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## Romanian pensions system at a glance: some equity comments

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### ABSTRACT

The main objective of this study is to analyse the equity issues of the Romanian pension system. The analysis is carried out at two levels: at the nationwide level, aimed at identifying the welfare implications of recent reforms adopted by the Romanian government on the unitary system of pensions, and at the regional level, where we try to identify differences and similarities across counties with respect to nominal and real average benefits received by pensioners. The conclusions of the analysis show that the new pension law ended up with an increase of the average benefit for high pensions, while low benefits remained practically the same as they were before the reform. At regional levels, in most of the counties the average real pension (indexed by the cost of living) is above the nominal one.

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## 1. Introduction: sustainability versus adequacy of pension systems in the economic literature

Ample debates have taken place during the last decade with respect to the sustainability of pension systems, in particular in developed countries, where the ageing population represents a real challenge. The phenomenon is also present in an increasing number of emerging economies (Holzmann, 2009; Holzmann, Mackellar, & Repansek, 2008; Lee, Mason, & Cotlear, 2010; Obadić & Smolić, 2008; Holzmann, Palacios, and Zvinieni, 2001; Holzmann, Mackellar, and Repansek, 2009; Holzmann, Robalino and Takayama, 2009) and is particularly stringent in Eastern European countries (Mitra, 2008). The EC (2010) Green Paper and the EC (2012) Ageing Report draw very sombre demographic perspectives for Europe, where the ageing is accompanied by low fertility rates (Cremer, Gahvari, & Pestieu, 2010; Whiterford & Whitehouse, 2006). At a global level, the World Bank identifies similar tendencies for the future (Holzmann et al., 2009).

Demographic challenges are equally present in Romania, where the population decline is expected to accelerate. The number of inhabitants will decrease from 21.4 million in

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2008 to about 15–14 million in 2050 (Ghetau, 2012), which is equivalent to a reduction of almost 25% as compared to the 1990 level. At the same time, the increase in life expectancy will accentuate the ageing phenomenon over the next three decades: according to Fernandez-Ansola and Klemm (2007), in 2050 one out of three Romanians will be more than 65-years-old, compared to 14% in 2000.

The demographic perspectives call for major reforms of the existing systems in a large number of countries; without such reforms, the pension schemes will face increasing and unsustainable spending paths over the next four decades (IMF, 2011; Hayashi, Olkkonen, Sikken, and Yermo, 2009; Hofer and Koman, 2006; Raab, 2011; Steenbeek et al., 2007; Whiterford and Whitehouse, 2006), which will induce either a drastic reduction of benefits or an increase of the tax burden in the economy (Ponds, Severinson, & Yermo, 2011). In addition, the 2008 economic crisis has exacerbated the sustainability risks of the pension systems (Ramaswamy, 2012). Although important reforms have been initiated in many countries (the increase of retirement age, the introduction of privately funded schemes, the increase of contribution rates, and even the reduction of pension benefits), with net positive results (Karam, Muir, Pereira, & Tulandhar, 2010) further reforms are necessary to ensure long-run fiscal sustainability (Zaidi & Rejniak, 2010).

In the case of Romania, the sustainability of the pension system is already endangered, and Munnell's (1977) argument related to that 'myopic view of the trade-off between present and future consumption' can be specified at this moment. The deficit accumulated by the public system represented about 50% of the collected contributions in 2010 (Zaman, 2012). Although each additional year of increase in the retirement age reduces the deficit by 0.7% of GDP (Fernandez-Ansola & Klemm, 2007), the public pillar will continue generating deficits that are expected to grow for the next three decades relative to GDP (Holzmann & Guven, 2009). Revenues are expected to decline from 8.39% of GDP in 2010 to 3.4% by 2050, while expenditures increase from 7.2% in 2008 to 9.7% of GDP in 2010 (Preda & Grigoras, 2011), reaching the level of about 9.6% of GDP in 2050. Thus the net result is a projected deficit of 6.2% of GDP in 2050 (Holzmann & Guven, 2009).

Ensuring that pensions sustainability should not affect their adequacy (French & Jones, 2012), many opinions are in favour of maintaining a sufficiently high pension/wage ratio in order to provide retired people with a decent income. The challenge of the pension systems to which most of the countries will be confronted in the future is therefore related to the trade-off between sustainability and adequacy (Zaidi, 2010). The solution to this dilemma resides in the identification of new 'opportunities and collaborative strategies', as underlined by Hayashi et al. (2009). The private pension systems seem to represent the main solution in this respect, and the experience of Central and Eastern Europe with fully capitalised pension funds provides encouraging results (Allot et al., 2010). Apart from compulsory contributions to private pillars, the voluntary savings instruments are considered as a key instrument for raising the revenues to the social insurance budget (Holzman et al., 2009).

