

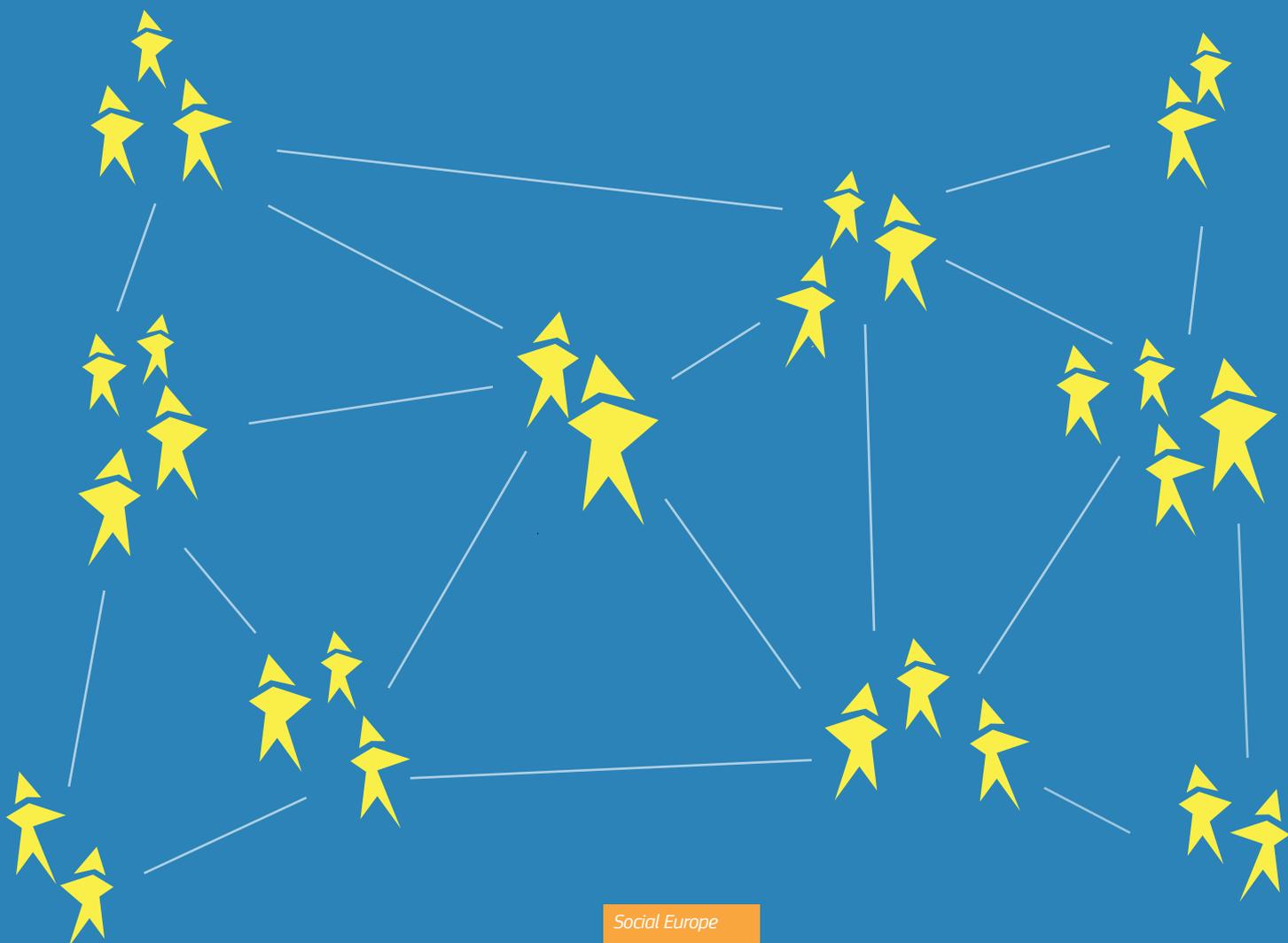


EUROPEAN SOCIAL POLICY NETWORK (ESPN)

# Financing social protection

## Romania

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Social Europe

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**List of Acronyms**

ESSPROS	European System of integrated Social PROtection Statistics
ILO	International Labour Organization
NHIH	National Health Insurance House
NIS	National Institute for Statistics
NSHIF	National Social Health Insurance Fund (Fondul National de Asigurari Sociale de Sanatate)
SIF	Social Insurance Fund (Bugetul de Asigurari Sociale)
UIF	Unemployment Insurance Fund (Bugetul de Asigurari Pentru Somaj)

## Summary

During the period examined (2005-2016), Romania was among the European countries with the lowest social expenditure as a share of GDP, and had the second lowest GDP per capita among EU28 countries after Bulgaria. Yet social expenditure increased in real terms over the period as a whole, with a slight decrease during 2010-2012 in the aftermath of the economic crisis. Pension benefits (which include old-age, disability and survivor pensions) made up (in 2016) 62% of total gross social expenditure, a proportion which had increased by 10 p.p. since 2005. The second highest share of social expenditure continued to be sickness/healthcare benefits, which accounted, on average, for 27-28% of total gross social expenditure over the entire period. In 2016, only 11% of total social expenditure was not related to pensions or healthcare.

Contribution-based expenditure in Romania is high, as the Romanian social protection regime was traditionally built on a dominant social insurance system; this expenditure continued to increase in scope and amplitude with the transformation of the universal healthcare system into an insurance-based system in 2006. Non-insurance-related expenditure, as a share of total social expenditure, is small compared with insurance-related expenditure; its means-tested (social inclusion) component is weaker (in terms of size and legitimacy) than the non-means-tested component, which has the universal child allowance at its core. Overall, means-tested benefits accounted for only 3.8% of total social expenditure in 2016, a proportion which had fallen since 2010 (Annex Fig. 33).

During the period under analysis, insurance-related social expenditure increased, while the share of non-insurance-related expenditure fell. As insurance-related expenditure increased steadily (with the highest rate of increase for old-age pensions), the share of social contributions in social expenditure receipts fell: in 2015 only 63% of total receipts were social contributions, including health insurance contributions (Annex Fig. 23), while 87% of expenditure was insurance-related (Fig. 5). Many factors were responsible for this fall: some of these related to the economic crisis (e.g. a temporary fall in employment reduced collection rates) and some related to the 2015 fiscal reforms (e.g. reduced social contribution rates). But the increasing gap between insurance receipts and expenditure poses risks to the sustainability of the social insurance system in the medium and long term, especially the pension system. The insurance-based healthcare system will soon face similar issues if the gap continues to increase between the number of population categories insured by default and those who actually pay contributions (in 2017, only 39% of insured people were paying healthcare contributions).

Much of the current configuration of social expenditure and receipts in Romania is the result of a mix between policy responses to the economic crisis during 2010-2012 and more recent fiscal reforms, accompanied by an increase in the level of insurance-related benefits and in the minimum statutory salary. Whereas the measures taken in the aftermath of the economic crisis were directed towards increasing revenues and reducing pressure on the Social Insurance Fund, and not towards protecting the most vulnerable groups in the labour market, the more recent fiscal reform was aimed at exactly the opposite – reducing burdens on economic agents, by reducing taxes and social contribution levels. This mix led not only to increased pressure on the social insurance system, but also to an overall combination of taxes and social transfers which has proven unable to address poverty or meet the needs of the most vulnerable groups in the labour market.

Future increases in pension benefits should respect the formula stipulated under existing pension law, with unpredictable and discretionary increases being avoided, because the social insurance pension system needs to be made financially sustainable in the medium and long run. On the other hand, non-insurance-related benefits need to increase in level and coverage and offer sustainable and effective protection against poverty, both to the most vulnerable groups in the labour market and to children. The expansion of non-

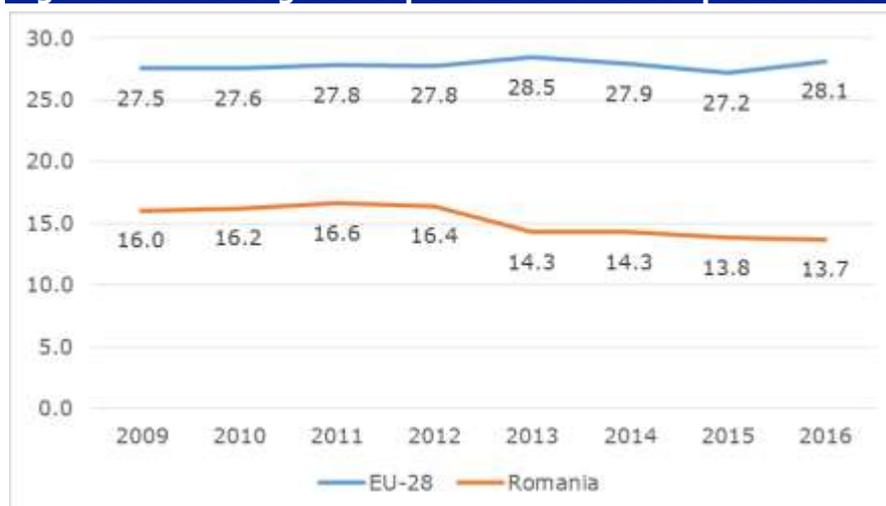
insurance-related expenditure is crucial to minimising inequalities in access to education and the labour market.

## 1 Current levels and past changes in financing social protection

### 1.1 Brief overview of social expenditure during 2005-2017

During 2005-2014, Romania was among the European countries with the lowest social expenditure as a share of GDP, mostly ranging from 13% to 17% and with a peak of 17.4% in 2010 (Fig. 1). The 2010 peak was, in fact, the result of both an important drop in GDP in real terms between 2008 and 2010 (Annex Fig. 14), and a real increase in social expenditure in the years leading up to 2010 (Annex Fig. 12). In 2015-2016 Romania was the European country with the lowest social expenditure, despite the constant increase in the latter after 2013.

**Figure 1 Share of gross expenditure on social protection in total GDP (%)**



Source: Spasova and Ward (2019), Annex ESSPROS tables.

#### Box 1. Social expenditure data – methodological note

Figures for social expenditure in Romania according to ESSPROS<sup>1</sup> (Spasova and Ward, 2019: Annex ESSPROS tables<sup>2</sup>) are consistently lower (by 1.3-2.2 p.p.) than the official data from the Ministry of Finance (consolidated budgetary outturns, [www.mfinante.ro](http://www.mfinante.ro)) or those based on a breakdown of revenues and expenditure by financing sources (state budget/local budgets/social insurance budget/health insurance budget) collected by the National Institute for Statistics (NIS) (TEMPO-online database, [www.insse.ro](http://www.insse.ro)). According to these two last sources, in 2015, and especially in 2016, social expenditure was 1.7 to 2 p.p. higher than that presented by ESSPROS.

Social expenditure in Romania increased in real terms during 2005-2010 (Annex Figs 11 and 12); there was a large increase in all social insurance expenditure (on old age, disability and survivors, see Fig. 4 and Annex Fig. 9) and, sporadically, in expenditure on social exclusion benefits (2009) and unemployment benefits (2010) (Annex Fig. 13). Sickness/healthcare expenditure started growing, in real terms, in 2007, after the framework law for health reform was issued in 2006, changing healthcare from a state-managed and financed system, to a social insurance-based one (Law 95/2006). In the immediate aftermath of the recession (**2009-2010**) the rate of increase in social insurance expenditure slowed, while social exclusion, unemployment and healthcare expenditure continued increasing. In 2010 unemployment expenditure skyrocketed, as a consequence of the 76% increase in the number of registered unemployed people in 2009 compared with the previous year (Annex Fig. 16). In 2010 the number of

<sup>1</sup> European System of integrated Social PROtection Statistics.

<sup>2</sup> Hereinafter, the ESSPROS data.

unemployed people exceeded the number based on the ILO definition<sup>3</sup> (which increased as well). This also explains the increased expenditure during 2010 on social exclusion (mostly means-tested benefits). In addition, healthcare expenditure increased due to a continuous effort to reform the healthcare system (in accordance with the 2006 health insurance law). Overall, in 2010 social expenditure increased by 7.3% compared with 2009, corresponding to a 2.5% increase in real terms; see Annex Fig. 12 (Romanian Fiscal Council, 2011).

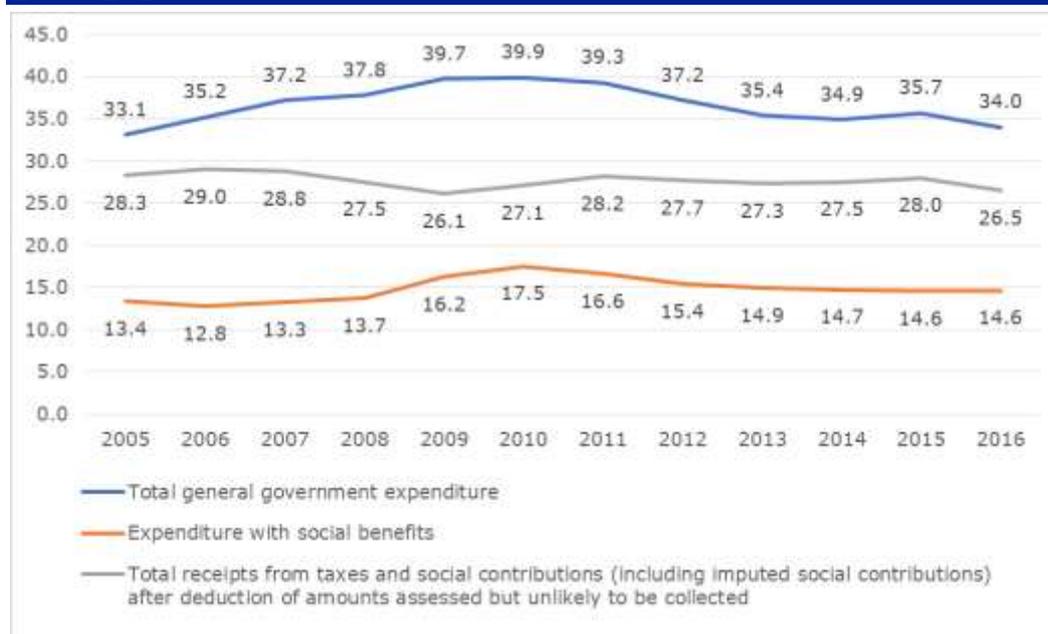
The crisis affected all European countries, striking the less developed economies more, including Romania. The significant drop in total general revenues in 2009 (Annex Fig. 11) led to a large fiscal deficit, which determined a series of cuts in expenditure over the next period. Thus, while over the crisis period social expenditure continued increasing, total general governmental expenditure started to fall. This fall was the result of cuts in both the number of public employees (about 5% in 2010, and an additional 7% in 2011, of which a significant number were employed in pre-university education, health and local administration, Annex Fig. 15) and in the salaries of public sector employees (25%). Investments fell as well, by 5%, as the result of the crisis.

Despite the fact that government revenues started to recover in 2010 in real terms, only in 2013 did they surpass, in real terms, their 2008 level (Annex Fig. 11); and they only came close to matching the level of total governmental expenditure again in 2015 (Fig. 2).

In 2010, social expenditure started to fall as well. The 2010 reform of social assistance, aimed at increasing the targeting power of means-tested benefits and the cost-effectiveness of social benefit provision, led in practice to a fall in the number of beneficiaries and a freeze in social benefits.

In addition to these trends, in 2010 social health insurance contributions started to be collected from pensioners with a monthly income higher than 740 Lei (approx. 160 Euros). Until 2010 all pensioners had been covered by default.

