

# ROMANIA



## DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (EUR bn)	512
GDP per capita (USD)	9 518
Population (000s)	21 361
Labour force (000s)	9 945
Employment rate	94.2
Population over 65 (%)	15
Dependency ratio <sup>1</sup>	32.2

Data from 2008 or latest available year.  
 1. Ratio of over 65-year-olds the labour force.  
 Source: OECD, various sources.

## COUNTRY PENSION DESIGN

### STRUCTURE OF THE PENSION SYSTEM

#### Public pensions

- The public pension pillar mainly covers employees having employment relationship
- It is contributed by both employer and employee

#### Private pensions: personal (mandatory)

- It is a new system supposed to be fully functional in 2007/8
- This pillar also mainly covers those working in the formal sector
- A part of the contribution to the public pension pillar is diverted to this pillar

#### Private pensions: occupational (voluntary)

- It is established by employers, trade unions or employee representatives on a voluntary basis
- It has at least 100 members

Source: OECD Global Pension Statistic.

## PENSION FUNDS DATA OVERVIEW

	2001	2002	2003	2004	2005	2006	2007	2008
<b>Assets</b>								
Total investments (National currency millions)	ND	ND	ND	ND	ND	ND	14	934
Total investments, as a % of GDP	ND	ND	ND	ND	ND	ND	0.00	0.18
Of which Assets overseas, as a % of Total investment:								
• Issued by entities located abroad	ND	ND	ND	ND	ND	ND	ND	22.86
• Issued in foreign currencies	ND	ND	ND	ND	ND	ND	ND	ND
<b>By financing vehicle (as a % of Total investments)</b>								
• Pension funds	ND	ND	ND	ND	ND	ND	100.00	100.00
• Book reserves	ND	ND	ND	ND	ND	ND	NA	NA
• Pension insurance contracts	ND	ND	ND	ND	ND	ND	NA	NA
• Other financing vehicle	ND	ND	ND	ND	ND	ND	NA	NA
<b>By pension plan type</b>								
• Occupational assets	ND	ND	ND	ND	ND	ND	0	0
• % of DB assets	ND	ND	ND	ND	ND	ND	ND	ND
• % of DC (protected and unprotected) assets	ND	ND	ND	ND	ND	ND	ND	ND
• Personal assets	ND	ND	ND	ND	ND	ND	14	934
<b>Structure of Assets (as a % of Total investments)</b>								
Cash and Deposits	ND	ND	ND	ND	ND	ND	69.70	13.13
Fixed Income	ND	ND	ND	ND	ND	ND	21.76	84.42
Of which:								
• Bills and Bonds issued by the public and private sector	ND	ND	ND	ND	ND	ND	21.76	84.42
• Loans	ND	ND	ND	ND	ND	ND	0.00	0.00
Shares	ND	ND	ND	ND	ND	ND	1.21	1.95
Land and Buildings	ND	ND	ND	ND	ND	ND	0.00	0.00
Other Investments	ND	ND	ND	ND	ND	ND	7.33	0.50
<b>Contributions and Benefits</b>								
Total Contributions, as a % of GDP	ND	ND	ND	ND	ND	ND	0.00	0.17
• Employer Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	0.00	0.00
• Employee Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	100.00	100.00
Total Benefits, as a % of GDP	ND	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Lump sum	ND	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Pension	ND	ND	ND	ND	ND	ND	ND	ND
<b>Membership (in thousands of persons)<sup>1</sup></b>								
Total membership	ND	ND	ND	ND	ND	ND	51	4,182
• % of Total active membership	ND	ND	ND	ND	ND	ND	100.00	100.00
Of which: % of Deferred membership								
• % of Passive membership	ND	ND	ND	ND	ND	ND	ND	ND
Other beneficiaries	ND	ND	ND	ND	ND	ND	ND	ND
<b>Number of Pension Funds/Plans</b>								
Total number of funds	ND	ND	ND	ND	ND	ND	7	23
Total number of plans	ND	ND	ND	ND	ND	ND	7	23

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available

NA = data not applicable

Source: OECD, Global Pension Statistics

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## ROMANIA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

### **PUBLIC PENSION**

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 30 to 32% of the employee's gross salary as a pension contribution. Social security pension contributions for employees amount to 9% 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%.

Pensions in payment are indexed quarterly for inflation if prices have gone up by more than 5% during the year.

### **PERSONAL MANDATORY**

#### 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.

#### 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

Employer and employee contributions are tax-exempt up to €200. Investment income is tax exempt. Pension benefits are subject to ordinary tax legislation.

#### 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.

## **OCCUPATIONAL VOLUNTARY**

### Coverage

Employers and trade unions or the employees' representatives can establish a pension scheme through collective bargaining at plant level, group level or industry level. In the absence of a collective agreement or a trade union, employers can either individually or at the industry-wide level establish a pension scheme. Establishment of an occupational pension fund is voluntary for employers. Voluntary 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 500,000 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.

### 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

Employee and employer contributions are 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).

### 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 are yet to be issued. Administrators must achieve a minimum rate of return.

## **MARKET INFORMATION**

### Personal mandatory

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 23/2007.

### Occupational voluntary

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.

**POTENTIAL REFORM**

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.

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**REFERENCE INFORMATION****KEY LEGISLATION**

The relevant pieces of legislation are Act 23/2007 for the mandatory funded scheme and Act 204/2006 for the voluntary scheme.

**KEY REGULATORY AND SUPERVISORY AUTHORITIES**

The Commission for the Surveillance of Private Pension System supervises the funded pension system [www.csspp.ro](http://www.csspp.ro).