In addition, another solution (Cigno, 2010) to avoid a pension crisis would be an intelligent system design, by developing two main elements of the public pension system: a classical Bismarckian scheme in which the individuals receive pensions according to their contributions during their active life, and a second scheme that qualifies individuals to a pension by having children and spending time at home to raise them. However, the reality shows that there is a conflict between the economic rationale behind such a scheme and the simplicity required by the political process (Beetsma & Oksanen, 2008).

In terms of adequacy, the Romanian pension system records better replacement ratio and relative income levels than the EU average: in 2010 the aggregate replacement ratio in Romania was 12 percentage points above the EU average, with men recording a significantly higher ratio than women (10 percentage points, as compared to only 4 percentage points in the EU). The median relative income of people aged 65 and over was 97 in Romania (88 in the EU), with the same considerable gender gap (15 percentage points versus 6 percentage points in the EU). This means that Romanian pensioners receive an average benefit that is almost equal to the average income of active people.

At the same time, when retiring, the pensioner's benefit as a share of his/her previous wage is substantially superior to the same ratio of an EU pensioner. Pensions for full-career workers in Romania can be therefore considered adequate, with levels of income replacement higher than regional and world averages (Holzmann & Guven, 2009).

However, the IMF (2011) expects that the replacement rate will decline by about 15 percentage points over the period 2010–2050. To some extent, the excellent adequacy ratio of Romanian benefits is the result of purposely increase of pensions by the successive governments, which use the category of retired people as a mass of manoeuvre for electoral purposes (Preda & Grigoras, 2011). In addition, some authors suggest an optimal replacement rate of about 50% of average earnings (Fehr & Uhde, 2013).

The sustainability issue of the public pension systems has been analysed by many specialists (see, for example Barr, 2006, p. 4; Barr & Diamond, 2006). One proposed solution is the reduction of benefits as a share in average salary, as happened in the UK. Other economists propose to increase the retirement age in one step, not gradually, in order to reduce the deficit (Sayan & Kiraci, 2001).

The intergenerational equity in the actual Romanian social protection framework is less intense (but still exists) than the period in which the system was based only on the pay-as-you-go (PAYG) pillar. The actual administration of the welfare system forces future pensioners to save money for the retirement period.

The intergenerational transfers between working people and retired people represent a difficulty to the public pension system because of the number of the active people who must financially sustain the passive people, and the ageing phenomenon can bring another dimension of pressure on the system (Buccioli and Beetsma, 2010). That is why the equity issue is important in the Romanian social protection context.

The article is structured as follows: the first part of the article presents the important characteristics of the Romanian pension system showing the main reform and their effects on the system. The second part debates the equity issues at the national level that explore main elements of the Romanian welfare system. The third section points out the regional and local characteristics of the Romanian social protection system, and the final section presents the conclusions of this research.

## **2. The main characteristics of the Romanian pension system**

Romania uses a mixed financing scheme of old-age pensions. The unfunded scheme, of PAYG type, that are present in most European countries (Schneider, 2009), consists of Pillar I (public, compulsory) based on intergenerational solidarity. Pillar II (private, compulsory) represents the funded component of the system. A voluntary scheme (Pillar III) was introduced in May 2007 as part of the pension reform.

The first pillar replaced the former PAYG scheme inherited from the communist period. It covers the employed people with individual labour contract, civil servants, diplomatic personnel, legislative and juridical authorities, craft cooperative members, and recipients of unemployment benefits.

The pension benefits are calculated on the basis of individuals' accumulated points, which are determined by contributor's wage relative to the average wage in the economy. Since January 2011 the point value has been set at RON 732.8, which is equivalent to EURO 174. The contribution rates depend on the working conditions; currently, they represent 31.3% for normal conditions, 36.3% for arduous conditions, and 41.3% for very arduous conditions. The employee contributes 10.5% (of gross earnings) in all situations, the difference being covered by the employer.

A special regime exists within the unfunded scheme – the so called 'service pensions' – for magistrates, judges and prosecutors. In November 2011, 2837 people benefited from this scheme; their average pension amounted to RON 9034 (EURO 2146), of which 88.6% is paid from the state budget and the rest from the contributions to Pillar I.

In 2009, the Romanian government introduced, equally as an unfunded scheme, the *minimum guaranteed social pension*, financed exclusively from the state budget. In 2010, this benefit was renamed *social indemnity for pensioners* but the granting rules remained the same.

The second pillar of the system was introduced in 2007 as a compulsory scheme for all people below the age of 35 on January 1 2008 and optional for those aged between 36- and 45-years-old on the same date. It is a Defined Contribution (DC) scheme, with benefits calculated on the basis of individuals' contributions and investment earnings.

The starting contribution rate represented 2%, which will gradually increase by 0.5 percentage points every year, to reach 6% by the end of 2016. In December 2011, a total of 5.52 million contributors were recorded with the second pillar, where nine pension funds were active.