**Figure 2 Share of general public expenditure and social expenditure in GDP (%) 2005-2016**



Source: Eurostat, *spr\_exp\_sum*, *gov\_10a\_exp*

<sup>3</sup> The ILO definition is: 'The unemployed comprise all persons of working age who were: a) without work during the reference period, i.e. were not in paid employment or self-employment; b) currently available for work, i.e. were available for paid employment or self-employment during the reference period; and c) seeking work, i.e. had taken specific steps in a specified recent period to seek paid employment or self-employment' (see: [https://www.ilo.org/ilostat-files/Documents/description\\_UR\\_EN.pdf](https://www.ilo.org/ilostat-files/Documents/description_UR_EN.pdf)).

Between 2010 and 2014 all social benefit rates and eligibility thresholds were frozen. These measures, along with the tightening of eligibility conditions as part of the 2010 social assistance reform, led to a fall in the number both family/child and social exclusion benefit recipients.

Between 2010 and 2014, all categories of social expenditure fell (Annex Fig. 13): but the steepest fall was related to unemployment, due to both a fall in short-term unemployment and the non-updating of unemployment benefits. Social insurance expenditure fell as well, but at a slower rate: there was a slower fall in old-age expenditure and a sharper fall in disability expenditure. Overall, during 2010-2014 social expenditure fell both in real terms and as a percentage of GDP (Fig. 1). Only healthcare and sickness benefit spending varied from the general trend, falling slightly in 2011 before starting to increase again afterwards (Fig. 3).

Total general government expenditure decreased in real terms in 2012-2013 and started to increase in 2014, despite the fact that in 2012 compensations for the so-called 'austerity measures' during 2010-2011, which had been found to be unlawful, started to be paid. In 2012 the salary cuts in the public sector started to be repaid, after being declared unconstitutional by the supreme court, representing 0.3% of GDP. Health insurance contributions that had been levied on pensions over 740 Lei were partially repaid, which represented another 0.2% of GDP<sup>4</sup>.

In 2013 social expenditure started to increase again in real terms (Annex Fig. 12), and it continued to do so thereafter, the first consistent run of increases since 2005-2010. The increase in social insurance expenditure – pensions and healthcare<sup>5</sup> – was greater than in other areas (Figs 3 and 4, and Annex Fig. 13). Social insurance expenditure also grew as a consequence of an avalanche of increases in the minimum statutory salary (which reached, in 2016, 235% of its 2005 value in real terms; see Annex Fig. 20). Among non-contributory expenditure areas, family/children's benefits exhibited the highest growth rate, mainly due to the unfreezing of benefit levels (Annex Fig. 21). Unemployment and housing expenditure were the exceptions, as for these functions expenditure continued to fall in real terms between 2013 and 2016.

The real growth in overall social expenditure in 2015-2016 was reflected in lower rates of poverty exposure for most segments of the population. In 2016 the annual growth in social expenditure matched the growth in GDP for the first time since 2010 (Fig. 2).

## 1.2 Level, dynamics and structure of social expenditure by function and benefit type

### 1.2.1 Pension expenditure: old age, disability, survivors

**Expenditure on social insurance benefits** almost doubled in real terms between 2005 and 2009 (Fig. 3), due to a significant increase in the pension point value, the reference for calculating pension benefits. The pension point value increased by nearly 82% during this period (Annex Fig. 19). Old-age benefits experienced the highest increase during this period (Fig. 4) as not only did benefit levels increase but so did the number of old-age pensioners. During 2009-2013 pension expenditure fell – only slightly for old-age pensions and rather more for disability and survivor pensions<sup>6</sup> (Fig. 4). This was due to

<sup>4</sup> Annual Ministry of Finance reports on budgetary outturns can be found at: <http://www.mfinante.gov.ro/pagina.html?pagina=buletin&categoriebunuri=executie-bugetara,rapoarte-trimestriale,rapoarte-semestriale,rapoarte-anuale,arieratele-bugetului-general-consolidat&tab=4>.

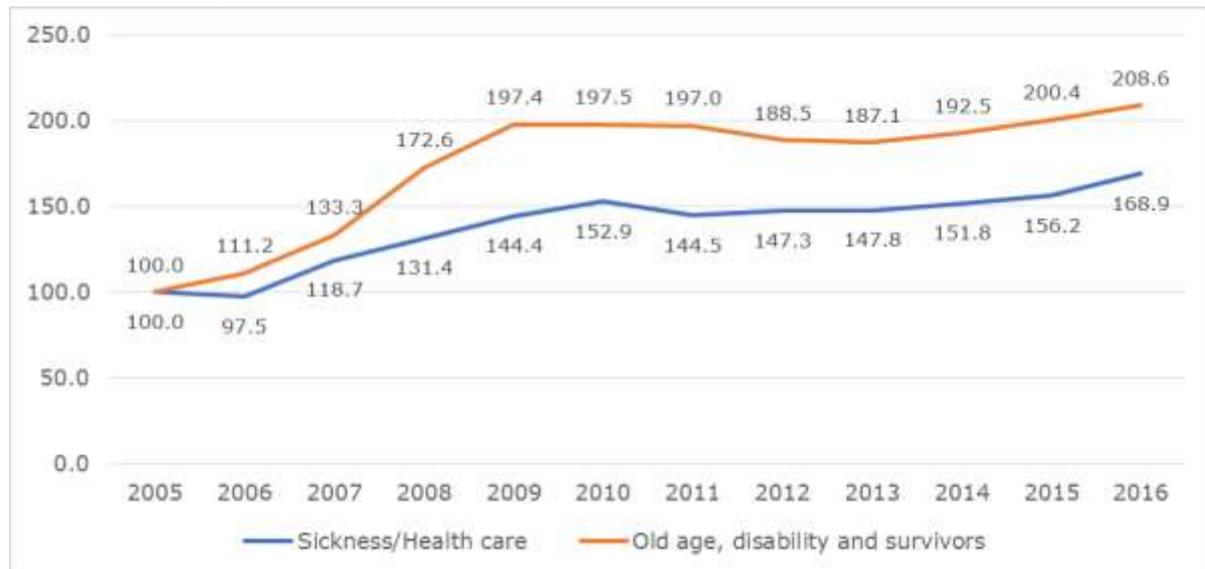
<sup>5</sup> Healthcare/sickness expenditure is presented by ESSPROS mostly as non-insurance-related expenditure, although from 2006 the healthcare system in Romania was redesigned as an insurance-based system.

<sup>6</sup> Disability pensions and survivor pensions are long-term social insurance benefits. The overall social contribution to the SIF covers all three risks – old age, incapacity to work and death.

the constant increase in the number of old-age pensioners (Annex Fig. 17), whose average pension benefits are also significantly higher than those for other pensioners.

The absorption of the military special pension system into the mainstream public system in 2010 (Law 263/2010) contributed significantly to the increase in the number of old-age pensioners. Not only did the mainstream system gain an additional number of beneficiaries, it also gained beneficiaries who, on average, had higher pensions than the existing beneficiaries, as military pensions used to be calculated by using a more generous formula, which reflected only the last years of work and not the entire work history.

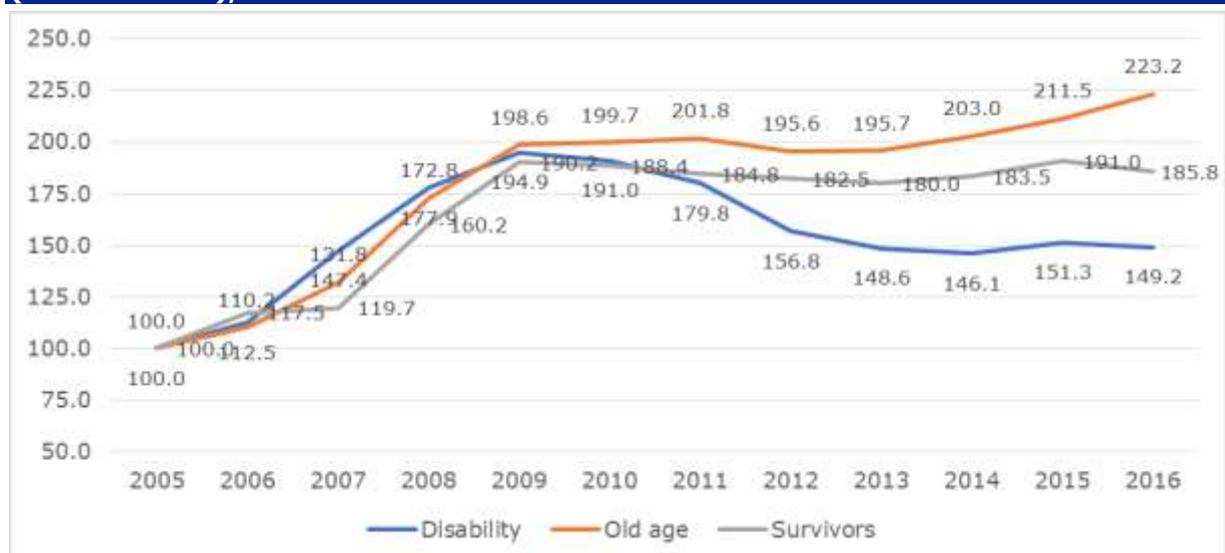
**Figure 3 Dynamics of social expenditure by function (1), in real terms (2005=100%), 2005-2016**



Source: Eurostat, spr\_exp\_sum, ESSPROS deflator

In 2011, the level of subsidies from the state budget to the Social Insurance Fund (SIF) increased to 27% of total social insurance expenditure, and – with the exception of 2012 – the deficit level of the SIF continued to remain around the same level during the period examined (data according to the social insurance budgetary outturns, TEMPO-online, FIN103B).

**Figure 4 Dynamics of social expenditure by function (2), in real terms (2005=100%), 2005-2016**



Source: Eurostat, *spr\_exp\_sum*, ESSPROS deflator

The high deficit was the result of a series of factors, including the absorption of the military special pension system and the low collection rate of contributions from employers<sup>7</sup>.

On the other hand, the number of those receiving survivor and disability pensions fell significantly over the whole period 2005-2016, by 24% in the case of disability pensioners and by 19% in the case of survivors (Annex Fig. 18). And this, combined with a constant value of the pension point during 2009-2012, led to an even steeper fall in social insurance expenditure on disability and survivor pensions.

In 2014, old-age benefit rates resumed their increase in real terms. But despite this, the risk of poverty among pensioners started to increase (for the first time for 20 years) as their position deteriorated relative to employees (for whom the minimum gross salary increased by 69% in real terms during 2010-2016).

About 12% of pensioners were receiving, in 2015-2016, a minimum pension benefit ('minimum social pension indemnity'). The benefit depreciated rapidly, as its value remained constant (at 400 Lei, approx. 89 Euros) while salaries, especially lower ones, increased substantially. Until 2018, the minimum social pension was not correlated with either the pension point or the minimum wage; thus, those in receipt of this benefit became the most vulnerable segment of pensioners.

Overall, social insurance expenditure (on old age, disability and survivors) accounted, in 2016, for 61.5% of total gross social expenditure, an increase of 10 p.p. since 2005 (Annex Fig. 28), which was driven by the increase in old-age expenditure. Old-age benefits accounted, in 2016, for 49.5% of all gross social expenditure (Annex Fig. 31), up from 39% in 2005; this was far above the EU28 average value of 40.1%. The increase, as mentioned before, was the result of both the constant increase in the number of old-age pensioners (Annex Fig. 17) and of a significant increase in the pension point value over the entire period (Annex Fig. 19). In fact, old-age expenditure experienced the highest growth rate over the entire period of any social expenditure function, with only a relatively small decrease in real terms in 2012 (Fig. 4).

### 1.2.2 Sickness/healthcare

Sickness/healthcare expenditure was the second highest category of social expenditure in the period examined, with the second highest growth rate after social insurance (old-age, disability and survivor) expenditure. After the 2006 reform of the state healthcare system, when it was transformed into a social insurance-based system (with a defined health contribution supported by both employers and employees), healthcare expenditure started to increase – both healthcare insurance services and public health. While the healthcare system, and especially the primary healthcare system, is still underfinanced compared with actual needs, financial efforts have been made since 2006 to boost the implementation of the health reforms.

Expenditure increased in real terms during the entire period (except for 2011), but this was not matched by a similar increase in social contributions receipts, being supported from subsidies and EU funding. According to budgetary outturn data from the NIS (TEMPO-online database), the state budget generally financed between 14% and 16% of total healthcare expenditure (with a higher proportion in 2015 of 18%).

Sickness/healthcare expenditure as a proportion of total gross social expenditure maintained a relatively constant level – between 27 and 28% – with a slight fall during 2008-2010 (to 24%-25%) (Annex Fig. 28). Within this category, only a small part

<sup>7</sup> At the end of 2017, around 157,000 employers were still debtors to the pension budget, in respect of contributions for approximately 2 million employees (see: <http://www.zf.ro/eveniment/revolutia-fiscala-psd-continua-neplata-buget-contributiilor-impozitelor-retinute-patroni-devine-infractiune-pedepsita-inchisoarea-acest-moment-157-798-angajatori-plateste-salarii-2-milioane-angajati-16849239>).

consisted of insurance-related sickness expenditure (a decreasing part, as the ESSPROS data show), reaching 0.6% of the total expenditure in 2016 (from 7.6% in 2005).

### **Box 2. Healthcare insurance expenditure – methodological note**

The ESSPROS data acknowledge as contribution-based expenditure only a small part of healthcare expenditure – that made from the social insurance pension fund, and which concerns wellness/therapy/rehabilitation entitlements concerning pensioners (old age/disability). But apart from that, since the 2006 reform healthcare expenditure has been split between public health expenditure (the national health programme and strategic healthcare-related investments) and insurance-based healthcare services. Public health expenditure made up about 14-18% of total healthcare expenditure over the period 2007-2016, with the remaining 82%-86% made up of insurance-based expenditure (according to NIS data, Tempo-online, financial budgetary indicators).

Although on average 85% of healthcare expenditure is financed by contributory benefits, the proportion of insured people who are covered 'by default', without the requirement to pay healthcare contributions, is very high (it was about 60% in 2017).

### **1.2.3 Family/child benefits**

The two most important family/child benefits in Romania, in terms of expenditure, are the universal child allowance (which made up 40-50% of total non-contributory social expenditure during the period analysed, according to estimations based on data from the Ministry of Labour and Social Justice) and the childrearing benefits – indemnity and insertion stimulus (20-38% of total expenditure on non-contributory social benefits). Taken together these programmes therefore covered 60-88% of expenditure on non-contributory benefits (including housing and social exclusion benefits). However, expenditure on non-contributory social benefits as a whole accounted for only 0.7-1% of GDP. In 2007 the child allowance was increased significantly, to about 50% of the minimum wage, but only for children up to 2 years of age; the allowance for children under 2 reached, in 2007, a value which was 8 times higher than the allowance for children over 2. This gave an important boost to child allowance expenditure. The allowance for children over 2 years increased for the first time in 2009 (as aggregate expenditure on the benefit shows), and was frozen until 2015, when it was doubled (to 84 Lei, i.e. about 18 Euros). At the same time the allowance was increased for all children with disabilities, regardless of age, to the level for children under 2 (200 Lei, i.e. 44 Euros). This was reflected in the higher expenditure level during 2015-2016 (see Annex Fig. 13).

The second programme – the childrearing leave/indemnity, granted for children up to age 2 – started to be paid from the state budget in 2006. The benefit, generous in scope and length (85% of former income, over two years), had an important impact, especially on the monetary welfare of low-income parents, who represented about 45% of beneficiaries in 2016. The latter were protected by a minimum benefit (of 600 Lei, i.e. 130 Euros) until July 2016 and 85% of the minimum gross salary thereafter. The childrearing indemnity is followed by an insertion stimulus, paid if parents go back to work before the child reaches the age of 2. Before July 2016 the difference between the minimum benefit level and the insertion stimulus was small; but in July 2016 the minimum benefit was raised to double the value of the insertion stimulus, and the period over which the combination of indemnity and insertion stimulus was granted was extended to when the child reached 3. Thus, starting with 2016 childrearing expenditure started to increase at a higher pace.

