IOPS COUNTRY PROFILE: ROMANIA

Demographics and Macroeconomics

Nominal GDP (EUR bn), 2017	**187.94**
GDP per capita (USD), 2016	**23.197**
Population (000s), 2017	**19.524**
Labour force (000s)	**8.274**
Employment rate	**68.8**
Population over 65 (%), 2017	**17.8**
Dependency ratio[1]	**26.7**

Data from 2017 or latest available year.

1. The ratio between the number of persons aged 65 and over and the number of persons aged between 15 and 64. (expressed per 100 persons of working age). Source: OECD, Eurostat.

ROMANIA: COUNTRY PENSION DESIGN

Structure of the Pension System

Public pensions

- PAYG type - mandatory, contributory, equal, redistributive system based on the solidarity among generations
- The public pension pillar mainly covers employees having employment relationship
- Since 2018, only the employees contribute

Private pensions: personal (mandatory)

- It started functioning in September 2007
- It is managed by private entities - Private Pension Fund Administrators (PPFAs)
- It functions with personal accounts and is hybrid (DC with nominal guarantees)
- A part of the contribution to the public pension pillar is diverted to this pillar

Private pensions: occupational (voluntary)

- It started functioning in June 2006
- It is managed by private entities: PFMCs, Insurance Companies or Asset Managers
- It functions with personal accountes and is DC (some pension funds offer nominal guarantees)
- An employee may contribute with up to 15% of gross salary

Source: OECD Global Pension Statistic.

ROMANIA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION[1]

The Romanian Public Pension System is governed by Law no. 263/2010, which entered into force on January 1st 2011. The **mandatory public pension scheme** administered by the state, is a PAYG scheme, governed by the following principles: uniqueness, mandatory contributiveness, equal rights, redistribution, and social solidarity. This scheme includes old age pension, early retirement pension, partial early retirement pension, disability pension and survivor pension based on intergenerational solidarity.

The old age pension is granted to the insured that cumulatively fulfil the standard conditions of retirement age, set according to the date of birth and gradually increased to 65 for men (January 2015) and still increasing to 63 for women (until 2030) and the minimum contribution period (15 years, same intervals of increasing). The full contribution period gradually increases up to 35 years (same intervals of increasing). December 2016: standard retirement age: 60 years /6 months (F), minimum contributory period 15 years (F), full contributory period 30 years/6 months (F).

Pensions are computed according to a point formula, by multiplying the average annual number of points achieved by the insured with the value of one pension point. For 2017, the value of the pension point was set at 917.5 RON in January 2017, followed by a 9% increase to 1000 RON (222.68 euro) in July 2017. According to Law 263/2010, beginning with the 1st of January 2013, the pension point value has been annually indexed with 100% of inflation rate plus 50% of the real average gross wage growth of the previous year. If one of the above mentioned indicators is negative, only the positive value will be considered.

PERSONAL MANDATORY

The **mandatory private pension** system is governed by Law No. 411/2004 on Privately Managed Pension Funds that establishes and regulates the organization and functioning of the mandatory pension funds and companies, which also coordinates the activities of other entities operating in this field.

The **mandatory private pension scheme,** is a defined contribution scheme, with a minimum investment guarantee, based on individual accounts (part of the individual contribution from the public pension system is accumulated in such individual accounts).

Coverage

Participation is mandatory for all those under 35 years old and voluntary for the 35 - 45 age cohort.

Contributions

A part of the employee's Social Security contributions is compulsorily directed towards the mandatory pension scheme. Contributions transferred to the system started at 2% of gross wages during the first year and were programmed to increase by 0.5% each year until they reached the rate of 6% after 8 years. In the meantime, this provision does not longer exist in the law. There was a freeze in the contributions in 2009 and starting 2016 they are frozen at 5.1%.

[1] *Country profile on pension projections prepared for the Economic Policy Committee, 2018*

Starting 2018, due to a fiscal reform, all labour force taxes paid by the employer were transferred to the employee. This lead to a change in the way the gross and net income of the individuals were calculated. Another consequence was that the Government changed the contribution rate to 3.75% of gross wage.

Benefits

At present, there are no projections for the likely income replacement that the mandatory system will generate. The reformed private pension system links contributions to benefits. Legislation on the pay-out phase has not been enacted yet.