The third pillar was introduced in May 2007, equally as a DC system, and is alimeted through voluntary contributions; the individual contribution rate is limited at maximum 15% of the gross wage. In December 2011 there were 260.4 thousand people contributing to the voluntary pillar, where 13 pension funds were accredited to collect voluntary contributions.

The standard retirement age is 63-years-old for women (to be reached by January 2030) and 65-years-old for men, to be reached by the end of 2014 (although, some authors believe that retirement age should be equal for men and women, given that retired Romanian men benefit from their pensions for about 19 years, while for women the average benefit from their pension is about 24 years, spending more years benefiting from the pension than the number of years they spent contributing to the fund (Preda & Grigoras, 2011), when the standard contribution period giving rights to full pension benefits will be 35 years for women (by 2030) and for men (by 2015). In June 2013 the retirement age was 59 years and 7 months for women and 64 years and 7 months for men, while the full contribution period is 29.2 years for women and 34.2 years for men. By comparison, the Romanian standard contribution period is very low, knowing that other social protection systems require 45 years for a normal pension (Schmähl, Augurzky, & Mennicken, 2012). So, maybe the solution to the stabilisation of the pension system is the increase of the standard contribution period for both men and women.

The Romanian old-age pension system allows for premature retirement under two different schemes: early retirement or partially early retirement. The first scheme concerns the employees aged a maximum of five years below the legal age of retirement who contributed for at least eight years above the standard contribution period. Partial early retirement is allowed for those who have completed their contribution period and are aged a maximum of five years below the legal retirement age. In case of partial early retirement, the benefit is penalised by 0.75% for each month below the legal age of retirement.

The reform of the Romanian pension system started with the adoption of Law 19/2000, which replaced the former public scheme inherited from the communist period by a new system (Pillar I) based on pension points. Four years later, the Law 411/2004 introduced the second compulsory pillar in the system, which is privately administrated through individual accounts. These initial reforms were completed by the adoption of Law 204/2006, which introduced the third (voluntary) pillar, equally privately administrated.

In 2008 the Law 263/2008 was adopted; the act defines the contributory scheme for farmers, which were previously exempted from paying contributions but benefited from pensions paid from the Social Insurance budget of the first pillar of the system. The contributory scheme is based on a twinning mechanism: the personal contribution is complemented by the state budget through the so called *mutual contributory unit*. The state contribution is generally two or three times higher than the personal contribution of individuals.

In 2010 the parliament passed the Law 263/2010 on the unified public pension system, which replaces all the previously adopted legislation in the field. The new law, which came into force on 1 January 2011, unified the various public regimes into a single one under the first pillar of the system. Military and police personnel, lawyers, high officials and related professional categories that benefited from 'special pension regimes' were included in the public system. At the same time, according to a Government Emergency Ordinance from November 2011, all the employees belonging to these professional categories have to adhere to a pension fund of the second pillar by July 2012. The contribution rules, the benefit entitlement and the retirement age were equally harmonised, which required the adoption of a long and complex mechanism for recalculating those special pensions. The obligation to pay contributions was extended for self-employed and related categories.

The law introduced more restrictive conditions for early retirement and partial early retirement by penalising up to 45% of the pension benefit in case of an incomplete contributory period or when retirement takes place before the standard age. This measure was imposed by the large number of early retirements that have been recorded since 2001, when the first law on pension reform came into force: in the five years after the adoption of the law, Romania recorded 6.7 times more early retirements according to the official statistics.

The regime of granting disability pensions is equally revised in the new law, by hardening the retirement conditions for this category. The number of disability retirements passed from 208,000 in 1990 to 920,000 in 2009, when the share of disability pensioners represented 16% of the total number of retirement beneficiaries (Soare, 2010). Since a relatively large proportion of beneficiaries obtained disability status fraudulently, and therefore the benefit, the law stipulates the obligation of medical re-expertise of all existing beneficiaries of a disability pension.