Overall, family/child expenditure increased in real terms during 2005-2009, stayed relatively constant during 2009-2011, then fell sharply during 2012-2013. From 2014 it began to increase again, especially in 2015-2016 on account of child allowance expenditure. Family/children benefits was the third biggest social expenditure category, yet its share in total social expenditure fell from around 14% in 2005 to less than 10% 2016 (see Annex Fig. 28).

### 1.2.4 Unemployment benefits

Unemployment, social exclusion and housing expenditure – reflecting the most important means-tested benefits in Romania – fell as a share of total social expenditure from 5.3% in 2005 to 1.8% in 2016 (Annex Fig. 28), reflecting a lack of effort and political will to invest in social inclusion and activation policies.

Unemployment expenditure was low over the entire period, with the exception of 2010. In 2005 it represented 0.4% of GDP, falling to 0.2% in 2008. In 2009-2010, expenditure increased abruptly due to a massive increase in unemployment. The number of registered unemployed people reached 700,000 in 2009, increasing by 76% compared with the previous year. 2009 was the only year for which the number of registered unemployed exceeded the number on the ILO definition, by 85,000 (Annex Fig. 16). Expenditure on unemployment increased by 2.6 times in real terms during 2009-2010 (Annex Fig. 13). After the wave of short-term unemployment had passed, despite the fact that (very) long-term unemployment rates increased, expenditure contracted again, falling from 180% of 2005 expenditure in 2010 to 32% in 2016 (Annex Fig. 13). In 2016 expenditure on unemployment amounted to only 0.08% of GDP, reflecting the weakness of the programmes targeting vulnerable unemployed people.

### 1.2.5 Social exclusion and housing

Social exclusion expenditure reflects the three major means-tested benefits in Romania: the minimum income guarantee, the family allowance and the heating allowance.

The minimum income guarantee, the only income-support benefit for single people or families without children, was in place in Romania from 1995; but it was systematically ignored by politicians, and mostly not well received by the population. Between 2001 and 2010 the benefit was financially decentralised and almost 'died' due to lack of financing, as shown by the 45% fall in real terms in related expenditure between 2005 and 2008 (Annex Fig. 22). In 2010 the benefit was financially recentralised, as part of the social assistance reform, which gained political support due to the promise to both protect the most vulnerable against the effects of the recession and increase the cost-effectiveness and targeting capacity of all means-tested programmes. However, the new social assistance law, although it increased the funding level significantly in 2010, led to a fall in the number of beneficiaries, as it tightened the eligibility conditions and means-testing procedures. Therefore, although expenditure started to increase in real terms in 2012, only in 2016 did it regain its 2005 level.

Expenditure on means-tested family allowances followed a similar trend. The social assistance reform, which imposed stricter eligibility criteria and means-testing procedures, resulted in a fall in the number of beneficiaries by 60%; and all social benefit levels were frozen until the end of 2013. Thus, during 2011-2014 related expenditure fell in real terms and remained low. It increased sharply in 2015, when benefit levels were increased significantly and eligibility thresholds relaxed. The benefit covered, during 2011-2016, around 10% of households with dependent children, and expenditure on the benefit did not exceed, during this entire period, its 2005 level (falling to as low as 28% of it in 2013) (Annex Fig. 22).

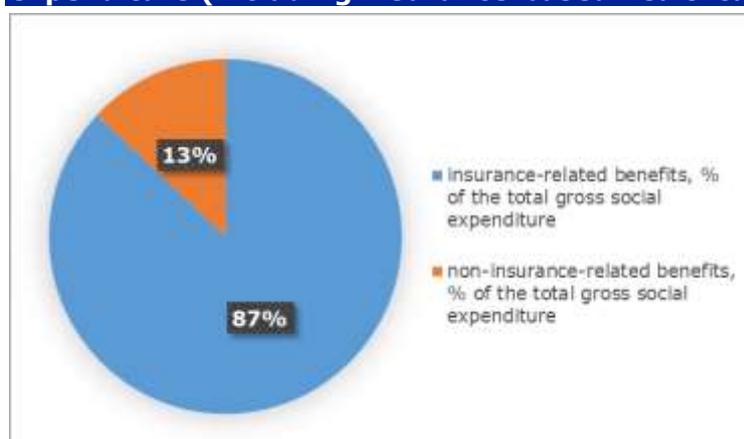
The story of the third means-tested benefit, the heating allowance, is rather different. First adopted in 2006, the benefit was relatively generous, with low eligibility thresholds and self-declared income, and was intended to cover three different types of heating system (natural gas, coal/wood, and centralised systems). In 2007, 46% of all Romanian households benefited from one or other type of heating allowance during the cold season (71% of beneficiaries were wood-users). In 2007 expenditure skyrocketed to over 4 times its level in 2006 in real terms. During 2007-2010 the number of beneficiaries fell, due to frozen eligibility rules and benefit levels. In 2010 these were redefined along with all other social assistance benefits, eligibility was tightened, and a compulsory means-testing procedure based on social inquiry was introduced. Wood-users become ineligible, unless also eligible for the minimum income guarantee and electricity was added to

heating sources. As a consequence of all these changes the number of beneficiaries dropped by 86%; and the share of households covered fell from 16.4% during the cold season of 2011/12, to 6.1% during the cold season of 2016/17. Thus, in 2016, the level of expenditure on heating allowances represented 32% of its 2005 value.

### 1.2.6 Contributory (insurance-based) versus means-tested benefits

According to the ESSPROS data, Romania's share of **insurance-based benefits** in total gross social expenditure was about 62.6% in 2015, and this related almost entirely to the social insurance system for old age, disability and survivors. If considering also the share of insurance-based healthcare expenditure (see Box 2), the proportion rose, for 2015, to 85%. Adding the 14.5% of family/child expenditure conditional upon social insurance, as well as unemployment expenditure (entirely linked to unemployment insurance) this would lead, for 2015, to an additional 2 p.p. Thus, roughly 87% of gross social expenditure was, in 2015, conditional upon one type or another of social insurance.

**Figure 5. Share of social insurance-based expenditure in total gross social expenditure (including insurance-based healthcare expenditure): Romania 2015**



Source: ESSPROS database

The increase in the share of insurance-related benefits in total social expenditure after 2006 (from around 79%, including all insurance-based benefits, to 87% in 2015), was a result of the increase in the number of old-age pensioners and in the average benefit level for old-age pensioners.

Spending on **means-tested benefits** in relation to old age, disability and survivors was mostly negligible until 2008; after that it started to increase, especially for survivors, followed by disability and old age (Annex Table 4). In 2008, the share of means-tested expenditure rose for survivors, as the pension system for agriculture workers, along with the social assistance benefits under this scheme, was absorbed into the main public social insurance system. In 2009 the minimum social pension was introduced, which guaranteed a minimum level of income for all pensioners: the difference between the guaranteed level and actual pensions was financed from the state budget and can be considered a means-tested benefit<sup>8</sup>. Survivors have the lowest levels of pensions among all pensioners (and make up the highest share of low-income pensioners), followed by disability pensioners and, lastly, by old-age pensioners. This explains the higher increase in the share of means-tested benefits among the first two categories.

Means-tested sickness/healthcare expenditure increased from 2013, with the introduction of minimum medical services (covering mostly pregnancy-related healthcare, emergencies and transmissible diseases, preventive care and family planning), which were directed towards those uninsured under the health social insurance system.

<sup>8</sup> All benefits for survivors are periodical cash benefits, and half of these are means-tested pensions.

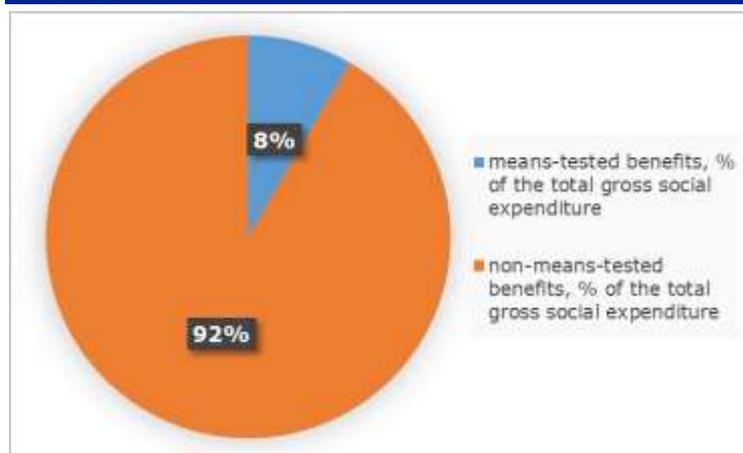
However, means-tested expenditure remained an extremely low proportion of healthcare expenditure, at just 0.25% in 2016 (Annex Table 4).

Within the category of family/children benefits, Romania has only one important means-tested benefit – the *family allowance* – a benefit granted to families with children, differentiated according to the income level of the family, type of family (two-parent/single-parent) and number of dependent children. Thus, over the entire period, the proportion of means-tested benefits within family/children expenditure was around 5-10% (see Annex Table 4). Variations between years can be explained mostly by changes in benefit levels and by the social assistance reform, which reduced the number of beneficiaries of means-tested benefits in 2011.

On the other hand, expenditure on social exclusion (minimum income guarantee and heating allowance), unemployment and housing was 100% means-tested over the entire period. Finally, only 15% of total non-contributory expenditure in 2016 was made up of means-tested benefits.

Overall, means-tested benefits never exceeded 7.2% of total social expenditure (Annex Table 4) in the period examined. The proportion was around 5-7% during 2005-2010, before falling to around 4% during 2011-2016 (Annex Fig. 33). The social assistance reform, aimed at increasing the effectiveness and targeting power of social transfers, resulted in both lower expenditure on means-tested benefits and a reduced number of beneficiaries. The tightening of eligibility criteria and means-testing procedures, along with a freezing of benefit levels, led to a substantial decrease in the importance of these benefits – in terms of real expenditure and relative to other benefits.

**Figure 6. Share of means-tested expenditure in total gross social expenditure: Romania 2016**



Source: ESSPROS database

The level of social expenditure as a percentage of GDP in Romania was, over the entire period, about half of the EU28 level; in 2015-2016 it fell to 14.6%, the lowest level across the EU (Fig. 1). The real level of social protection expenditure was even lower, as Romanian GDP per capita was also well below that of most of the EU28 countries. Thus, both the real level of expenditure per capita, as well as the effort of the state to protect its citizens, were among the lowest in Europe.

Romania has, historically, been an insurance-based social protection regime, which the communist regime moulded into a comprehensive social insurance system with universal access to basic social services. After the fall of the communist regime, Romania had basically no social protection system in place, with the exception of the social insurance system and a deteriorated and obsolete social services system (mainly healthcare and educational services, and only a few social assistance services taking the form of mammoth institutions for disabled and abandoned children). The first programmes to be put in place were those addressing unemployment (in 1994) and those people without

any income (social aid, the precursor of the current minimum income guarantee). The only social benefit which has been in place since 1960s is the child allowance, which was – until 1993 – based on both income and a series of additional factors such as the number of dependent children, occupation of the parents and the residential area.

The current social protection regime was more or less built on this skeleton: a dominant social insurance system to which unemployment insurance was added, with a still ineffective means-tested benefits system (due to its lack of legitimacy and unsystematic, discretionary and politically driven updating) and a non-means-tested non-contributory benefit system having the universal child allowance (universal since 1993) at its core. Means-tested benefits were for most of this period underfinanced, due to the discretionary uprating of benefit levels and a significant lack of political attention and general legitimacy for this type of support. In addition, the process of decentralising and recentralising social exclusion benefits introduced fluctuations in the related expenditure. In the meantime, the share of social protection expenditure based on social insurance increased, with the unification of the public pension system from 2008, and with the replacement of the universal healthcare system with an insurance-based one.

During the period analysed, the SIF has given way to the state budget as the financing source for some social insurance benefits (i.e. the childrearing indemnity/insertion stimulus, and the minimum social pension). Responsibility for these has also been transferred to the social assistance department of the Ministry of Labour and Social Justice. Thus, while these have been transformed into non-contributory benefits, they are conditional on the social insurance status of the beneficiaries. These measures were in the first place adopted to reduce pressure on the social insurance budget, yet the legitimacy of these mixed benefits is higher than any other non-contributory benefit which is not conditional upon gainful employment.

Until 2018, the Ministry of Labour and Social Justice paid the healthcare contributions for social assistance beneficiaries and beneficiaries of childrearing indemnities, by a direct, transparent transfer from the state budget to the NSHIF. As from March 2018, these contributions were not transferred anymore, and the beneficiaries were considered to be covered by default. This increased even further the proportion of insured people who are not paying healthcare contributions.

### **1.2.7 Taxes on social benefits: gross versus net social expenditure**

In Romania, the difference between gross and net social expenditure is extremely low, among the lowest in the EU28, after Czechia, Slovakia and Bulgaria (according to ESSPROS data).

The small difference that does exist is due to pension benefits, which were taxed over the whole period examined (they are the only directly taxable social benefit). In 2006 the deductible pension level was 900 Lei, that is 2.5 times the minimum gross statutory salary, and continued to be high throughout the entire period (see Annex Table 3). During 2011-2016 pensioners with pensions higher than 740 Lei (around or slightly lower than the value of a pension point for the period 2011-2015) had to pay health insurance contributions on income over a 740 Lei threshold. In 2017 the measure was lifted again.

Whereas during 2009-2010 18% of pension benefits were taxable on average, during 2011-2016 the proportion increased significantly, from 21% in 2011 to 32% in 2016. In 2017, as the tax-deductible level increased and the social health contribution was lifted from any pension benefit, the proportion of pensions that were taxable fell to 7%. In 2018, income tax was also cut from a flat-rate 16% to a flat-rate 10%. Thus, the proportion and level of taxable social benefits fell substantially.

## 2 Current mix and past changes in the sources of financing social protection

The ESSPROS data only partially reflect the real structure of revenues for social expenditure in Romania. ESSPROS data on social contributions reflect solely the contributions to the SIF and the Unemployment Insurance Fund (UIF). They do not take into account contributions to the National Social Health Insurance Fund (NSHIF), at least for the period 2005-2015<sup>9</sup>. As sickness/healthcare expenditure was the second highest area of social expenditure after old-age, disability and survivor expenditure (which are mainly social insurance-based), making up 25-28% of the total over the period examined, this has a significant impact on the analysis.

According to the ESSPROS data, the share of contributions in total social expenditure receipts in Romania varied between 55% in 2005 and 45% in 2015 (Annex Fig. 24). If we also take into consideration social contributions to the NSHIF, the share of social contributions reached 77% in 2007, fell to 61% in 2010, then increased slowly until 2014 (Annex Fig. 23). On the other hand, health insurance contributions grew steadily in real terms after 2010 (Annex Fig. 26).

### 2.1 Social Insurance Fund

The fall in the share of social contributions was marked by: (a) the constant increase in overall social expenditure over this period (particularly on pension benefits, in line with rises in the pension point value); (b) the 'dilution' of social contributions in SIF revenue by subsidies from the state budget (during 2005-2006 SIF revenues came entirely from social contributions; but from 2007 the proportion fell, to 70% in 2011); and (c) a series of falls in social contribution rates (see Annex Fig. 27 and Annex Table 1). Other factors included lower employment levels in 2009-2010 (see Annex Fig. 15) and, on the other hand, increased numbers of old-age pensioners.

In 2010, both the share of social contributions in total receipts and the real value of social contributions reached their lowest points (Annex Figs 23 and 26). Between 2011 and 2014 the real increase in social contributions resumed, but at a slower pace, and their share of total social receipts increased slightly, as social contribution rates were kept constant. But in 2015, both the real level of receipts from social contributions (Annex Fig. 26) and their share in total receipts (Annex Fig. 23) again fell.

