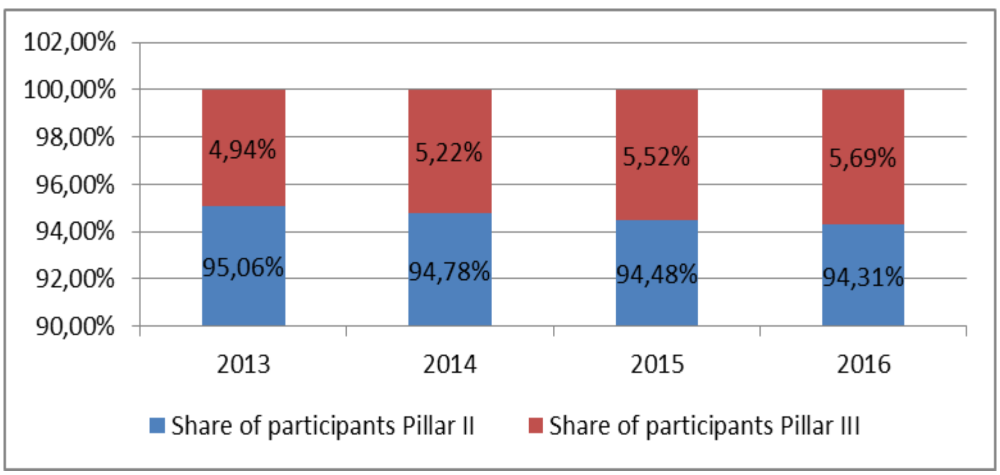
Table 2 - The number and share of participants categories in the private pension fund

PARTICIPANTS	2013	2014	2015	2016
Participants in the privately managed pension fund	6.031.814	6.283.398	6.547.699	6.799.027
Participants in the voluntary pension fund	313.348	346.452	382.318	410.241
Share of participants Pillar II	95,06%	94,78%	94,48%	94,31%
Share of participants Pillar III	4,94%	5,22%	5,52%	5,69%
TOTAL	**6.345.162**	**6.629.850**	**6.930.017**	**7.209.268**

Source: www.asfromania.ro

According to Table 2 and Figure 1 it can be said that the largest share is held by the participants in Pillar II, occupying a share for over 94% from the total participants and even 95% in 2013. The share that remains up to the 100% is assigned to the third pension pillar (Pillar III), with a smaller number of people.

Figure 1 - Share of the number o participants number in the private pension fund



Source: developed by the author

The evolution of the number of participants in the privately administered pension fund (Pillar II) is presented in Figure 2 and there is an increase in the number of participants in the privately managed pension fund (Pillar II) for the entire analyzed period, reaching in 2016 at a number of 6.799.027 persons. Persons participating in the

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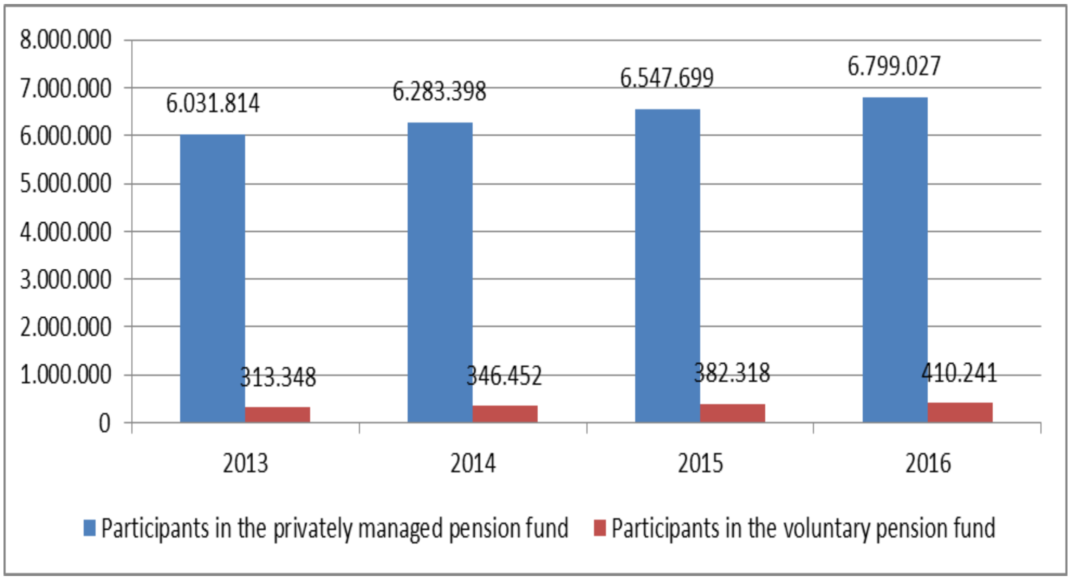
voluntary pension fund (Pillar III) are also increasing, registering 410,241 persons in 2016.