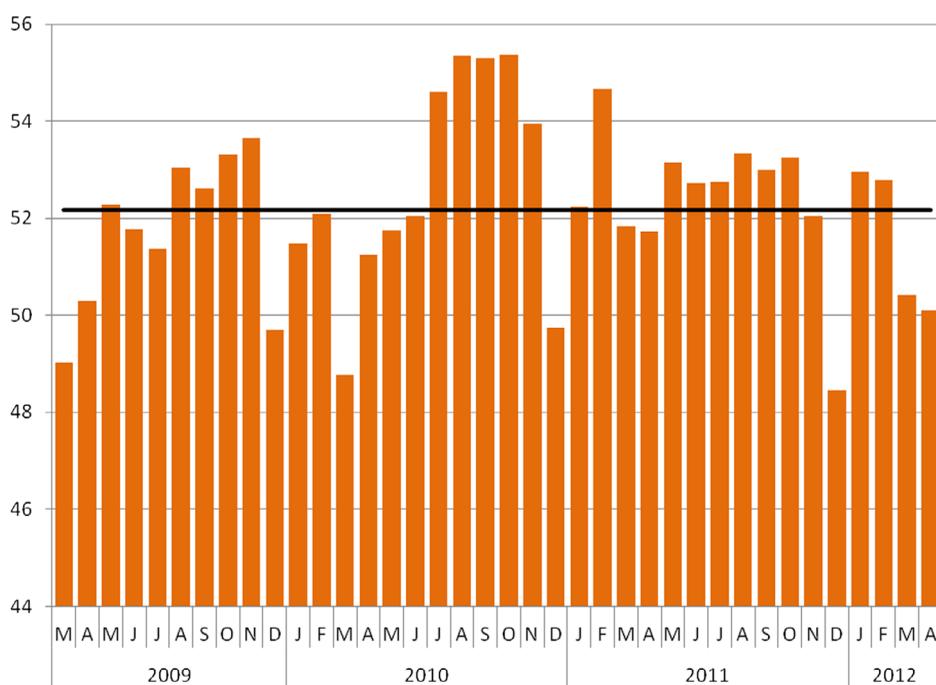
An important way to support the pension system is represented by a complementary aspect to be taken into account by managers of the public system, which can positively affect the older population problem in Romania, taking into account the effects of pension

reform on the labour supply, and especially the increased involvement of older workers in activities that create new value, considering the fact that the labour supply of older workers is responsive to changes in retirement incentives, while that of younger workers is less responsive (French & Jones, 2012, p. 272). In this respect, decision-makers in Romania in this area did not discuss and decide on the necessary framework regulation, especially that which targets the young people's issues aimed at sustaining their labour market insertion.

In this sense, according to some studies (Karlström, Palme, & Svensson, 2011), behaviour changes should be considered for measuring the welfare distribution effects of the pension systems reform.

### 3. Equity issues at national level

The adoption of the unitary pension system in January 2011 ended up with an increase of the received benefits for about 10% of pensioners, when compared to the average net wage in the economy. Overall, the average pension passed from 52.24% (average in 2009) to 51.63% (average in 2012) as a share in the net average salary, with major fluctuations over the entire period (Figure 1). A maximum of 55.37% was reached in October 2010, and respectively a minimum of 48.44% was recorded in December 2011. The minimum level of December 2011 is explained by the average net wage growth in that month (due to the wage seasonal growth and Christmas bonuses and premiums). In average, between March 2009 and April 2012 the average pension represented 52.17% of the average monthly wage.



**Figure 1.** Share of average pension in the net average wage (%). Source: Calculation based on data from National House of Pensions and Other Social Insurance Rights, <http://www.cnpas.org/portal/mediatype/html/language/ro/user/anon/page/default.psm1/template/generic?url=%2Fcontent%2Fcpas%2Fstatistics.html&title=Indicatori+statistici+pilon+I>

Therefore there is a net welfare improvement of the benefits granted in average to retired people during the last three years. However, the public system continues to depict tremendous discrepancies between low and high pension benefits. Currently the system pays pensions ranging from less than RON 40 (EURO 8.2 at August 2012 exchange rate), as well as exceptionally high pensions to about 3000 people who receive on average RON 9034 (EURO 2007) per month (Zaman, 2012), which is 10 times higher than the average old-age pension. In October 2011, the total monthly pensions received by these 3000 retired people represented almost 50% of the total amount of social pensions granted to 620,000 beneficiaries. Figure 1 presents the share of average pension in the net average wage (%), comparing average pension payment and net (after taxes) wage at the same time.

The 2010 reform was principally aimed at reducing the pension expenditure over the medium- and the long-run, such that the current deficit would be brought to manageable levels. As an important second objective, the law was supposed to reduce the existing inequalities in terms of benefits. However, the mechanism adopted for recalculating the special pensions of military and police personnel ended up with an increase of the average monthly pension of this category from RON 1755 to RON 2289. Overall, the recalculation led to about RON 1 billion additional spending for 2012.