Overall, during 2005-2008 the level of contributions payable by employers/wage payers fell from 22% to 18% of the salary fund. In 2009-2010 (see Annex Table 1) the contribution rates were increased, for both employers (by 2.3 p.p.) and protected persons (mostly employees; by 1 p.p.), to an overall level which was comparable to the 2005 level (31.3% of gross income, versus 31.5%). The level remained constant until 2015, when employer contribution rates were reduced by an additional 5 p.p. This last decision was justified by the high debts owed by employers to the SIF, due – supposedly – to excessively high contributions. In fact, this measure only increased the subsidies needed by the SIF to cope with the needs of insured people, as in 2017 employers owed debts to the SIF amounting to 0.3% of GDP. In 2015, for the first time in the period examined, contributions paid by employees (protected persons) exceeded one third of total contributions, reaching 34% (Annex Fig. 25).

Some measures aimed at taking pressure off the SIF had been adopted even before the economic crisis. Firstly, in 2006 the childrearing indemnity/insertion stimulus was transformed from a social insurance benefit into a so-called 'social assistance' benefit<sup>10</sup>.

<sup>9</sup> Social contribution receipts for 2016 were double the 2015 figure, making it hard to interpret the data. They might reflect an adjustment for the health insurance contribution, or (more probably) the payment of some debts owed by corporations to the SIF. They might also simply be an error. The data are not reflected in budgetary outturns published by the Ministry of Finance.

<sup>10</sup> All non-contributory benefits are defined, by the Romanian administration, as broad 'social assistance benefits'.

Secondly, in 2009 the minimum social pension indemnity was adopted (for details see Section 1.2.6), introducing a minimum threshold for social insurance pensions, partially supported from the state budget, and partially from the SIF. Currently the benefits are an odd mix between an insurance benefit (being conditional upon gainful employment) and a non-contributory social benefit, as these are paid from general revenues, from the state budget. In addition to these, the 2018 draft pension law was intended to transfer all pension beneficiaries with contributory periods below 15 years into the social assistance system, thus further shifting expenditure away from the social insurance budget.

Overall, social insurance contributions funded a high proportion old-age and survivor pensions (68% in 2015: see Annex Table 2). For disability expenditure the proportion was 44% in 2015, as this expenditure combined social insurance with non-contributory measures, with the latter starting to develop and establish themselves in recent years. The share of social contributions in spending on family/children benefits fell from 26% in 2005 to 15% in 2015, due to the transfer of some insurance-related expenditure under the broad framework of social assistance (childrearing indemnities and associated insertion stimuli).

## **2.2 Unemployment Insurance Fund**

Social contributions to the UIF were responsible almost entirely for supporting unemployment expenditure (99.7% in 2015, Annex Table 2). Contribution rates to the UIF and the professional leave and sickness fund were small compared with those to the SIF (see Annex Table 1) and remained unchanged over the entire period. But contributions to the UIF accounted for 88% of unemployment expenditure in 2005, a share which – unlike that for receipts for social insurance pensions – increased to almost 100% in 2015 (Annex Table 2).

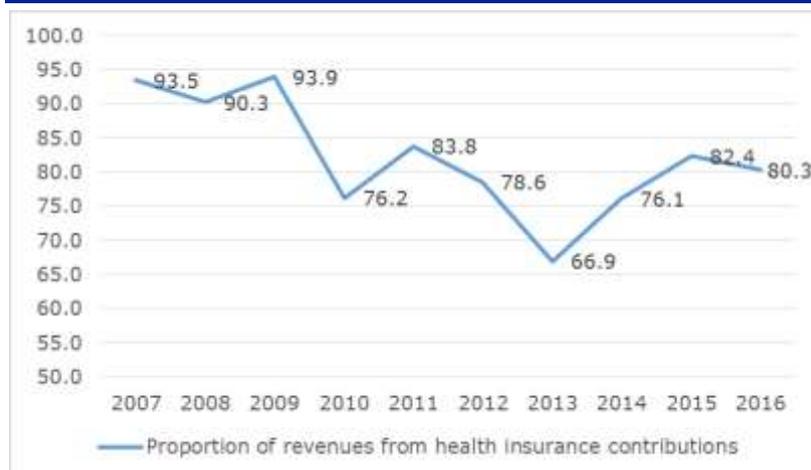
## **2.3 National Social Health Insurance Fund**

The ESSPROS data do not take into account health insurance contributions when calculating the share of contributions in total receipts for the period 2005-2015 (regarding the 2016 data, see Box 2 above). Health social insurance contributions were compulsory from 2006 and made up a significant share of total social expenditure receipts.

Sickness/healthcare expenditure was the second largest component of total social expenditure, varying between 24% and 28% (according to Eurostat, spr\_exp\_sum). Of total healthcare expenditure, only between 13% (in 2007) and 18% (in 2015) came from the general government revenues (directed towards public health programmes), while the rest, on average around 85%, was financed from social health contributions.

The share of social health contributions in NSHIF revenues was 90-94% during 2007-2009, before dropping significantly to 67% 2013. In 2014 the share increased again, reaching 82% in 2015 (Fig. 7). Health insurance contributions increased in real terms up to 2008, along with overall revenues of the NSHIF, before falling during 2009-2010, and only resuming steady growth in real terms (Annex Fig. 30).

**Figure 7 Proportion of revenues from health insurance contributions, in the total revenues of the NSHIF (%), 2007-2016**



Source: National Health Insurance House, see [www.cnas.ro](http://www.cnas.ro)

In 2017, about 16 million persons were insured and registered with a family doctor (National Health Insurance House, 2018) of which about 39% were actually paying social health contributions, with the remaining 61% insured by law (including children, most pensioners, disabled adults without income, students, young people from the children's special protection system, veterans, war/revolution heroes, dependants). For some of these categories, until 2018, the state budget explicitly transferred their share of health contributions to the NSHIF (minimum income beneficiaries, unemployed people, persons taking childrearing leave; see also Section 1.2.7). From 2018 these categories were still covered, but there was no direct, earmarked, transfer.

## 2.4 Social contributions as a share of total receipts

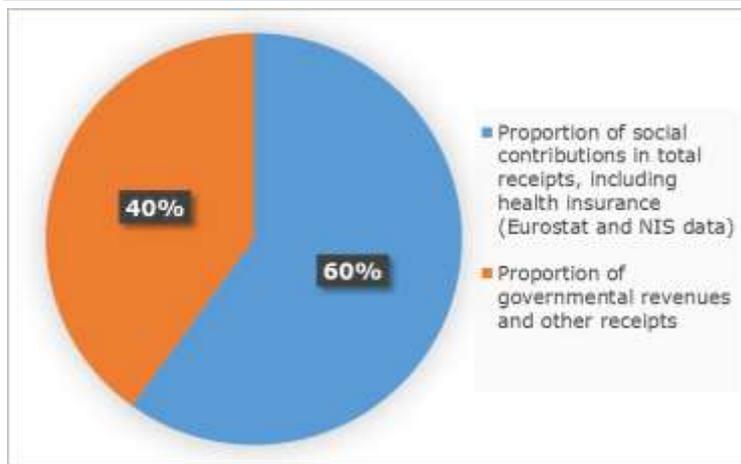
Overall, the role of social contributions in financing most insurance-related benefits (with the exception of unemployment) decreased over the period 2005-2015 (Annex Table 2); this despite the fact that the share of social insurance-related expenditure in total social expenditure increased during the same period (Annex Fig. 28). The share of government revenues in total social protection receipts increased, yet there was no significant earmarked funding.

Earmarking of social expenditure played only an incidental role in the field of social protection, with the exception of the salaries of teaching staff in pre-university education. Earmarked transfers from the state budget to local budgets were part of a process of decentralisation, shifting most education expenditure to the local level, yet without the identification of any specific income source for these expenditures. Thus, earmarked transfers in Romania acted as a way of diminishing funding, by guaranteeing just a basic financing level. At a more general level, decentralisation of many areas of social expenditure was mostly a way of 'burying' programmes/benefits, rather than being designed to increase their responsiveness, as it was always done without the identification of any income source. This happened to the minimum income guarantee before 2010, and to the salaries of the personal assistants for disabled people. Currently, the only specifically earmarked areas of expenditure are those associated with 'national interest' programmes, which usually run over a period of three or four years (e.g. investment in the infrastructure of in-home care for elderly people 2018-2020, and the deinstitutionalisation of children in institutional care). Thus, earmarking has been either a way of cutting expenditure on a programme or a temporary guarantee of funding for some specific activities identified as being of 'national interest'. This last strategy, while it commits expenditure, does so only temporarily, thus preserving the discretionary power of political and governmental actors to decide upon allocations.

The proportion of other receipts, besides governmental revenues and social contributions, in total social protection receipts was 1.7% in 2015, compared with 3.9% in 2005 and 2% in 2010. The dynamics of other receipts are intimately related to EU funding, hence their variability over time. The share of these receipts tends to increase at the end of an EU financing cycle.

In conclusion, trends in the share of insurance-based expenditure were not mirrored during the period examined by trends in the share of social contributions within total receipts. Whereas the proportion of insurance-related expenditure rose, the proportion of social contributions within total receipts fell after 2006, when the health insurance system took effect – from 74.2% in 2008 to 60% in 2015 (Annex Table 5). The fall was mostly due to the lower share of social contributions in SIF revenue during 2008-2010.

**Figure 8. Proportion of social contributions in total receipts, including health insurance**



Source: ESSPROS database and Ministry of Finance

After 2010, the fall in the share of social contributions in SIF revenues was tempered by the relative increase of contributions to the NSHIF. Finally, in 2015, whereas 87% of social expenditure was insurance-based, only 60% of total receipts (including health contributions) came from social contributions. The gap was the result of both the falling level of social contributions and the low collection rate of social contributions, especially from employers.

Thus, not only did social contributions fall as a proportion of total social expenditure receipts, the balance between contributions paid by employers (income payers) and those paid by protected persons shifted over the period in favour of employers: from 74% in 2005 to 66% in 2015, for old-age and survivor benefits. The biggest fall in employer contributions concerned those to the UIF (from 80% in 2005 to 50% in 2015). Two important drivers of these falls can be identified. Firstly, in 2015 the social contribution rate to the SIF fell by 5 p.p., but only for employers. Secondly, the low collection rate led to high debts in respect of employers' contributions, especially after the crisis. In 2018, probably as an extreme measure against the risk of low collection, all social contributions were transferred to protected persons. The measure made employers mere intermediaries for social contributions (albeit accountable under criminal law for transferring contributions collected to the SIF). Previously, non-payment of employer contributions was not a criminal offence, and the enforcement mechanism was weak.

### **3 Strengths and weaknesses of the existing mix of financing options and potential future sources of financing – national debate on the topic**

The analysis above shows that the trend towards increased social expenditure started in 2006, the year prior to Romania's EU accession, and ended in 2009-2010, when a series of policy responses to the economic crisis were adopted; these were not so much aimed at protecting the population as at protecting the budget from already initiated spending increases, especially in the area of pension benefits. In fact, all the measures adopted in the aftermath of the economic crisis reduced social assistance expenditure (including the 2010 social assistance reform, which was intended to increase the effectiveness of transfers and the targeting power of benefits, and the freezing of social benefits). These led to a significant increase in social vulnerability and an explosion in poverty risks, especially for children.

The most important policy responses to the economic crisis included: (a) the increase in social contribution rates for both employers and employees (see Annex Table 1); (b) salary cuts of 15-25% for public sector employees; (c) imposing social contributions on pensions higher than 740 Lei; (d) increasing VAT from 19% to 24%; and finally (e) the increased targeting of social benefits. All these measures were supposed to cut budgetary deficits or increase the effectiveness of expenditure. Yet some had the opposite result, as they were declared unconstitutional and therefore had to be reversed – resulting in higher costs for the following two years (2014-2015). And some others did not have the intended effect – as in the case of social contribution rates, where revenues failed to increase as the collection rate dropped.

Although overall social expenditure fell sharply in 2010-2012, only recovering 2010 levels in 2016, old-age pension expenditure broadly continued to increase, while revenues started to fall. Starting with 2013, benefit amounts started to increase again, and the minimum statutory salary was increased by 285% in three years. The increases in salaries and in pensions exceeded the increase in non-contributory social benefits, resulting in inadequate protection of those vulnerable groups whose position had already been worsened by the so-called social assistance reform and by the freezing of all benefits during 2009-2013. However, overall social expenditure started to grow again.

In 2015 the fiscal reform brought further changes, which mostly diminished the revenues for social protection. Firstly, it cut VAT from 24% to 20% in 2015 and to 19% in 2016. Secondly, it cut social contribution rates by 5 p.p. for employers, while leaving employees with the previously increased social contribution quotas. Thirdly, it practically doubled the tax-deductible income level in respect of pensions and reversed the levying of social contributions on pensions. In addition, in 2018 the government shifted the entire responsibility for social contributions on to employees, in order to increase the collection rate of social contributions. On top of all these measures, income tax was cut from a 16% flat-rate tax to a 10% flat-rate tax.

On the other hand, social expenditure started to increase again, especially social insurance expenditure, while the minimum salary increased again several times, to compensate for the transfer of all social contributions on to employees/income earners. Some papers consider that the increase in minimum salary between 2013-2016 was welcome, as the initial level was extremely low, and its increase led to an overall increase in welfare, with a minimal increase in labour costs (see Heemskerk et al., 2018). But the continual increases in the minimum salary might prove an important liability in the medium term. The Romanian Fiscal Council warned, in 2015, over the budgetary projection for 2016, calling it 'a textbook example of what the Fiscal Responsibility Law (no 69/2010) is designed to prevent – concomitant legislation for tax reductions and increased expenditure, both with a permanent budgetary impact, capable of creating the conditions for a long-term and hard-to-correct deviation from budgetary balance' (Romanian Fiscal Council, 2015, p.73). The increase in pension benefits, as a result of

arbitrary increases in the pension point value, while social contribution rates were cut, was also the subject of severe objections (Romanian Fiscal Council, 2018).

One analysis of the distributional impact of taxes and social spending in Romania (Inchauste and Militaru, 2018) showed that, despite the fact that taxes and social transfers did have some positive impact on inequality (although far less than in other European countries), they had a negative impact on poverty, as social transfers did not offset the tax burden. Households in the second income decile were found to be net payers, and only those in the first (lowest) income decile gained from social transfers (ibid., p.27).

An important direction for future reform could be to increase the variety (especially in regard to housing benefits) and adequacy of universal/categorical transfers (as far as possible, in-kind transfers), in order to make these an effective means of addressing poverty, along with adequate means-tested benefits. Expenditure on non-contributory social benefits (both in-kind/services and cash transfers) needs to be expanded and placed on a stable financial footing. Decentralisation of responsibility for social assistance programmes is needed, accompanied by appropriately tailored and earmarked budgetary transfers. Strengthening non-contributory benefits is crucial in order to diminish inequality of opportunities between different types of employed people and different types of working households.