Figure 2 - The evolution of the participants number in Pillar II and Pillar III during 2013-2016 period



Source: developed by the author

The assets related to private pension funds in the period 2013-2016, broken down on the two pillars, are presented in Table 3.

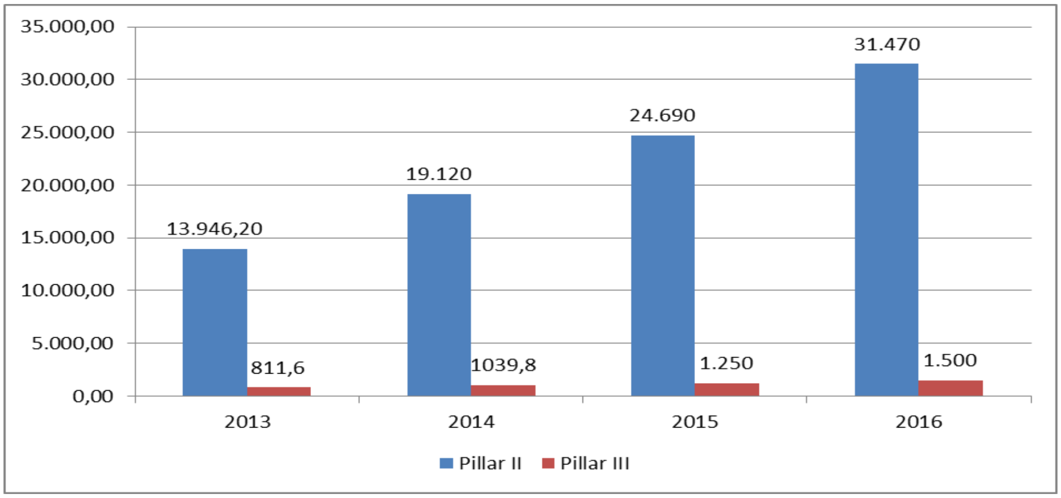
Table 3- The value of private pension fund assets - million lei-

ASSETS	2013	2014	2015	2016
Pillar II	13.946,2	19.120	24.690	31.470
Pillar III	811,6	1039,8	1.250	1.500
TOTAL ASSETS	**14.757,8**	**20.159,8**	**25.940**	**32.970**

Source: www.asfromania.ro

According to Table 3, the total assets in 2013 amounted to 14,757.8 million lei, a value that increased during the analyzed period, reaching in 2016, in the amount of 32.970 million lei, with 18,212.2 million lei compared to 2013. The evolution of assets on the two categories of private pension funds is presented graphically as follows:

Figure 3- The evolution of assets broken down into two categories of private pensions



Source: developed by the author

According to Figure 3, both for the privately managed pension category and for the optional pension category, the value of assets is increasing throughout the analyzed period. From the point of view of the share held by the two pillars in total assets, it is remarkable the assets of Pillar II, which have a share of over 94% in each analyzed year.

The total contributions to the private pension fund as well as the value of contributions broken down by the two categories of private pensions are shown in Table 4.