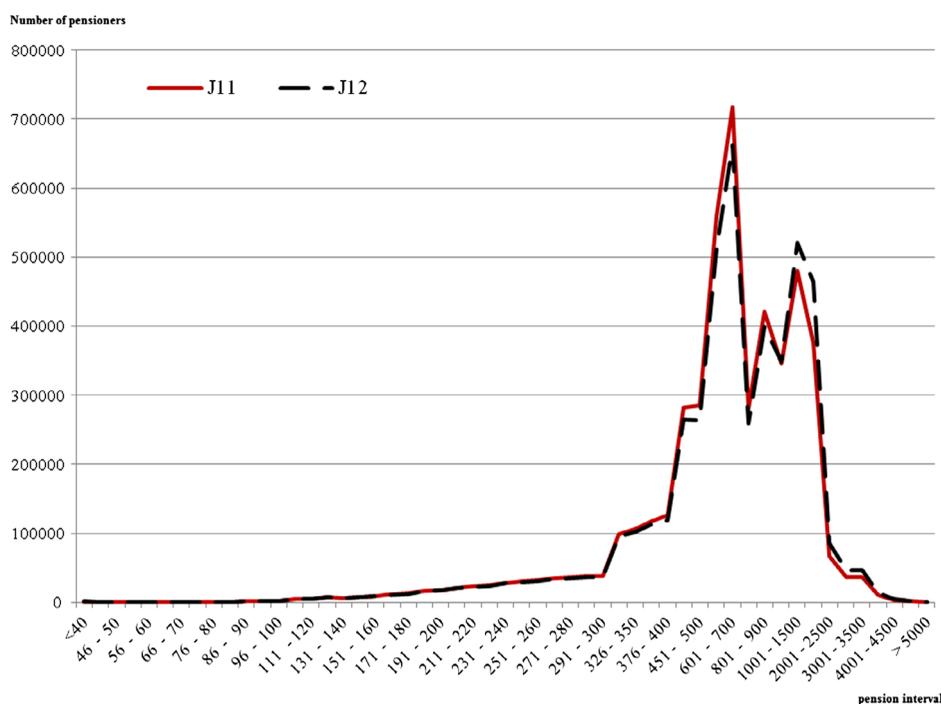
Designed to reduce the gap between the average benefit of special regimes and the average social insurance pension, the recalculation actually widened the differences: while the 2012 budget for social insurance pensions increased by only 0.5%, the budget allocated to military pensioners augmented by 9%, and that of former police and secret service employees by 5% and 6% respectively (Zaman, 2012).

As Figure 2 shows, the distribution of pensioners shifted towards higher benefits. In fact, the number of people receiving very low pensions (below RON 100 – EURO 22) increased by 10%, with the highest increase (23%) being recorded for the lowest pensions (less than RON 40). In case of low to medium pensions (between RON 41 and 900) the number of beneficiaries declined by 6.4% as a result of the recalculation. An increase in the number of recipients is observed for medium to high pension benefits (above RON 901), on average by 12.73% – with the highest increase recorded in the case of pensions above RON 5000 (32.14%). The total number of beneficiaries entitled to a social pension, which is granted if the effective benefit falls below the RON 350 threshold, declined by 3.11%. Figure 2 presents distribution of pensioners before (January 2011 – J11) and after (January 2012 – J12) the recalculation.

It is interesting to note that the distribution depicted in Figure 2 has three peaks. The first corresponds to the pension interval 601–700, which is very close to the average amount of social insurance pension. The second peak is observed for the interval 801–900, which corresponds practically to the average old-age pension. The third (1001–1500) is associated with the average benefit paid to the pensioners belonging to the special regime.

Therefore, there is a segregated distribution of pension beneficiaries in Romania. Although 45.7% of the total number of pensioners is concentrated within the interval around the average benefit (RON 501–1000), there are two extreme categories of beneficiaries. The first one groups very low pensions (below RON 400) and represents 18% of the total number of beneficiaries (Figure 2).

This category is mainly composed of retired farmers, disability pensioners and early retired people. Despite several attempts to solve the problem of farmers, who do not pay social contributions, the successive Romanian governments failed to find a solution. This



**Figure 2.** Distribution of pensioners before (January 2011 – J11) and after (January 2012 – J12) recalculation. Source: Calculation based on data from National House of Pensions and Other Social Insurance Rights, <http://www.cnpas.org/portal/mediatype/html/language/ro/user/anon/page/default.psm1/template/generic?url=%2Fcontent%2Fcpas%2Fstatistics.html&title=Indicatori+statistici+pilon+I>

category is therefore granted very low pensions from the state budget, usually accompanied by a social pension. The number of disability pensioners has increased tremendously over the transition period, although a significant share of them obtained this status by bribing the corrupted medical system. For many such false disability pensioners this represented an alternative to unemployment during the difficult times of transition. Early retirement has been encouraged for many years by the government in order to cope with the labour hoarding phenomenon in state owned companies; in spite of much more restrictive conditions for early retirement, this practice remains a better alternative to unemployment for those senior workers who do not find jobs.