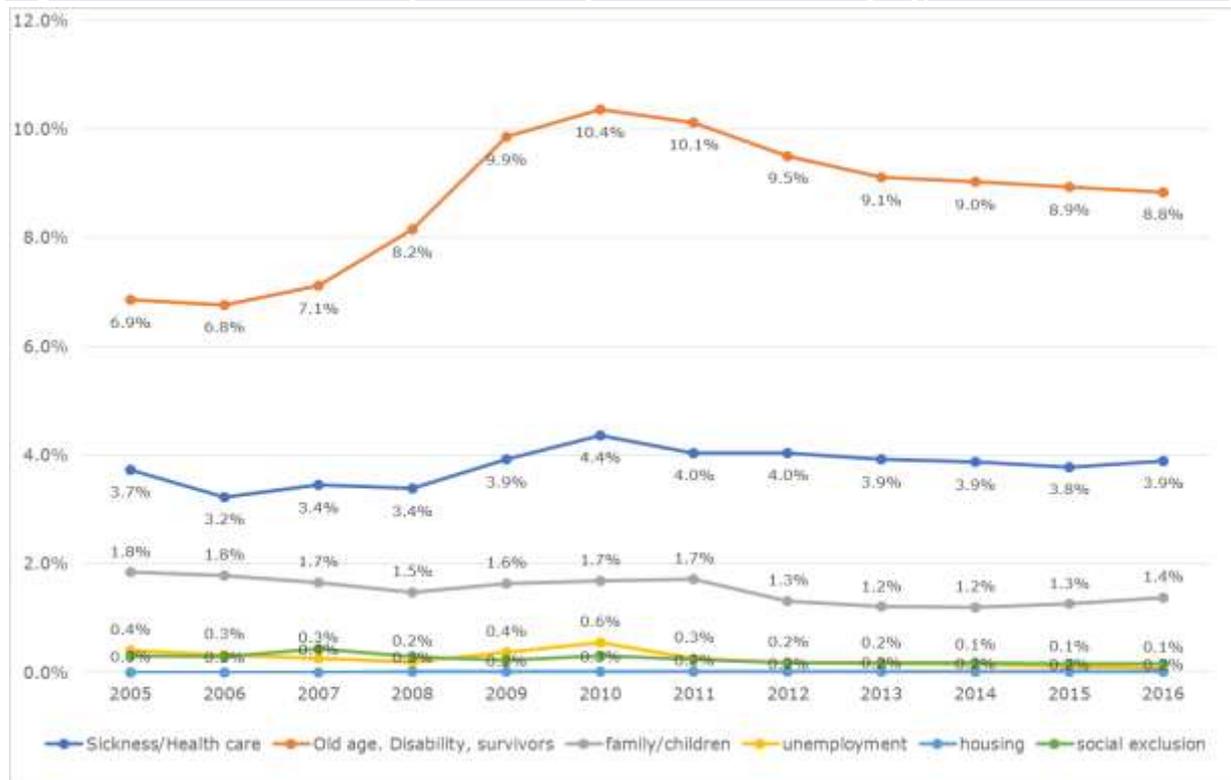
Another important area concerns greater responsibility in relation to increases in the pension point value and minimum salary, as both have a medium- and long-term impact on the financial sustainability of the social protection system. Fine-tuning incentives for self-employed people to enter the social insurance system is also essential in order to both strengthen the revenues of the pension and health insurance system and increase the coverage of a growing, currently uninsured, segment of self-employed people in agriculture and small businesses.

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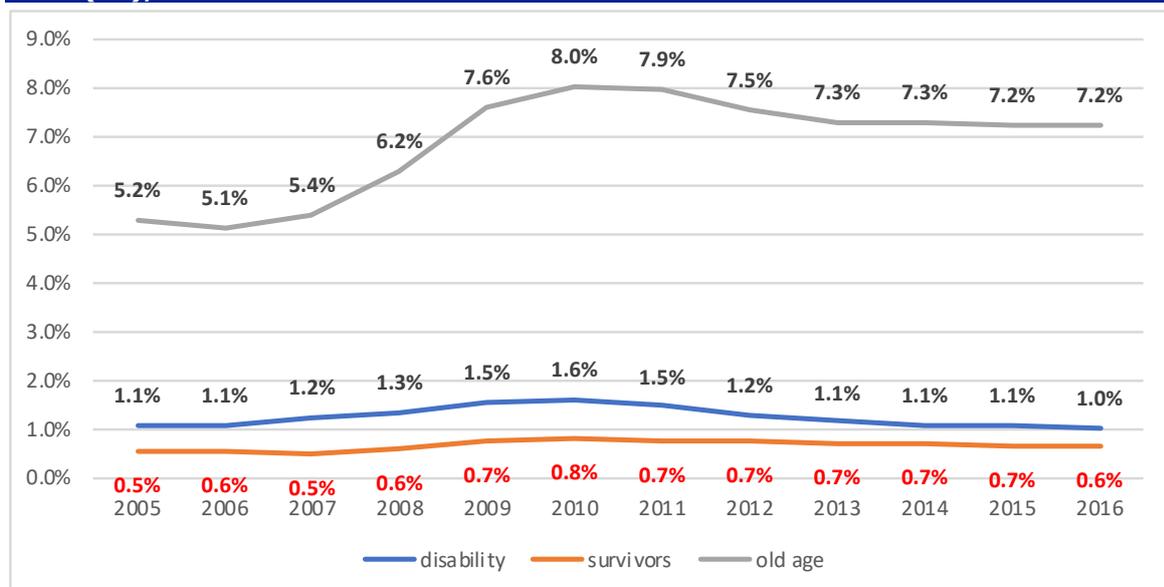
Annex

Figure 9 Share of social expenditure by function in GDP (%), 2005-2016



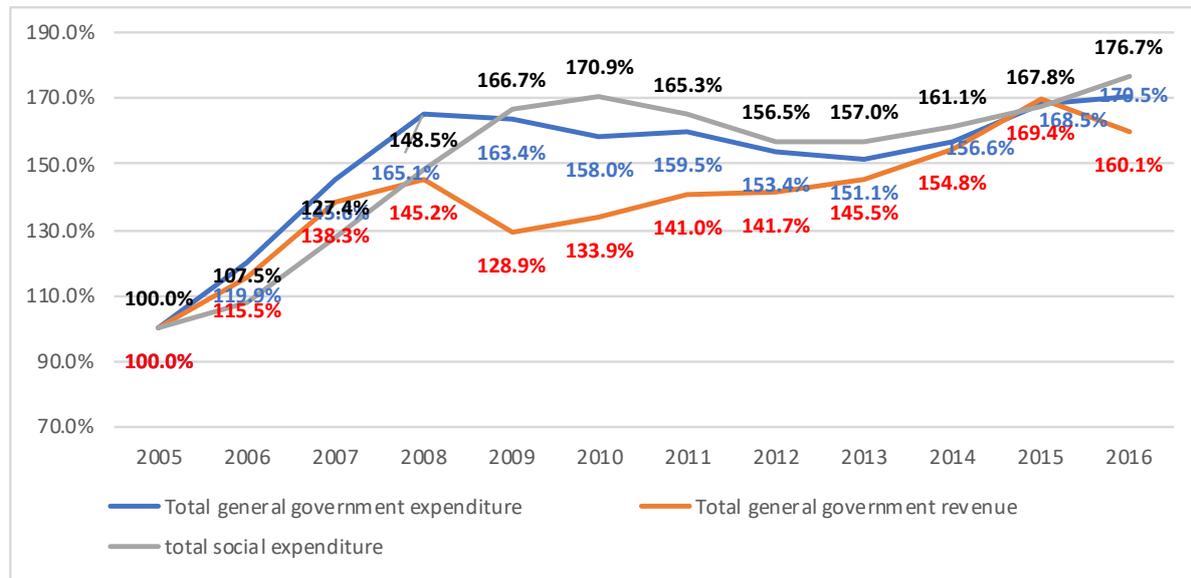
Source: Eurostat, spr\_exp\_sum, nama\_10\_gdp

Figure 10 Share of social insurance pension expenditure by type of benefit in GDP (%), 2005-2016



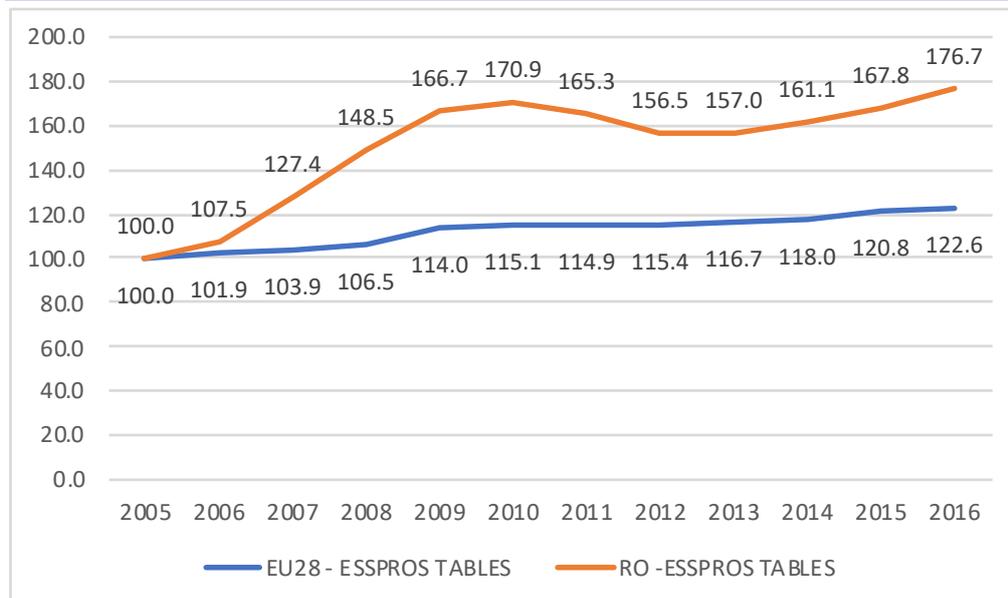
Source: Eurostat, spr\_exp\_sum, nama\_10\_gdp

**Figure 11 Dynamics of total revenues and expenditure of the general budget, and of the social expenditure in real terms (2005=100%), 2005-2016**



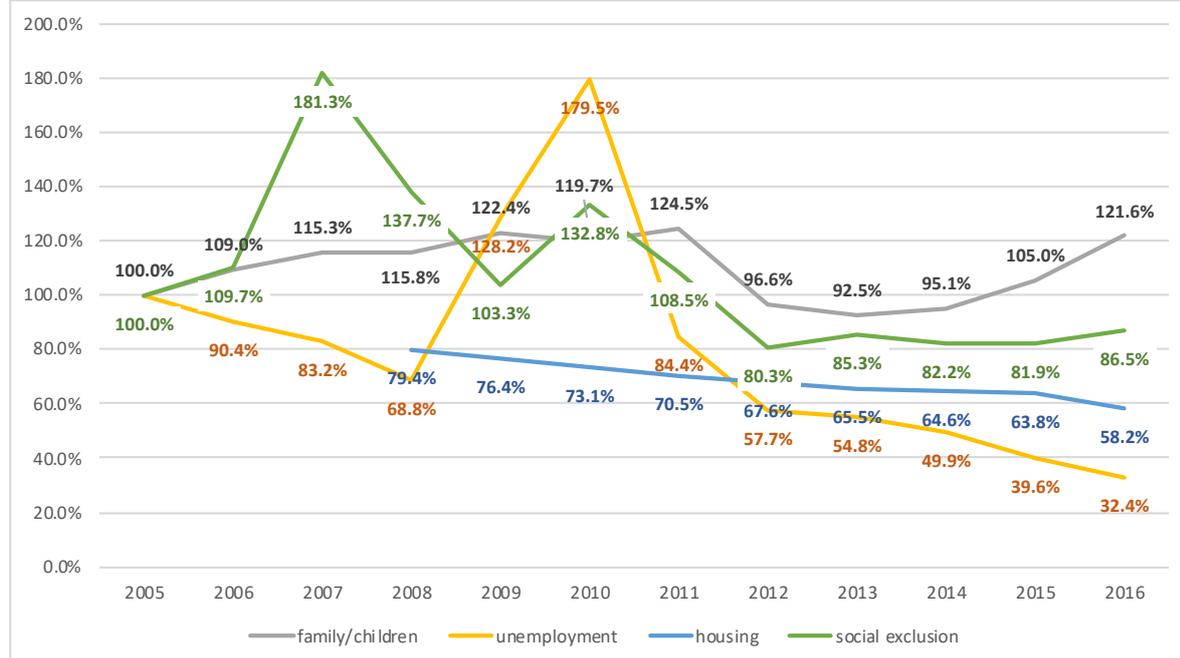
Source: Eurostat, gov\_10a\_main, spr\_exp\_sum, ESSPROS deflator

**Figure 12 Dynamics of social expenditure in real terms (2005=100%), 2005-2016**



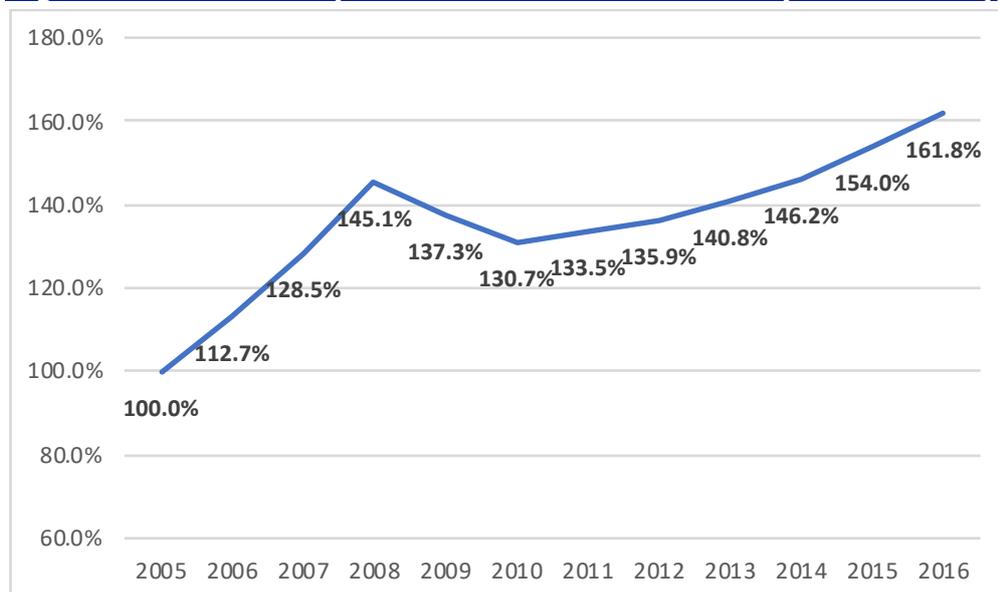
Source: Eurostat, spr\_exp\_sum, ESSPROS deflator

**Figure 13 Dynamics of social expenditure by function (housing, social exclusion, family/children, unemployment), in real terms (2005=100%), 2005-2016**



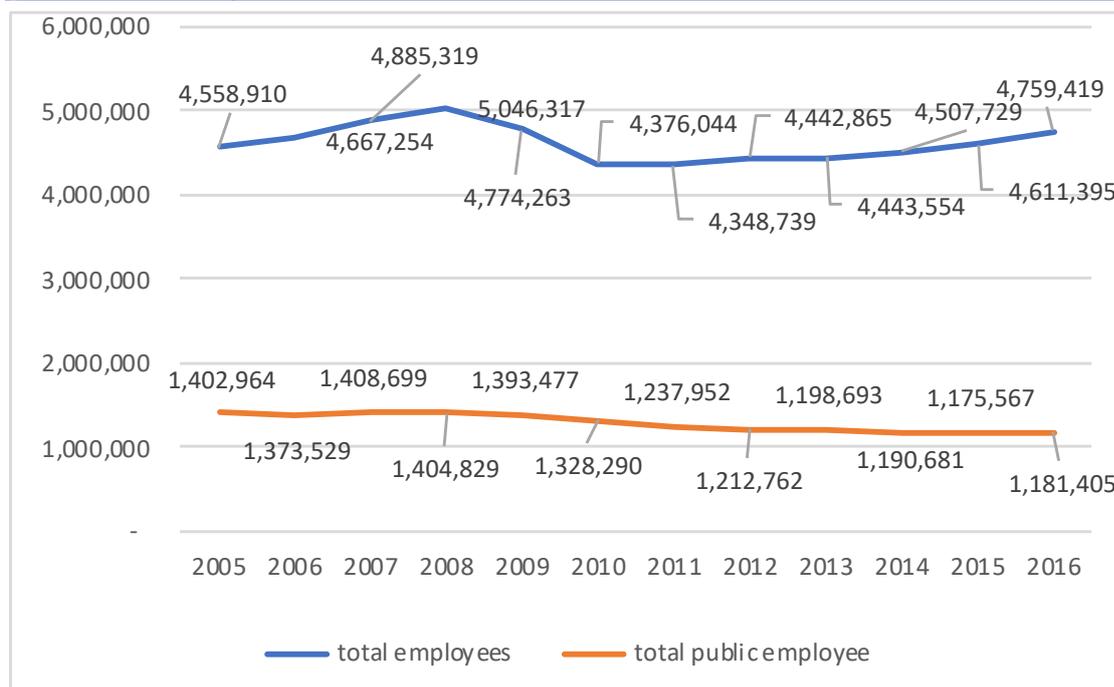
Source: Eurostat, spr\_exp\_sum, ESPROS deflator