Table 4- The value of contributions to the private pension fund - million lei

CONTRIBUTIONS	2013	2014	2015	2016
Pillar II	3.403	3.727	4.877	5.815
Pillar III	96	105	131	138
TOTAL CONTRIBUTIONS	**3.499**	**3.832**	**5.008**	**5.953**

Source: www.asfromania.ro

Most contributions to the private pension fund are made by the Pension Pillar II, registering in 2016 the highest value of the whole analyzed period, namely 5,815 million lei (ROL), represented 97.68% of the total contributions for 2016.

The evolution of contributions to the private pension fund for the period 2013-2016 is presented in the Figure 4.

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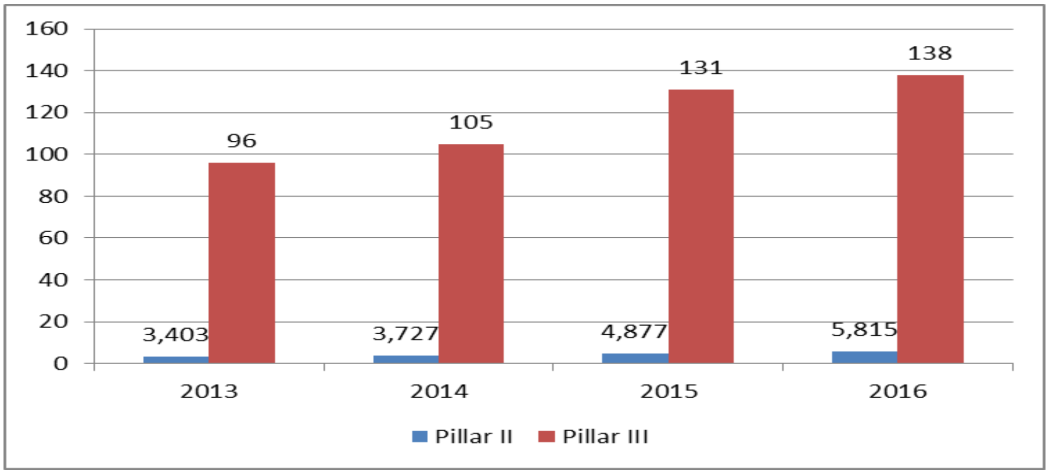
Figure 4- The evolution of contributions to Pillar II and Pillar III



Source: developed by the author

As can be seen in Figure 4, the value of the contributions to Pillar II increases throughout the analyzed period from 3.403 million lei in 2013 and in 2016 reaching a value of 5.815 million lei. The contributions to Pillar III are small compared to Pillar II, occupying for less than 3% of total contributions.

Therefore, following the analysis of Pillar II and Pillar III of private pensions, it can be said that Pillar II presents the most participants, the assets held are much higher and the value of contributions to it is also very high compared to Pillar III .

V. Conclusion

As a result of analyzes of the private pension system in Romania, I has found that there is an increasing phenomenon of population aging that puts pressure on social protection mechanisms, managing the public pension system is a challenge for all the world's states, not just for Romania. Thus, it has been proposed to reform this system at both European and national level to ensure the profitability of public pension systems in order to increase the quality of life for pensioners by introducing and implementing new components, a mandatory one and and optional.

The analysis has shown that Romanian citizens have confidence in these privately managed pension funds, as the number of participants is steadily increasing from the moment of implementation to the present. As can be seen in the analysis, Pension Pillar II is more developed than Pillar III, it includes more participants, the value of assets is much

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higher and the value of contributions far exceeds the value of contributions made to Pillar III.

The purpose of Pillar II is to provide a pension supplementing the public pension pension by contributing to a privately managed pension fund. The third pillar (Pillar III) of pension offers participants the opportunity to contribute up to 15% of their earnings. Compared to the state system, based on solidarity between generations, the new pension funds are constituted by the contributions of the participants being administered by private companies. At European level, the European Commission examines proposals for a private EU pension product that is simple, efficient and competitive. Private pensions play an important role in linking long-term savings account holders with long-term investment opportunities. As a result of reducing barriers to cross-border pension provision, a private pension product at EU level would increase competition between pension providers, allow for the sale of services on larger markets and create economies of scale that should benefit savings account holders.

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