The second extreme category of pensioners is represented by the privileged professions grouped under the ‘special regime’ scheme. They benefit from relatively high pensions (above RON 2000), but their share in total is just 4% (Table 1) while receiving 13.52% of

**Table 1.** Distribution of beneficiaries by main pension intervals (January 2012).

Pension Intervals	Number of Beneficiaries (% of total)
< 400 RON	18%
401–2000 RON	78%
> 2000 RON	4%

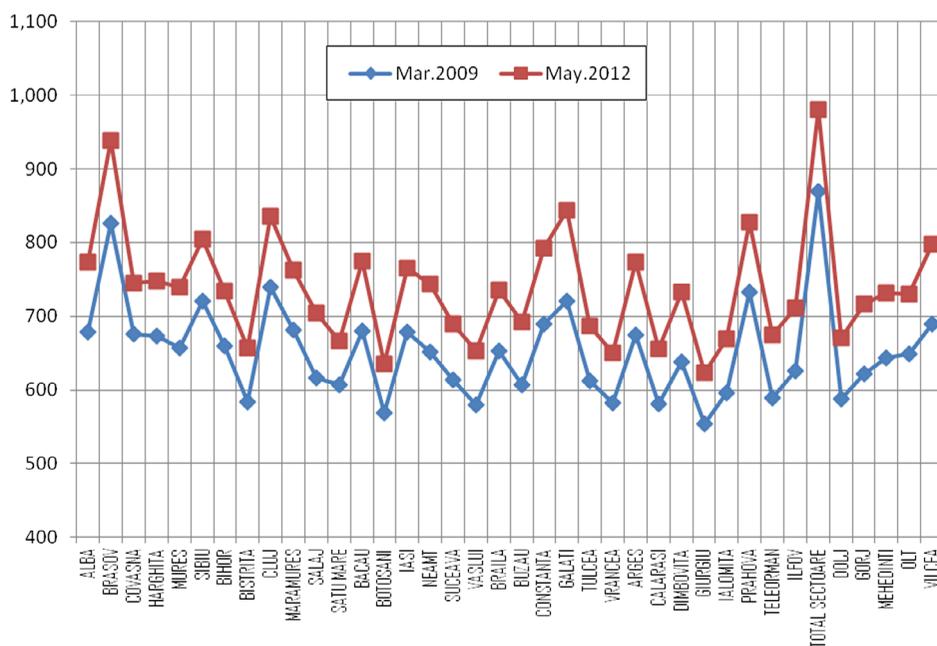
Source: Calculations based on data from National House of Pensions and Other Social Insurance Rights, <http://www.cnpas.org/portal/mediatype/html/language/ro/user/anon/page/default.psm1/template/generic?url=%2Fcontent%2Fcpas%2Fstatistics.html&title=Indicatori+statistici+pilon+I>.

the total pension fund. This amount is 3.5 times higher than the cumulated pensions of those benefiting from a social pension, whose proportion in the total number of pensioners accounts for 12.76%. The inequality in the pension benefits is a consequence of different treatment of specific groups and the recurrent mistakes of the public decision-makers. The intergenerational issue (the current problems of the capacity of the actual active generation to sustain, financial point of view, the actual generation of the retired person) is corroborated with the specific unfair intergenerational distribution elements.

If compared to the pension point value (RON 732 in June 2012), which is the reference for calculating the effective benefits, 59.15% of retired people receive up to this amount. When considering the average net wage in the economy (RON 1552 in June 2012), 14% of retired people benefit from a pension that is higher than the monthly average salary. Since by law the objective set by the government is to ensure the average pension benefit equivalent to 45% of the average wage, which represents RON 698 in June 2012, it follows that only 46.3% of the total number of pensioners receives a benefit that is superior to this threshold.

#### 4. Equity issues at regional level

The recent reform of the public pension system has equally impacted the benefits at the county level. As Figure 3 shows, the average pension increased in all counties, but at different rates. As compared to March 2009, in May 2012 the average pension at national level was 13.3% higher. In 24 counties the increase was below the country's average, with the lowest recorded in Satu Mare (9.99%), Covasna (10.18%) and Arad (10.2%). At the same time,