**Figure 14 Romania: dynamics of GDP in real terms (2005=100%), 2005-2016**



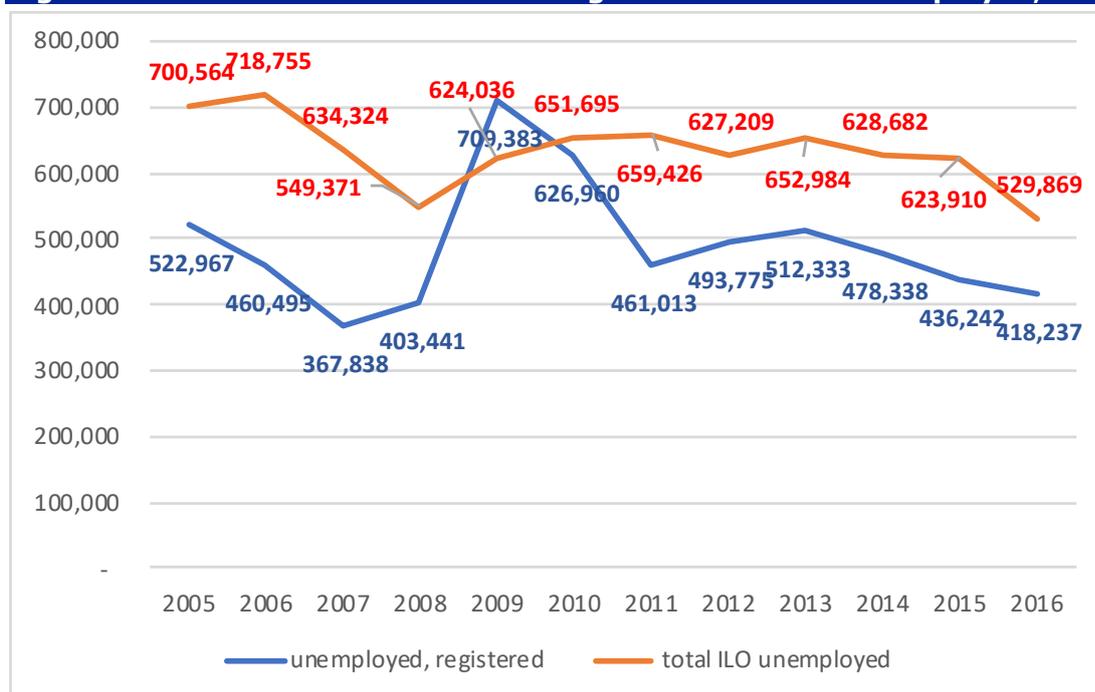
Source: Eurostat, nama\_10\_gdp, ESSPROS deflator

**Figure 15 Romania: total number of employees, respectively employees in public services, 2005-2016**



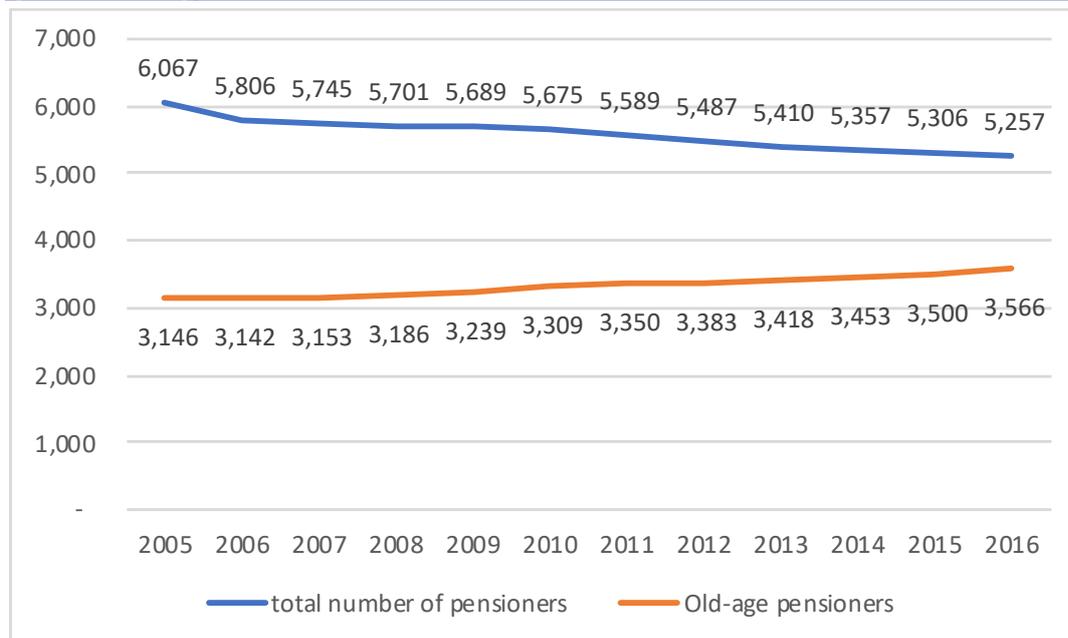
Source: National Institute for Statistics, Tempo-online, FOM104B

**Figure 16 Romania: total number of registered and ILO unemployed, 2005-2016**



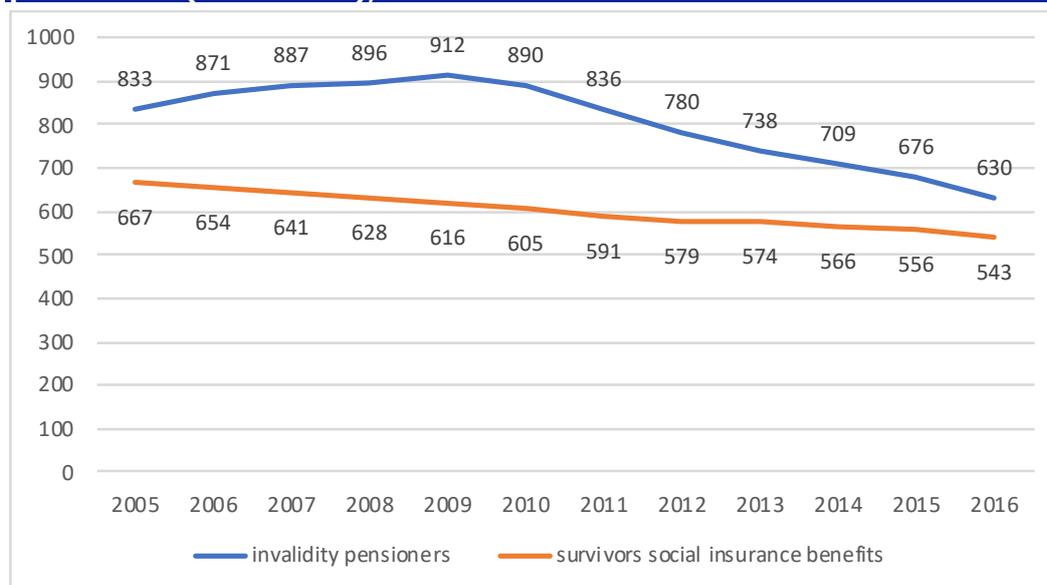
Source: NIS, Tempo-online, SOM101B, AMG130B

**Figure 17 Romania: number of (old age) social insurance pensioners (thousands), 2005-2016**



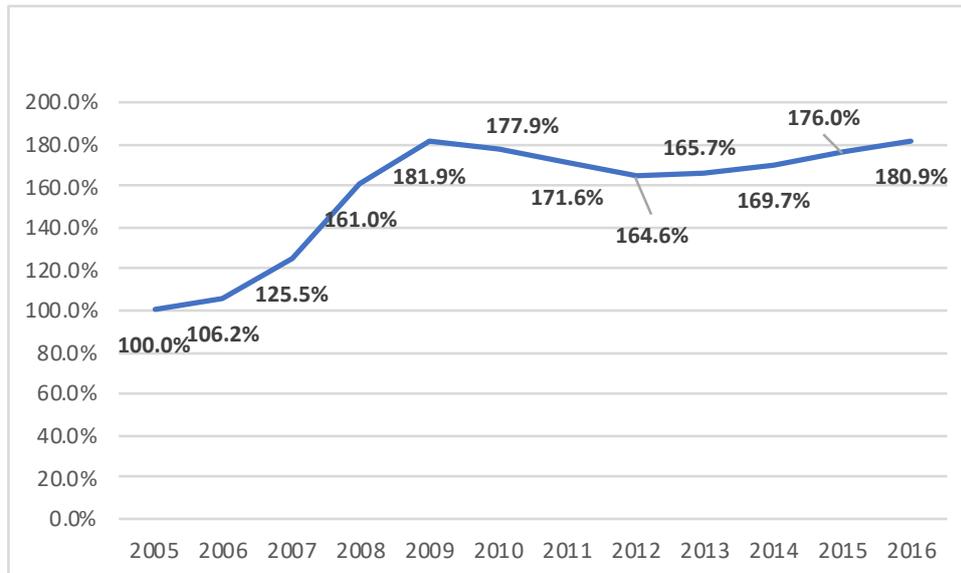
Source: NIS, TEMPO-online, PNS101A

**Figure 18 Romania: number of invalidity and survivor social insurance pensioners (thousands), 2005-2016**



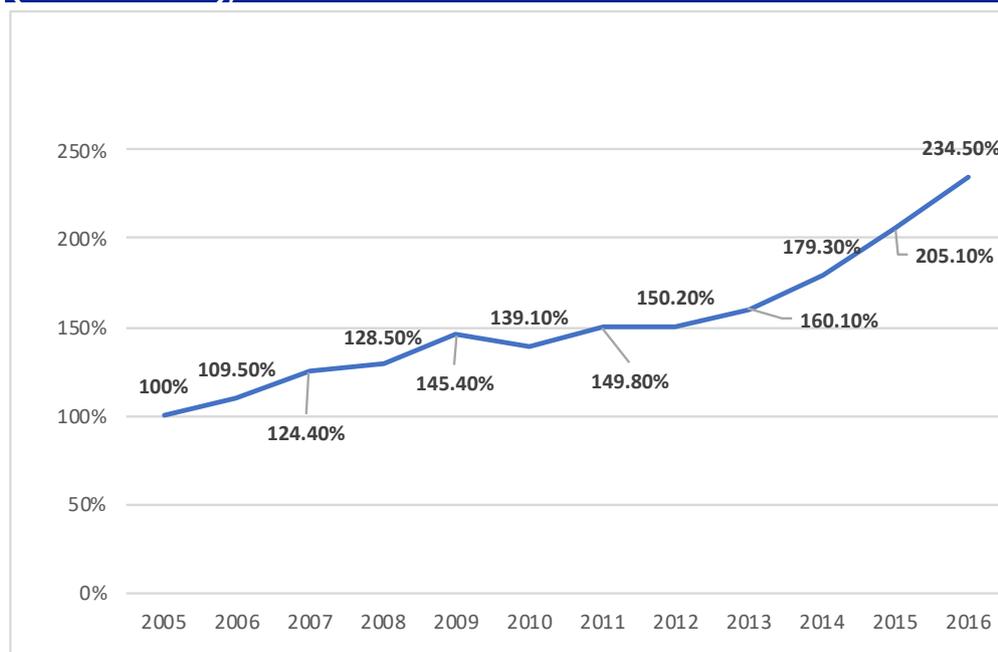
Source: NIS, TEMPO-online, PNS101A

**Figure 19 Romania: Evolution of the pension point in real terms (2005=100%)**



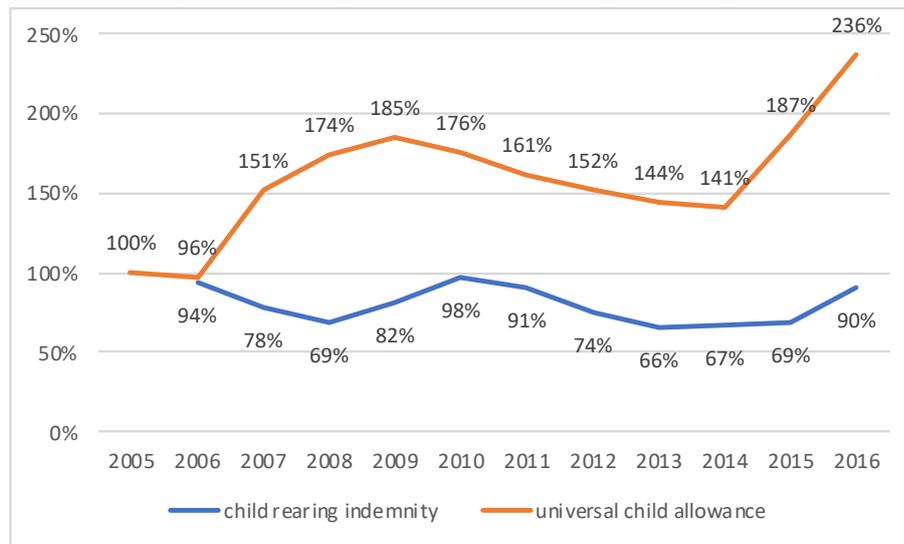
Source: Ministry of Labour and Social Justice (MLSJ), Statistical Bulletins (<http://www.mmuncii.ro/j33/index.php/ro/transparenta/statistici/buletin-statistic>), ESSPROS deflator

**Figure 20 Romania: dynamics of statutory gross minimum wage, in real terms (2005=100%), 2005-2016**



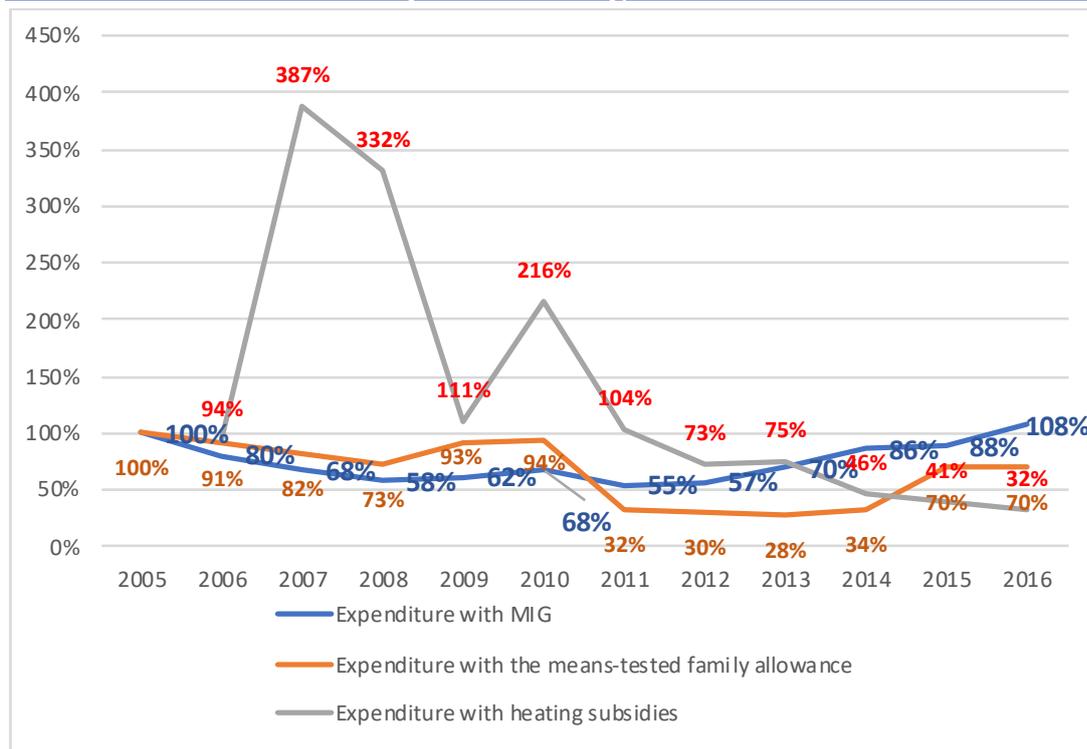
Source: National legislation, ESSPROS deflator

