

“Special pensions” in Romania: the debate continues

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Description

The debate on the so-called “special pensions” has reached a new milestone, as the Chamber of Deputies has recently approved a draft law that abolishes all schemes, with the exception of those for military and police personnel. The law, which has strong public support, has sparked fierce opposition among the affected groups and has been criticised for preserving part of the schemes. Moreover, the effectiveness of the entire legislative process has been questioned, as it is expected that the Constitutional Court will reject the proposal.

The special pensions are probably one of the most controversial issues on Romania’s current legislative agenda. They have been the subject of an intensive fight over rights among occupational categories working in the public sector, and also of tumultuous reforms. In only 10 years (2010-2020), the special pension schemes have been scrapped and integrated into the main pay-as-you-go (PAYG) scheme (with the exception of pensions for magistrates), were then restored in 2015 and extended to new occupational categories thereafter. Currently, eight special pension schemes are in place in Romania. They are for: 1) military personnel, police and national security system personnel, 2) magistrates, 3) specialised auxiliary personnel from the courts and prosecutor's offices, 4) workers in civil aeronautics, 5) parliamentary civil servants, 6) Court of Accounts personnel, 7) diplomats, and 8) deputies and senators. In addition, a new scheme addressing officials at local and county level (i.e. mayors, deputy mayors, presidents and deputy presidents of county councils) is expected to enter into force in 2021 (GO57/2019, GO 1/2020). The new law aims to scrap all special schemes and subsequently to integrate them into the main PAYG scheme, with the exception of pensions for military and police personnel. The schemes proposed to be abolished currently cover approx. 10,000 beneficiaries, out of approx. 150,000 beneficiaries of special pensions in total. The scheme for local and county level officials will cover approx. 16,000 beneficiaries, according to preliminary estimations.

The special pensions are regulated by provisions different from those of the main public scheme, granting shorter contribution periods, lower pensionable ages, and pension benefits defined as a percentage of the last gross earnings. Depending on the scheme, the pension benefit is set at a level between 65% and 85% of the monthly gross income earned during the last month or of the average of the best six months within the last 5 years before retirement (a different formula applies to members of the Parliament and to local and county level officials). The average benefit varies from a minimum of 3,915 Lei (€821) for military pensions to 18,716 Lei (€3,918) for magistrates (in December 2019); these figures are several times higher than the average benefit in the main PAYG scheme (1,326 Lei, i.e. €278), where the pension formula is based on points accumulated throughout the entire working life. The standard period of contribution varies between 14 years and 25-30 years, as compared to a standard period of 35 years in the main PAYG scheme. The pensionable age is 5 years lower than the legal pensionable age in most cases, and the pension benefit can be claimed earlier (a maximum of 13 years earlier, for military and police personnel) or regardless of age (for magistrates), provided that certain work or service length conditions are met.

For most of the special schemes, the employees pay the standard social contribution rate to the pension budget (25% of gross wages), benefiting, thus, from insurance in the public scheme. Therefore, pensions are based on a mixed formula, in which the final benefit consists of a public pension component (resulting from contributions to the

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pension budget) and a non-contributory component, paid out of the state budget, as a means to raise the benefit up to the level guaranteed by law. The non-contributory component prevails in most cases, varying between 50% and 90% of the final average benefit. The military and police personnel, along with members of the Parliament, are not insured in the main PAYG scheme. The military and police personnel are instead required to pay a lower individual contribution to the state budget. In their case, the pension benefits are paid entirely from the state budget.



Outlook and commentary

Covering less than 3% of pensioners, the cost of special pensions reached 11% of the pension budget in 2018 and have increased in recent years, as a result of significant increases in the level of benefits and in the number of beneficiaries. In most cases, the pension benefits from the special schemes have increased at a higher pace than benefits in the PAYG scheme. They have been adjusted in line with the growth in gross wages paid in industry till 2017 (when indexation was limited to inflation). The increase in gross wages resulting from the transfer of the entire social contribution to employees in 2018 triggered a further surge in benefits, as pension benefits are calculated as a percentage of gross wages. Given that taxation of pension incomes is significantly lower than taxation of wages, the pension benefit can now exceed the net wage before retirement. This was a strong incentive for early retirement, and it resulted in an artificial increase in the number of beneficiaries, especially combined with retirement rules that allowed short contribution periods and lower pensionable ages.

Special pension schemes are now strongly opposed by the public, while the vast majority of political parties rushed to bring the topic onto the political agenda and have supported this initiative in the Chamber of Deputies. However, the law has sparked severe discontent, triggered by the decision to make an exception in the case of military and police pensions. The attempt to make the pension system fairer has been controversial, as the existence of exceptions leaves the door open for future reversals. In addition, the law has a low impact on the pension budget, given that military and police pensioners represent the vast majority of the special pension beneficiaries (92%) and receive 87% of the total budget.

As expected, the initiative was strongly opposed by the affected groups. Representatives of magistrates, along with the Ombudsman, have contested it at the Constitutional Court, claiming it was adopted without due regard for the legislative process (the law was previously rejected by the Senate), and opposing it for proposing the elimination of magistrates' pensions. The Court is expected to issue a decision in the upcoming weeks. In this context, it has been said that the law has been doomed to failure from the beginning, as the Court rejected the previous attempts to abolish magistrates' pension scheme.

Given the low number of beneficiaries affected by the proposal, the need to find solutions for the increasing pension budget deficit is only marginally addressed. In addition, the absorption of special pensions into the main PAYG scheme will incur transition costs in the system, as the payment of current benefits will be entirely transferred to the pension budget. Moreover, as was the case with previous reforms, the number of beneficiaries is expected to increase. The initiative nurtures

a high sense of uncertainty among employees, encouraging those eligible for retirement to claim a pension benefit regardless of their capacity to work, in order to secure themselves a benefit calculated under more generous retirement conditions. Once again, the attempt to reform the special pension schemes has highlighted the need for a predictable policy approach, meeting the expectations that certain job categories will be rewarded with special pension rules, while maintaining the contributory nature of the benefits and minimising the disincentives to work that such protection rules provide.

Further reading

The Legislative proposal on the abrogation of some provisions regarding the service pensions and the old age allowances, as well as on the regulation of measures in the field of occupational pensions:

http://www.cdep.ro/pls/proiecte/upl_pck2015.proiect?cam=2&idp=17652

Val de pensionari in justitie (Retirement wave in the justice system), Cotidianul, 4 February 2020:

<https://www.cotidianul.ro/val-de-pensionari-in-justitie/>

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