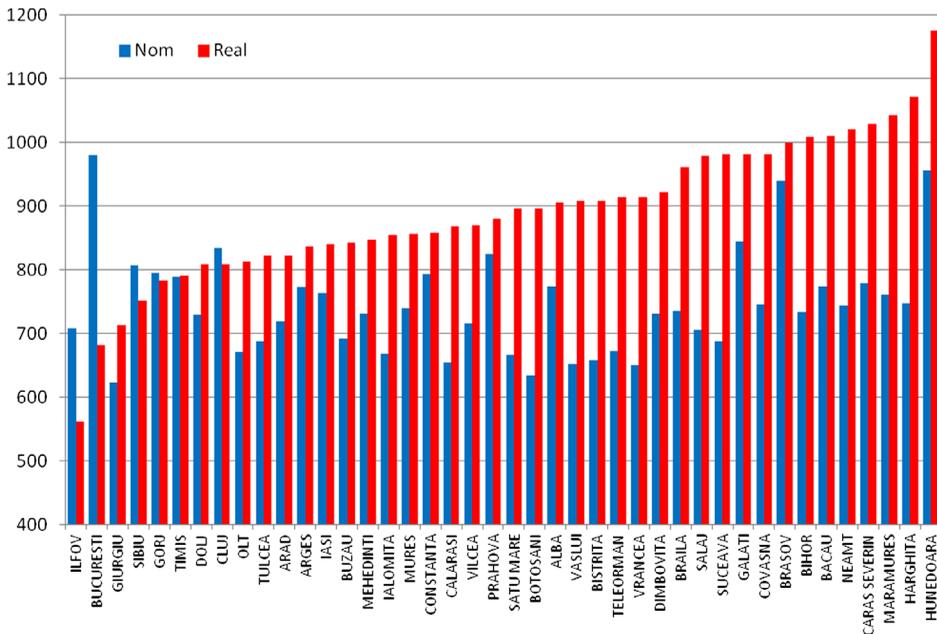


**Figure 3.** Net average pension at county level in March 2009 and May 2012. Source: calculations based on data from National House of Pensions and Other Social Insurance Rights, <http://www.cnpas.org/portal/mediatype/html/language/ro/user/anon/page/default.psml/template/generi?url=%2Fcontent%2Fcpnas%2Fstatistics.html&title=Indicatori+statistici+pilon+I>

18 counties experienced an increase of the average benefit above the national average; the highest such increase is observed in Galati (17.06%), Gorj (15.77%), and Valcea (15.39%). Figure 3 presents the net average pension at county level in March 2009 and May 2012.

However, for equity reasons it is important to compare the nominal average benefit in a specific county with the real one – discounted by the cost of living. One way of determining the real pension is to adjust its nominal level by a ‘cost of life index’ expressed as the ratio between the average wage of a specific county and the average wage at country level. The wage rate in a particular zone (county, region) is generally a function of the cost of living ; as a result, in counties where the average salary is below the national average cost of living is less, while salaries higher than the country’s average indicate a higher cost of living than the national average.

Therefore, using this index, we computed the real average pension at county level and compared it with the nominal one (Figure 4). It can be seen that in only four counties (Ilfov, Bucuresti, Sibiu and Cluj) the real pension is inferior to the nominal one, with the largest gap being recorded in case of Bucharest, where the real pension represents only 69.6% of the nominal one. These are economically the most developed counties of Romania, which implies that rapid economic development induces high costs of living. The development is therefore beneficial for active people, who see their salaries increasing well above the country’s average. Nevertheless, this is unfavourable for retired people, who receive their pensions on the basis of contributions paid in the past, when the level of development (and consequently the salaries on which their contributions were calculated) was far below the current levels. In Romania, but not exclusively, the evolution of the income determines the



**Figure 4.** Nominal versus real average monthly pension at county level (January 2012). Source: calculations based on data from National House of Pensions and Other Social Insurance Rights, <http://www.cnpas.org/portal/mediatype/html/language/ro/user/anon/page/default.psm1/template/generic?url=%2Fcontent%2Fcontent%2Fstatistics.html&title=Indicatori+statistici+pilon+I>

cost of living and not vice versa, so, in a county where the wages are high, the cost of living is high. In addition, there is another Romanian specificity: the costs of utilities, for example, are very different and the share of these expenses in pension benefits varies greatly from one county to another. So, what we want to demonstrate in our research that this development actually works differently and the impact on cost is different, therefore the ratio pension benefit/wage varies. Figure 4 presents nominal versus real average monthly pension at county level (January 2012).

A relatively low ratio between real and nominal pensions is found in practically all developed counties (Brasov, Timis, Prahova, Constanta, etc.), which confirms the fact that the pensioners benefit much less from economic development than the active workers. The only exception is Gorj county, where the real pension represents 98.5% of the nominal one. In this particular case, the ratio is due to the fact that the region used to be a mono-industrial zone during the communist period and the first decade of transition, with mining representing the single major economic activity. The miners were allowed to retire much earlier than the standard age; consequently, the successive recalculations of pensions over the transition period negatively affected their average pension because of penalisation introduced for incomplete contributions periods.

At the opposite extreme, relatively poor counties, such as Vrancea, Botosani or Suceava, record the highest ratio between the real and nominal pensions. Thus, in less developed regions, where salaries are low, the retired people – who receive their pension on the basis of past salaries, when the economic situation was more favourable – are better off than active workers.

Obviously, the level of economic development is not entirely responsible for these discrepancies across counties; other factors play a role, such as the specificity of economic activities existing in a particular county or region for example. However, the development status is important. This is proved by the relatively large difference between nominal and real pensions when comparing the ratio between the highest and lowest level of the benefits: while the ratio between the largest (in Bucuresti) and lowest (in Giurgiu) nominal pension is only 1.57, the ratio between the highest (in Hunedoara) and lowest (in Ilfov) real pension amounts to 2.09.