**Figure 21 Romania: Dynamics of expenditure in real terms of the two main child/family benefits (2005=100%, respectively 2006=100%), 2005-2016**



Source: NIS, Tempo-online, ASS118A, ESSPROS deflator

**Figure 22 Romania: dynamics of real terms expenditure with means-tested social assistance benefits (2005=100%), 2005-2016**



Source: NIS, TEMPO-online, ASS118A, ESSPROS deflator

**Table 1. Romania: levels of contributions to social funds (%) 2005-2016**

	Jan-2005	Jan-2006	Jan-2007	Dec-08	Jan-09	Feb-09	2010	2011	2012	2013	2014	2015	2016
<b>Social Insurance Fund (SIF)</b>													
<b>Employer/ salary payer</b>													
• Normal work conditions	22.0	19.7	19.5	18.0	18.5	20.8	20.8	20.8	20.8	20.8	20.8	15.8	15.8
• Extra-ordinary work conditions	25.0	24.7	24.5	23.0	23.5	25.8	25.8	25.8	25.8	25.8	25.8	20.8	20.8
• Special work conditions	32.0	29.7	29.5	28.0	28.5	30.8	30.8	30.8	30.8	30.8	30.8	25.0	25.0
<b>Employee</b>	9.5	9.5	9.5	9.5	9.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5
<b>Total social contributions to SIF</b>													
Normal work conditions	<b>31.5</b>	<b>29.2</b>	<b>29.0</b>	<b>27.5</b>	<b>28.0</b>	<b>31.3</b>	<b>31.3</b>	<b>31.3</b>	<b>31.3</b>	<b>31.3</b>	<b>31.3</b>	<b>26.3</b>	<b>26.3</b>
Extra-ordinary work conditions	<b>34.5</b>	<b>34.2</b>	<b>34.0</b>	<b>32.5</b>	<b>33.0</b>	<b>36.3</b>	<b>36.3</b>	<b>36.3</b>	<b>36.3</b>	<b>36.3</b>	<b>36.3</b>	<b>31.3</b>	<b>31.3</b>
Special work conditions	<b>41.5</b>	<b>39.2</b>	<b>39.0</b>	<b>37.5</b>	<b>38.0</b>	<b>41.3</b>	<b>41.3</b>	<b>41.3</b>	<b>41.3</b>	<b>41.3</b>	<b>41.3</b>	<b>35.5</b>	<b>35.5</b>
<b>Unemployment insurance fund (UIF)</b>													
Employer/ salary payer	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Employee	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
<b>total UIF</b>	<b>1.0</b>												
<b>Leaves and sickness fund for social insured</b>													
National Health Insurance Fund/ employer	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
<b>National Health insurance fund</b>													
Employers		5.5	5.5	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Employees		6.5	6.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
<b>total NHIF</b>		<b>12.0</b>	<b>12.0</b>	<b>10.7</b>									

Source: National fiscal legislation

**Table 2. Romania: share of social contributions in total receipts by function (%), 2005-2015**

	2005	2008	2010	2015
Old age	94.1	89.9	72.6	68.3
Disability	60.9	61.5	51.0	44.3
Survivors	94.1	89.9	72.6	68.3
Sickness/healthcare	7.9	4.0	0.5	0.6
Unemployment	87.3	98.7	98.7	99.7
Family/child benefits	25.6	14.3	17.5	14.8
Housing	0.0	0.0	0.0	0.0
Social exclusion	0.0	0.0	0.0	0.0

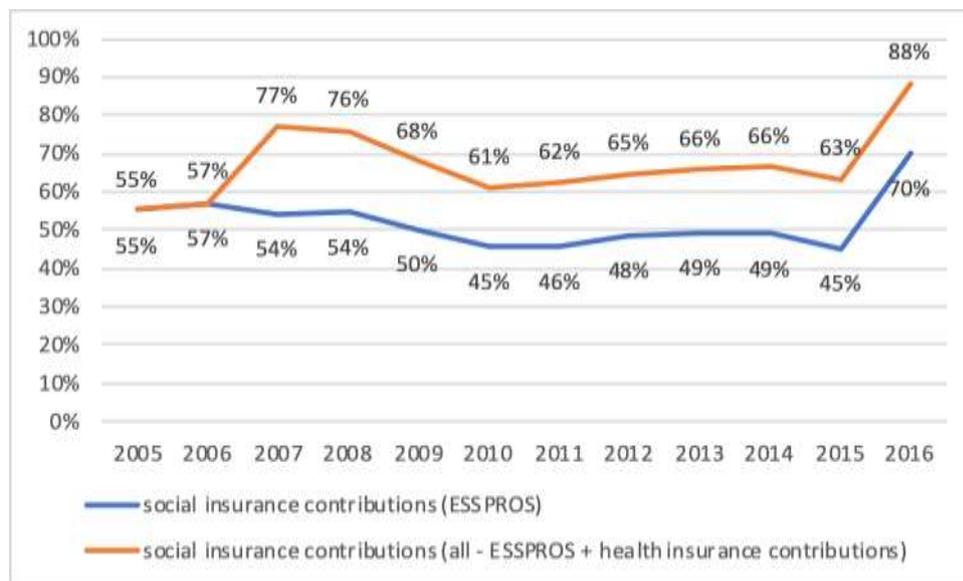
Source: Spasova and Ward (2019), Annex ESSPROS tables.

**Table 3. Romania: Taxes and social contributions levied on pension benefits, 2005-2019**

Period	Taxes	Social contributions
<b>2005-2007 inclusive</b>	Net pension benefit = Gross pension - (Gross pension - 900 Lei) *0.16	No social contribution: health insurance by default
		Deductible pension level: 900 Lei
		Tax: 16%
<b>2008-2010 inclusive</b>	Net pension benefit = Gross pension - (Gross pension - 1,000 Lei) *0.16	No social contributions: health insurance by default
		Deductible pension level: 1,000 Lei
		Tax: 16%
<b>2011-2015 inclusive</b>	Net pension benefit = Gross pension - (Gross pension - 1,000 Lei - Gross pension (> than 740 Lei) *0.055) *0.16	Social contributions to NHSIF (health) of 5.5% for pensions over 740 Lei, but the net pension cannot drop below 740 Lei
		Deductible pension level: 1,000 Lei
		Tax: 16%
<b>2016-31 January 2017</b>	Net pension benefit = Gross pension - (Gross pension - 1,050 Lei - Gross pension (> than the value of a pension point) *0.055) *0.16	Social contributions to NHSIF (health) of 5.5% for pensions over the value of a pension point, but the net a pension point
		Tax deductible pension level: 1,050 Lei
		Tax: 16%
<b>February 2017- December 2017</b>	Net pension benefit = Gross pension - (Gross pension - 2,000 Lei) *0.16	No social contributions: health insurance by default
		Deductible pension level: 2,000 Lei
		Tax: 16%
<b>January 2018-</b>	Net pension benefit = Gross pension - (Gross pension - 2,000 Lei) *0.10	No social contributions: health insurance by default
		Deductible pension level: 2,000 Lei
		Tax: 10%

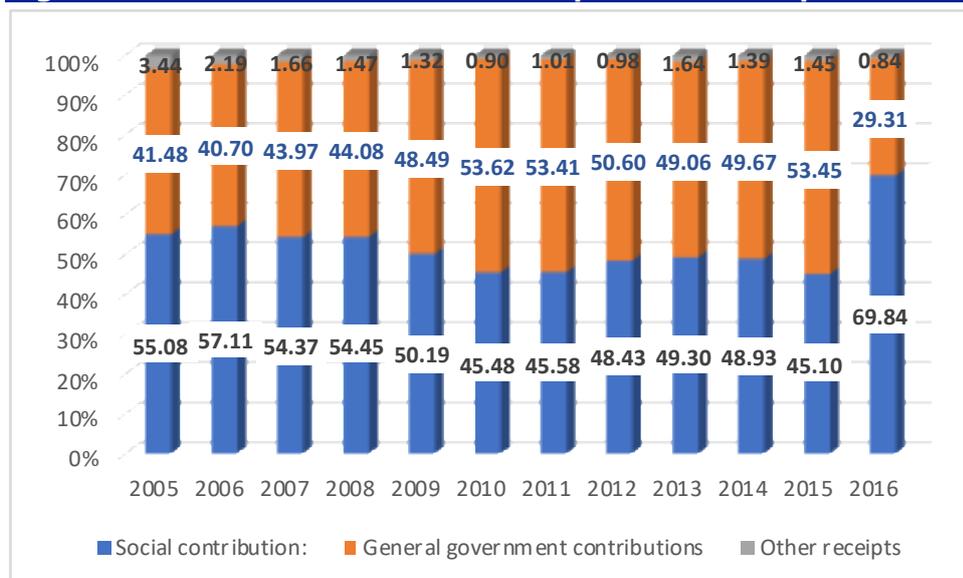
Source: National legislation

**Figure 23 Romania: share of social contributions in total receipts (%), 2005-2016**



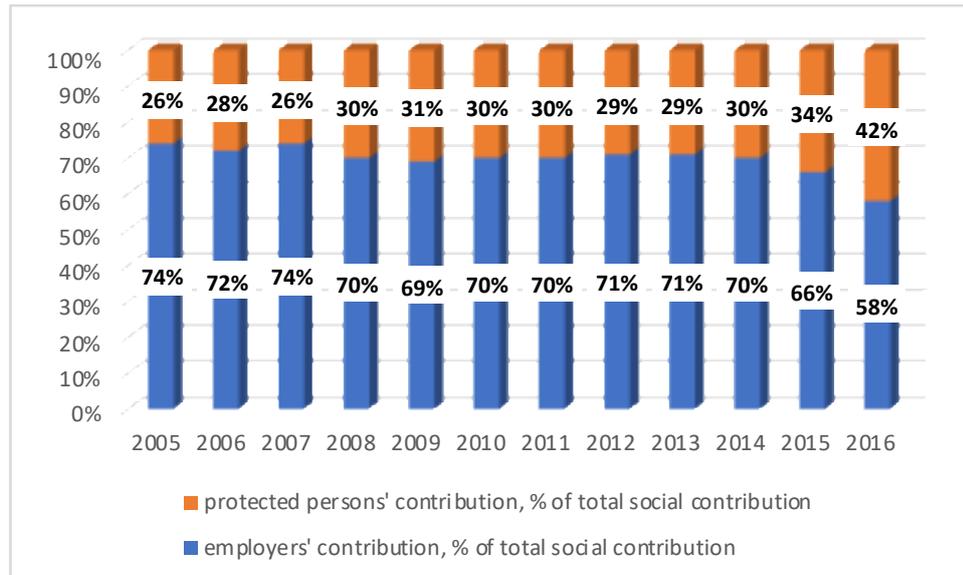
Source: Eurostat, spr\_rec\_nac, National Health Insurance House, budgetary data (available at <http://www.cnas.ro/page/rapoarte-de-activitate.html>)

**Figure 24 Romania: structure of receipts of social expenditure by source**



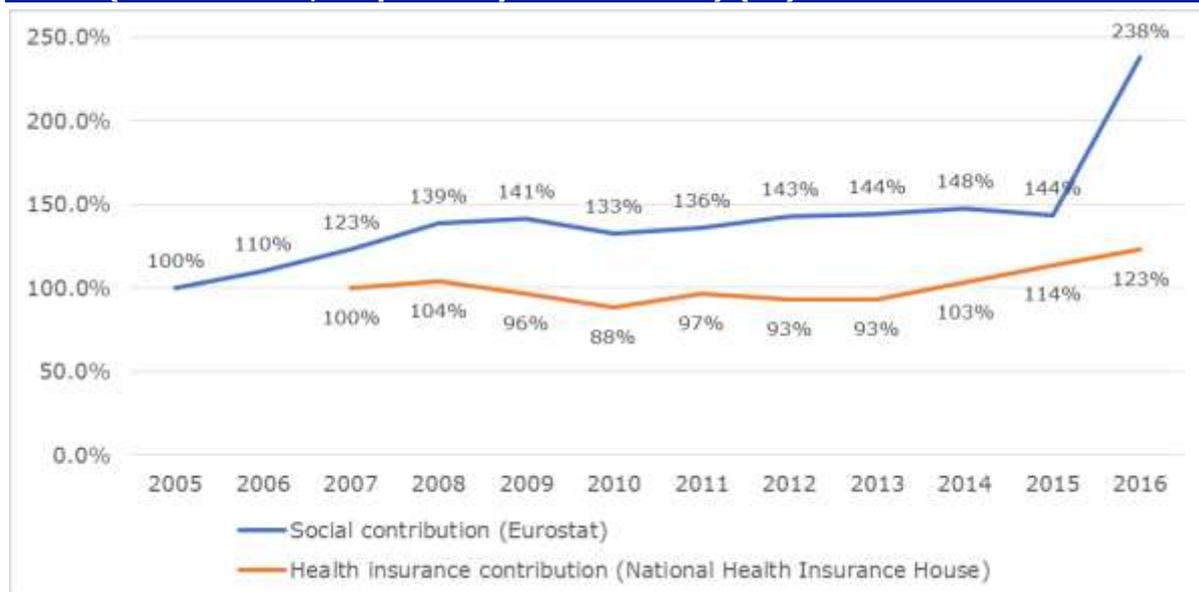
Source: ESSPROS database

**Figure 25 Romania: Structure of social contributions by source, 2005-2016**



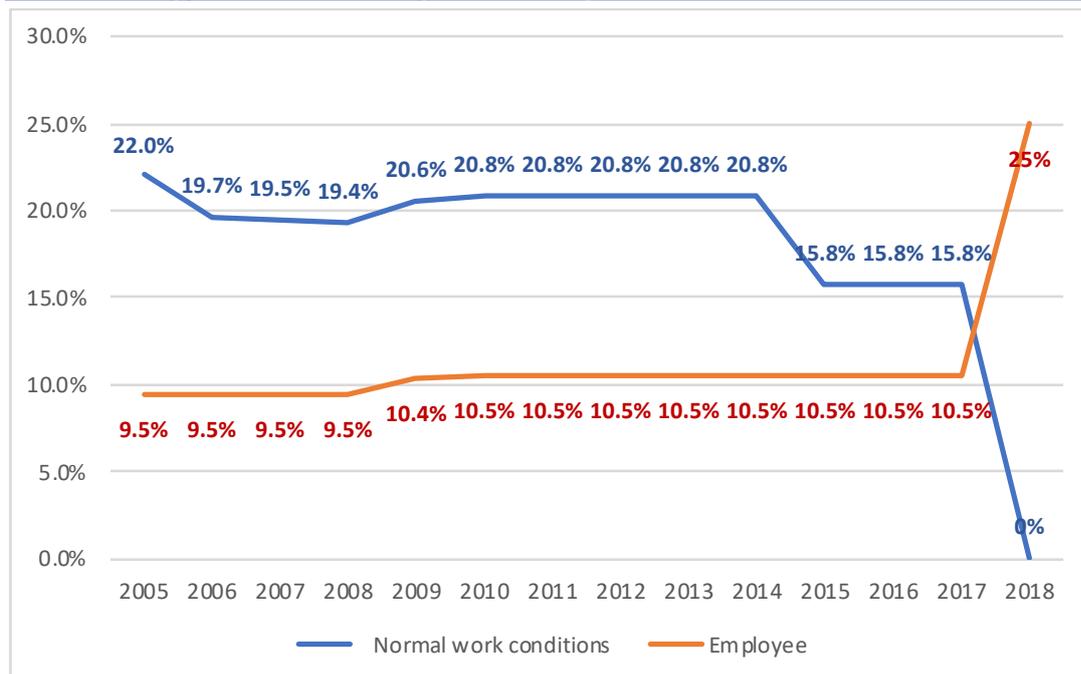
Source: ESSPROS database

**Figure 26 Romania: dynamics of revenues from social contributions, in real terms (2005=100%, respectively 2007=100%) (%)**