Starting April 2018, it is possible for members to opt for monthly installments for up to 5 years, when receiving their accumulated amount; lump sum was the only available option before, when the accumulated amounts were low. As the system consolidated and the assets grew, this change was necessary because the pension amounts and the number of beneficiaries are now large enough to have other payment options available.

Tax

Contributions are tax exempt. Investment income is tax exempt. Pension benefits are subject to general tax legislation. (i.e. EET system).

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. Transfer fees are payable if the participant switches funds within 2 years of joining.

OCCUPATIONAL VOLUNTARY

The **voluntary personal private pension** system is governed by Law No. 204/2006 on Voluntary Pension, that establishes the principles for the drafting and licensing of the voluntary pension scheme prospectus and of the pension fund; the principles for the organization and functioning of administrators, as well as the coordination of the activity of other entities involved in the field and the regulation and prudential supervision of the management of voluntary pension funds.

The **voluntary personal private pension scheme** is a defined contribution scheme with voluntary participation, based on individual accounts. Investment guarantees are permitted by the law, but not mandatory.

Coverage

Employers and trade unions or the employees' representatives may 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. 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 may participate in as many schemes as they wish and cumulate pension rights and benefits, but up to 15% of their gross wage in all the pension funds.

Contributions

Contribution levels are established by the scheme rules and collected and paid by the employer and/or employee into a pension fund chosen by the employee. The contributions are paid into the employee's individual account. Contributions to the voluntary pension tier can amount up 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 PPFA.

Benefits

Benefits are payable when participants fulfil the retirement conditions and when the assets are at least equal to the amount required for a minimum voluntary pension. Legislation on the pay-out phase of voluntary pensions has not been enacted yet.

Starting April 2018, it is possible for members to opt for monthly installments for up to 5 years, when receiving their accumulated account; lump sum was the only available option before, when the accumulated amounts were low. As the system consolidated and the assets grew, this change was necessary because the pension amounts and the number of beneficiaries are now large enough to have other payment options available.

Tax

Employee and employer contributions are tax-deductible up to a ceiling of €400 per year each for the employee for the employer. Investment income is also tax exempted. Pension benefits are subject to general 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.

MARKET INFORMATION

Personal mandatory

Pension funds have no legal personality and are managed by pension fund management companies (joint-stock companies). Pension funds are established by a civil contract concluded between members in accordance with the Civil Code.

Occupational voluntary

Voluntary personal 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 Financial Supervisory Authority of Romania.

No occupational pension funds are established yet, only personal voluntary pension funds.

POTENTIAL REFORM

The pay-out phase of pension benefits must be in force in the near future.

REFERENCE INFORMATION

KEY LEGISLATION

2018: Law N° 24/2018 amending art. 28 par. (d) of Law no. 411/2004 and art. 90 par (3) of Law no. 204/2006.

2017: Law N° 52/2017 amending art. 10 of Law no. 411/2004 and art. 44 of Law no. 204/2006; Government Emergency Ordinance No. 82/2017 regarding the amending of certain laws.

2015: Law N° 87/2015 amending art. 23 par. (1) of Law no. 411/2004 and art. 84 of Law no. 204/2006; Government Emergency Ordinance No. 57/2015 regarding the remuneration of public employees for the year 2016, extension of certain deadlines and certain fiscal measures.

2013: Law N°113/2013 establishing the Financial Supervisory Authority of Romania (Autoritatea de Supraveghere Financiara (ASF)). The FSA is the specialised, independent, autonomous and self-financed authority, which is responsible for the prudential supervision and regulation of the insurance, capital markets and private pensions sectors.

2011: Government Emergency Ordinance No. 98/2011; amending Law no. 411/2004 and establishing measures in Privately Managed Pension System.

2011: Law no. 187/2011 regarding the Private Pension Guarantee Fund.

2008: Law no. 201/2008 for the approval of Government Emergency Ordinance no. 112/2007.

2007: Emergency Ordinance No. 112; amending Law no. 411/2004 and Law no. 204/2006.

2006: Law no. 204/2006 on Voluntary Pension.

2005: Emergency Ordinance no. 50/2005 on the setting up, organization and operation of Private Pension System Supervisory Commission.

2004: Law No. 411/2004 on Privately Managed Pension Funds; that establishes and regulates the organization and functioning of the mandatory pension funds and companies; also coordinates the activities of other entities operating in this field.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

The Financial Supervisory Authority of Romania supervises the funded pension system

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