

REPORT ROMANIA

I. Data

N/A

II. Pension System

Overview

In addition to the public PAYG pension, a mandatory personal accounts system was introduced at the start of 2007. A system of voluntary pension schemes also started operating in the same year.

Public PAYG Pension System

Since 2001, the pension is calculated using a points system: the employee receives a maximum of three credit points per full years of earnings at or above the average economy-wide wage. The pension points are calculated as the ratio of the individual's monthly gross wages and other compensation to the national average monthly gross wage for that year. The employee's pension is determined by multiplying the pension points with the pension point value, which is laid down in the social security budget law every year. The system aims to ensure a pension of 45% of the average wage in the year of retirement for an employee with a full career. By 2015, the full old age pension will be payable to men aged 65 with 35 years of service and women aged 60 with 30 years of service. Early retirement of up to 5 years is possible if the full service period has been fulfilled.

Employers pay 19.5% to 29.5% of the employee's gross salary as a pension contribution. Social security pension contributions for employees amount to 9.5% of monthly gross wages. Once the mandatory personal pension system starts operating, this percentage will diminish by 0.5% a year until it reaches 3.5%. The state pension will gradually be reduced by 6%.

Funded Pension System

Mandatory

Personal

Recent reforms have led to the adoption of a mandatory personal pension system. In 2007, secondary legislation will be adopted in order to make the system fully functional and the system is expected to start operating on 1 January 2008. No mandatory pension funds are in operation yet.

Coverage

Participation in a mandatory pension fund will be obligatory for all those under 35 years old and voluntary for the 36 - 45 age cohort. At the outset of the scheme an estimated 2.6 million members will be accruing rights, though this estimate is based on the assumption that 50% of those who can voluntarily join (36-45 age bracket) will do so.

Contributions

A part of the employee's Social Security contributions is compulsorily directed towards the mandatory pension scheme. Contributions will amount to up to 2% of wages during the first year and increase by 0.5% each year until they reach rate of 6% after 8 years.

Retirement age

The retirement age is the same as for the social security pension, with the law providing the possibility to request retirement 5 years earlier if the participant has reached the full contribution period.

Benefits

At present, there are no firm projections for the likely income replacement that the mandatory fund system will generate. The reformed pension system links contributions made to benefits received far more closely than the previous system. Regulation on the pay-out phase of pension benefits will be issued from 2007.

Tax treatment

Investment income is tax exempt. Pension benefits are subject to ordinary tax legislation.

Pension fund management companies

Pension funds have no legal capacity and are managed by pension fund management companies (joint-stock companies). Pension funds are established by a civil company contract concluded between participants in accordance with the Civil Code and Law 411/2004 regarding privately administered pension funds, as amended and modified by, most notably, Law 23/2007.

Fees

Administrators can charge an annual management fee of up to 0.6% and a contribution fee of up to 2.5% of contributions paid in.

Voluntary

Coverage

Voluntary occupational pension funds must have at least 100 members. Employees and the self-employed may participate in voluntary schemes. Participation is voluntary for employees. Employees can participate in as many occupational schemes as they wish and cumulate pension rights and benefits. It is estimated that 300,000 will participate in the voluntary pension system during the first year of implementation (2007). No voluntary pension funds were in operation at the start of 2007.

Contributions

Contribution levels are established by the scheme rules and collected and paid by the employer and/or employee into a pension account identified by the employee, simultaneously with the mandatory social insurance contributions. The contributions are paid into the employee's individual account. Contributions to the voluntary pension tier can amount to 15% of the monthly gross wage or of income associated with the member's employment. The contribution can be shared between employer and employee in accordance with the scheme regulations or a collective agreement. Employees may at any time change the level of contributions or cease paying contributions altogether, but must notify the employer and the administrator.

Retirement conditions

Participants can retire when they reach the age of 60 years (both men and women), under the condition of having made contributions for a period of at least 90 months.

Benefits

Benefits are payable when participants fulfill the retirement conditions and when the assets are at least equal to the amount required for a minimum voluntary pension. Regulations on the pay-out phase of voluntary pensions will be drawn up by 2009.

Tax treatment

Employee and employer contributions are each tax-deductible up to a ceiling of €200 per year. Investment income is also exempted. Pension benefits are subject to ordinary tax legislation (i.e. EET system).

Pension fund management companies

Voluntary pension schemes can be administered by a pension company, an investment administration company or an insurance company, which must be authorised in accordance with sectoral legislation and obtain an authorisation from the Commission for the Surveillance of Private Pension System.

Fees

Administrators can charge a contribution fee of up to 5% and an annual management fee of up to 2.4%. Transfer fees are payable if the participant switches funds within 2 years of joining. Regulations on the procedures for switching funds have recently been issued. Administrators must achieve a minimum rate of return relative to the market.

Proposed reforms

The pay-out phase of pension benefits will start in some years. The coming years will see the adoption of secondary legislation to regulate this phase. Equally, the Commission will issue executive regulations to flesh out the mandatory pension pillar before it starts operating in 2008. More executive regulations in the field of voluntary pensions are also expected.

Legislation and supervision

The Private Pension System Supervisory Commission supervises the funded pension system: www.csspp.ro. The relevant pieces of legislation are Law 411/2004 regarding privately administered pension funds, as amended and modified for the mandatory scheme, and Act 204/2006 for the voluntary scheme.

III. Comparative charts

N/A