It is also interesting to note that at the regional level higher average pensions are found in those macro-regions (a regionalisation project, that is put now under reconstruction) where the number of pensioners is high (Table 2): the highest average benefits are recorded in the Macro-Region 3, where 22.39% of total pensioners were living in March 2012. As

**Table 2.** Average pension and number of pensioners by region (March 2012).

Macro-Region	Micro-Region	Average pension (RON)	Number of pensioners
MR1	Centre	792	577,848
	North-West	727	395,675
MR2	North-East	710	493,213
	South-East	733	353,560
MR3	South Muntenia	<b>707</b>	493,213
	Bucuresti-Ilfov	<b>846</b>	562,273
MR4	South-West Oltenia	729	309,193
	West	811	452,653

Source: calculations based on data from National House of Pensions and Other Social Insurance Rights, <http://www.cn-pas.org/portal/mediatype/html/language/ro/user/anon/page/default.psm1/template/generic?url=%2Fcontent%2Fcn-pas%2Fstatistics.html&title=Indicatori+statistici+pilon+I>.

a general trend, the average net pension at macro-regions level runs a clockwise rotation, descending from the highest level in MR 3 (RON 776) to the lowest level (RON 722) in MR 2. An identical clockwise trend is found for the regional GDP, which decreases from the maximum point (recorded in the capital city) to the minimum point of the east region.

At a more disaggregated territorial level (eight regions) the highest level of average pensions exists in the Bucuresti-Ilfov area, which also records the highest average wage as a result of a more developed local economy (Table 2). At the same time, in western regions the average pension is higher than in the eastern part of the country. The lowest levels of pension benefits exist in South-East and South Muntenia, where the level of economic development is lower due to preponderant agricultural activities.

## 5. Conclusion

In this study we briefly analysed the impact of the recent reform of the Romanian pension system on the benefits, both at national and regional level. The analysis is carried out from the perspectives of demographic and sustainability challenges to which the public system is confronted, as well as from equity point of view. The presented reform of the pension system has sensitive implications in terms of welfare gain or loss, because the political factor uses the pensioners' benefits as voting instruments, instead of correcting the major discrepancies or the inter- or intra-generational inequities.

Over the last three years the average pension in the country has continued to increase, but significant discrepancies exist between low and high benefits. The Romanian public system pays pensions lower than 8 euro per month, as well as pensions above 2000 euro monthly. Although the 2010 reform was aimed at reducing these discrepancies, the measure ended up with a further increase of high pensions (by about 30%) to the detriment of low pensions. Consequently, the distribution of beneficiaries according to the pension level shifted towards higher benefits after the implementation of reform.

The reform has therefore maintained, and even improved for certain categories of beneficiaries, the adequacy of pensions, but has accentuated the fiscal sustainability problems of the public system. With a deficit of 50% of the amount of collected contributions in 2010, the pensions' budget faces a serious risk in the coming years.

The expected demographic trends are unfavourable for Romania, while the ratio of beneficiaries to active workers is very low. In spite of restrictive conditions imposed by the newly adopted law on early retirement and granting disability pensions, expected to significantly reduce the number of pensioners, the total number of beneficiaries in April 2012 (after 14 months of reform implementation) was just 1.25% lower than in December 2010. Moreover, the number of people benefiting from early retirement increased between December 2010 and April 2012 by more than 22%. The reform measures have been therefore inefficient also from this point of view, although – in addition to the constraints imposed to early and disability retirement – the statutory age of retirement continued to increase over the respective period.

At the regional level, significant differences are observed across counties in terms of the average pension. Those where agriculture is preponderant receive less than the country's average benefits, while in industrialised (and more economically developed) counties the average pension is well above the same average.

However, in all counties the reform brought an increase of the nominal pension by 13.3%. In real terms (indexed by the cost of living), the pension in the large majority of counties is higher than the nominal pension; only in five of the most developed counties is the real pension inferior to the nominal one. This implies that economic development, although beneficial for active workers through a relatively rapid increase in their wages, does not have the same beneficial effect for retired people.

The discrepancies across counties is more important in terms of real pension than when considering the nominal one: while the ratio between the highest and the lowest counties in nominal terms is only 1.57, in real figures this ratio increase to 2.09. The same specificity remains when the regions are considered, with the particularity that the pension level seems to be positively correlated with the number of beneficiaries living in the region.

In conclusion, the Romanian public pension system is characterised by a good level of adequacy, which is superior to the EU average, but experiences serious difficulties in terms of fiscal sustainability. Although the government tried to tackle this issue in its recent reform, there is no significant progress in terms of improving the sustainability; moreover, this aspect seems to be neglected by the reform package and the authorities are concerned almost exclusively by continuing to improve the adequacy of the benefits. To some extent, this is politically understandable because almost 5 million retired people represent about 30% of the potential voters. However, this policy is economically wrong and fiscally unsustainable.

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