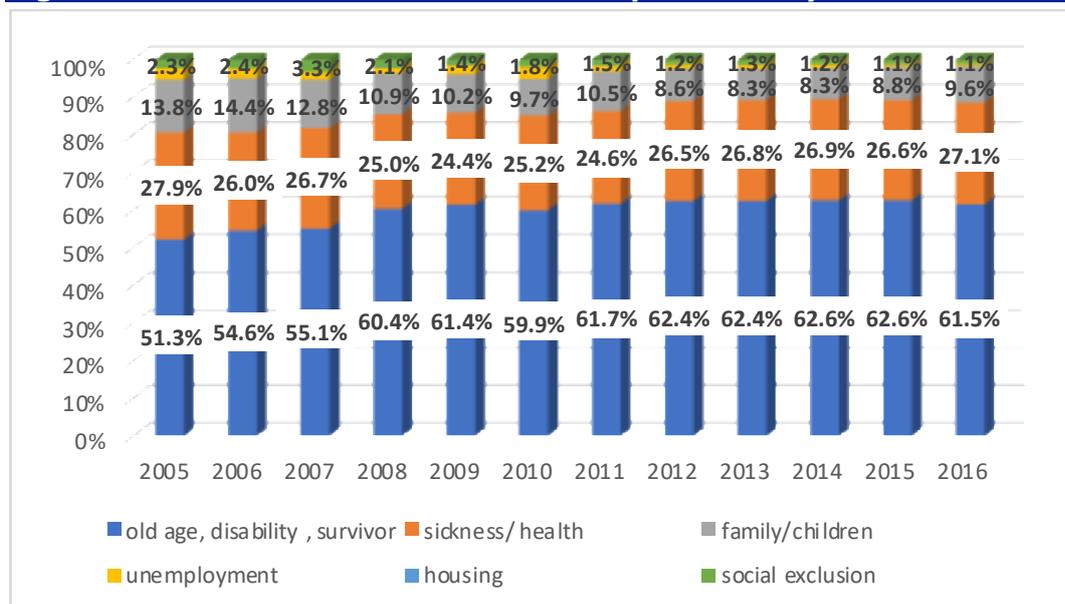
Source: Eurostat, spr\_rec\_nac, National Health Insurance House, annual activity reports (available at <http://www.cnas.ro/page/rapoarte-de-activitate.html>), ESSPROS deflator

**Figure 27 Romania: social contributions to the Social Insurance Fund by source of financing, as a % of the gross salary**



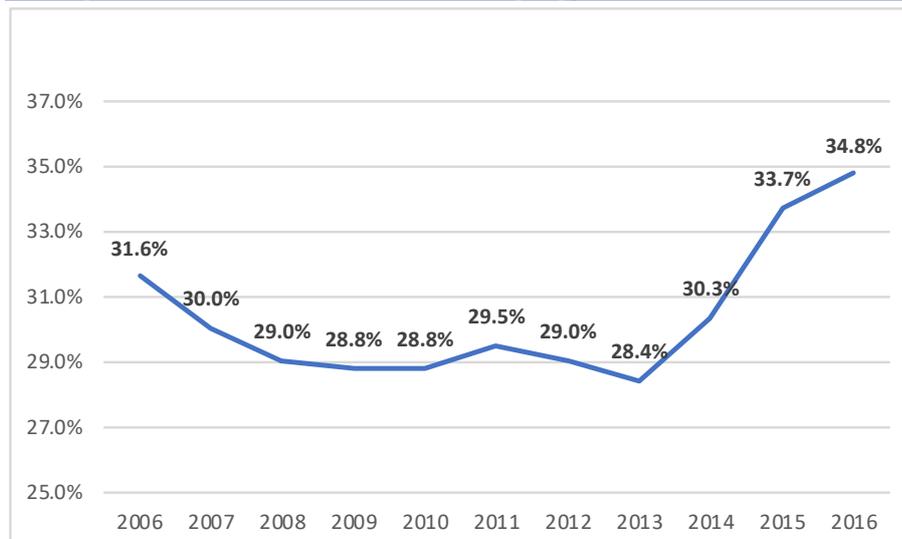
Source: National legislation

**Figure 28 Romania: structure of social expenditure by function**



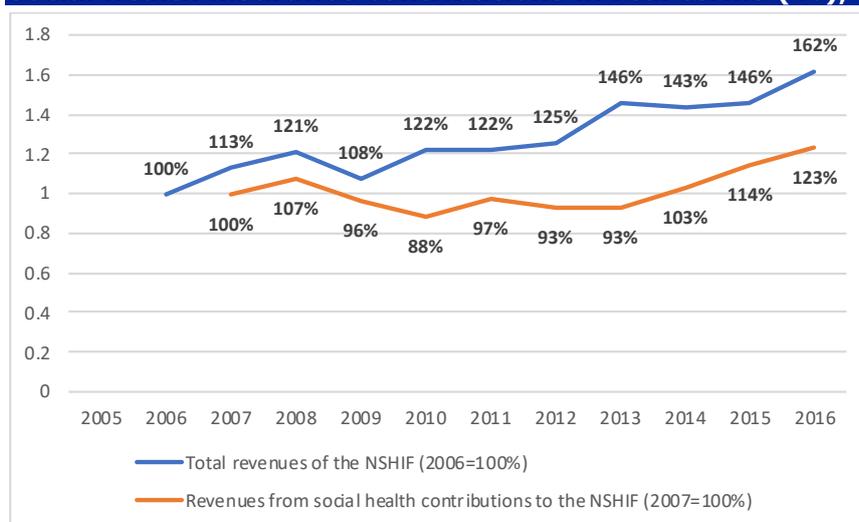
Source: Eurostat, spr\_exp\_sum

**Figure 29 Romania: share of the health insurance contributions of the total receipt from social contributions (%), 2006-2016**



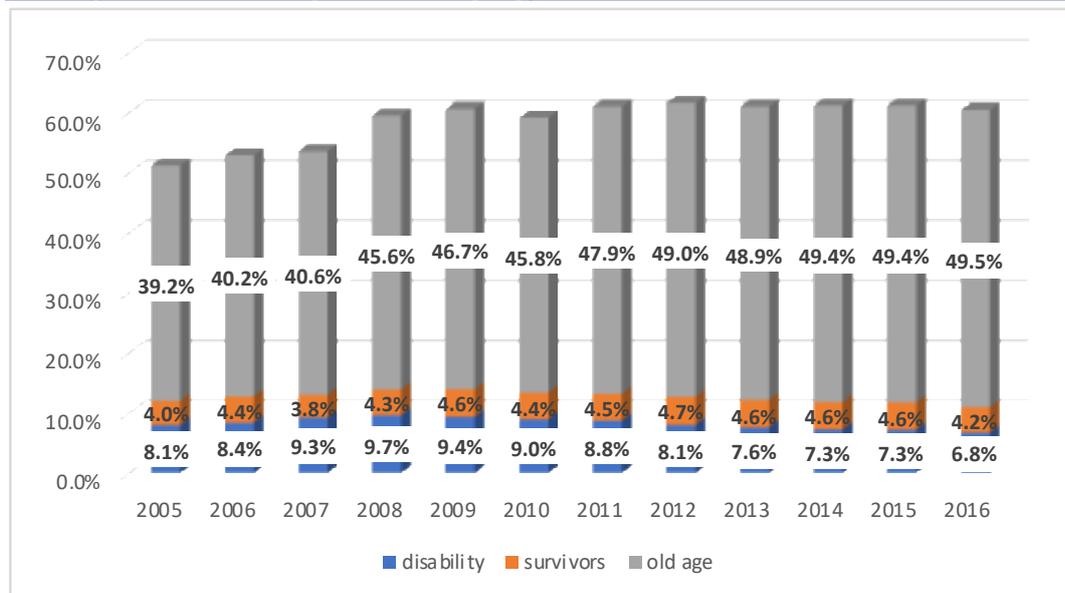
Source: Ministry of Finance, Execution of the National Consolidated Budget (available at <http://www.mfinante.gov.ro/pagina.html?pagina=buletin&categoriebunuri=executie-bugetara,rapoarte-trimestriale,rapoarte-semestriale,rapoarte-anuale,arieratele-bugetului-general-consolidat>)

**Figure 30 Romania: Dynamics of the social health insurance budget and the social health insurance contributions in real terms (%), 2006-2016**



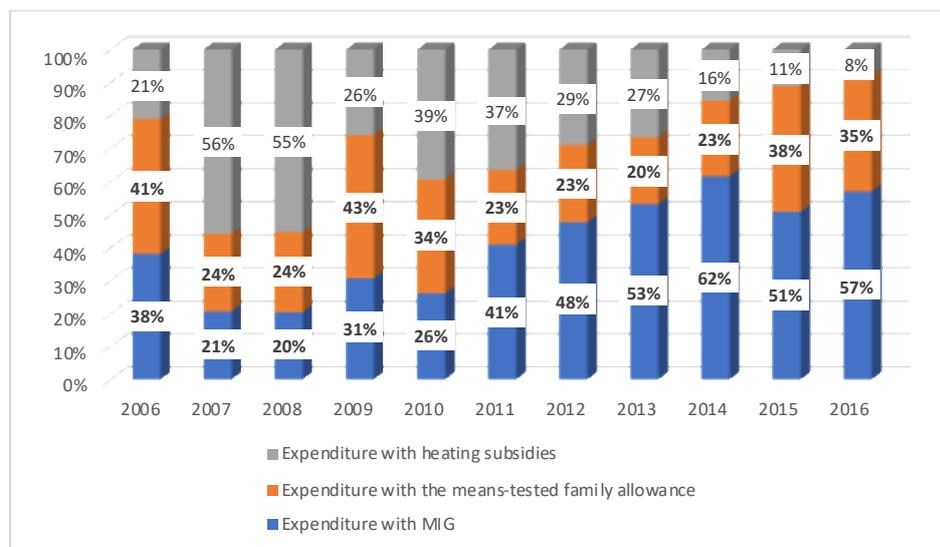
Source: National Health Insurance House, Activity Reports (cnas.ro), ESSPROS deflator

**Figure 31 Romania: Old age, disability and survivor benefits, as a share of the total gross social expenditure (%), 2005-2016**



Source: Eurostat, spr\_exp\_sum

**Figure 32 Romania: structure of the means-tested social assistance expenditure, by type of benefit (%), 2006-2016**

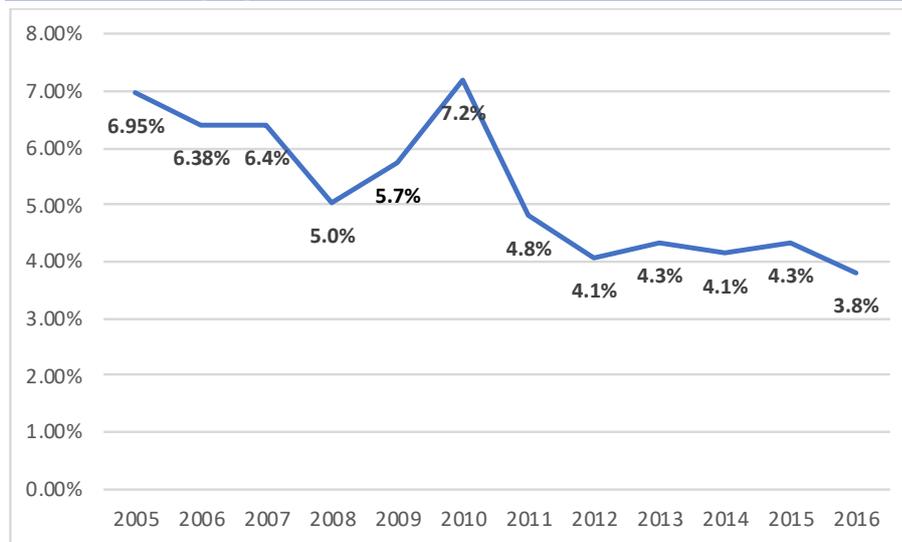


Source: NIS, Tempo-online, ASS118A

**Table 4. Expenditure on means-tested benefits as share of total related expenditure (%): Romania 2005-2016**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
health/sickness	0.06	0.08	0.06	0.05	0.04	0.04	0.04	0.04	0.21	0.28	0.27	0.25
disability	0.38	0.37	0.34	0.18	0.56	0.95	0.98	1.17	1.41	2.13	3.63	4.41
survivors	0.01	0.00	0.01	6.60	10.24	11.55	11.25	10.37	9.89	9.20	9.93	9.52
old age	0.07	0.07	0.06	0.12	0.67	1.10	1.10	1.09	1.15	1.00	1.26	1.04
unemployment	100.00	100.00	99.99	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
family/children	10.50	8.87	7.38	8.61	9.47	9.61	4.72	5.61	7.86	8.44	10.39	7.10
social exclusion	100.00	100.00	99.99	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
housing	0.00	0.00	0.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
all schemes	6.95	6.38	6.38	5.04	5.75	7.20	4.83	4.06	4.33	4.14	4.34	3.78

Source: Eurostat database, *spr\_exp\_fsi/fdi/fol/fsu/ffa/fun/fex/fho/sum*.

**Figure 33 Romania Share of means tested benefits in total social expenditure, all schemes (%)**

Source: Eurostat, spr\_exp\_fto

**Table 5. Structure of social contributions, as a share of total receipts – by function: Romania 2005-2015 (%)**

	2005	2008	2010	2015
Old age	36.9	41.0	33.3	33.7
Disability	4.9	5.9	4.6	3.2
Survivors	3.8	3.9	3.2	3.1
Sickness/healthcare (esspros data only)	2.2	1.0	0.1	0.2
Sickness/healthcare (esspros and nhih data_)	2.2	20.4	16.6	17.9
Unemployment	2.6	1.4	3.2	0.7
Family/child benefits	3.5	1.6	1.7	1.3
Housing	0	0	0	0
Social exclusion	0	0	0	0
<b>Total % of social contributions in total social receipts (without health insurance contributions – ESSPROS data only)</b>	<b>53.9</b>	<b>54.8</b>	<b>46.1</b>	<b>42.3</b>
<b>Total % of social contributions in total social receipts (including health insurance contributions, ESSPROS + NHIH data)</b>	<b>53.9</b>	<b>74.2</b>	<b>62.6</b>	<b>60.0</b>

Source: Spasova and Ward (2019), Annex ESSPROS tables. NHIH; Budgetary executions (annual reports), available at [www.cnas.ro](http://www.cnas.ro).

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