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Social Insurance in Romania - Concern for Governors

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Abstract: Objectives: the comparative research of the public and private insurance systems is important as it provides financial benefits to the individuals who have lost their income due to their old age, along with their decreased labour ability caused by disabilities, disease, motherhood, work related accidents or unemployment, and the resulting benefits are conditioned by the due contributions; **Prior Work:** this work continues previous research conducted for the PhD thesis called “Improving Management in the Public and Private Insurance Systems in the Market Economy”; **Approach:** the main methods that have been used in surveys and observation of the population’s behaviour; **Results:** in order to reduce the financial restraints that the public insurance system has to cope with, the concrete implementation of a social insurance system based on the needs and value scales of the Romanian state is necessary; **Implications:** academics and researchers interested in the Romanian social insurance system management and its long run effects on the population; **Value:** the insurance systems determins the quality of life for most of the population and strongly influence the economy, especially the labour market and the capital market. This is why social security is a common challenge for all European countries.

Keywords: social protection management; social insurance; finance

Worldwide, the financial difficulties, that the social insurance systems face, are primarily generated by an aging population, and for balancing the budget there are adopted measures to increase the contributions or reduce the prestations or a combination thereof.

Primary income derived directly by market mechanisms can characterize the collective welfare. Market manifests itself a number of limitations that prevent achieving desirable levels of welfare in society. Explanation is given that the economy based on market laws, property characterizing collective welfare, especially the public or social, tend to be produced in a proportion insufficient. Therefore, intervention is necessary corrective mechanisms (redistribution of wealth) and supporting people who are actually covered by social policies.

Transfers are made according to strict criteria established by law and have a double target: vertical when financial resources are transferred from those with high incomes to those with low incomes (such as transfers from social assistance system) and horizontal according needs - from the healthy to the sick (if the public system but health insurance and social assistance), from those working on the unemployed or retired (if public systems of unemployment insurance or pensions) . Some horizontal transfers are interpreted as vertically (if the public pension system where the older generation is financially supported by the currently active generation and will be supported by future active generations - intergenerational transfers).

Thus social policies are carried out around several specific objectives (promotion of public goods, social development) but focus their interests on social protection. Social Protection is all actions taken by society to prevent, mitigate and remove consequences of events as "social risks" who put their mark on the standard of living and quality of life of the population. Disease, ignorance, poverty is the fundamental human risks which may be mutually generate or may become centers generating new ones.

This is why social protection system is a set of social programs that are designed to protect individuals from state interruption or loss of earning capacity. Social security is a special form of protection that society attaches to its members. They provide support to counteract the effects of various economic risks (eg loss of income due to illness, the reduction in work capacity in old age due to unemployment). Therefore, on social security is said sometimes that is a type of social security and sometimes that is a sector of social policy, the more it considers that, in fact, these two terms are interchangeable.

Almost all nations of the world have developed complex social insurance programs. These vary from country to country but, overall, they follow four common sizes:

• relate to "social risks" that may materialize during the life of an individual;
• are established by law;
• provide financial benefits to individuals who lost income due to old age correlated with reduced capacity to work due to disability, illness, maternity, accident or unemployment (when the risk becomes manifest);
• obtaining benefits is subject to contributions.

Pension systems are a challenge (Dogan, Pelassy, 1993) for each country because they have primarily aimed at providing income security to those who, due to old age have lost their working ability. It can be subsumed those two secondary objectives of the system: redistribute saving or investment.

Redistribution mechanisms have dominated for a long period of pension systems in developed countries. But over the past decades, there have been strong critics against them, the most important being grouped under the financial constraints faced:

• the benefits sufficient at present can not meet future needs if one takes into account that future events will have the same trend as in the past (current calculation does not meet future needs);
• Ageing population change report employees / retirees so that employees will have to pay for a larger pension;
• the nature of the system has a low rate of return and negative effects to the economy and work motivation.

To mitigate these problems were proposed and implemented several directions of reform: the introduction of specific elements accumulation fund traditional public pension systems and/or partial or full privatization of the pension insurance system. However, no public funding schemes only gradually, pay as you go-PAYG (pay as progressive situation occurs) or the fully funded private systems are the ideal systems (Davis, 1998). Therefore, most countries have created or will create a system that contains elements of both schemes.

Concept (Cangiano, Cottarelli, Cubeddu, 1998) widely used today (proposed by the World Bank) is "pension scheme based on three pillars. The three pillars differ from each other by objective principles relating to contributions and benefits, public or private, optional or compulsory nature, which enables combination of different elements in the most appropriate ways. Practical design of a pension system depends on the needs and capabilities of society and value systems of a particular state.

The first pillar is normally a public pension, compulsory PAYG system. Its purpose is to guarantee everyone a certain extent, returns to cover needs arising from old age. If there is a general consensus on the need for a system of compulsory public pension insurance, insofar as this pillar should ensure that revenues may vary. If the system is based on testing requirements, only those who need to receive support should receive. In case of a universal base should be equal for everyone. The first pillar must be public because the state has the option to tax, transfer and payments index, which is essential for low income.

Second pillar is mainly focused on providing an incentive for individuals to distribute evenly lifelong consumption. There are various options in the design of the second pillar. This system can be used either in public or in private system, the PAYG system or through a fund, a defined benefit plan or defined contribution. There may be parallel private and public pension systems, where individual choice is considered important. The choice between schemes with defined benefit and defined contribution depends on the extent to which risks should be shared.

The third pillar is a voluntary funded scheme based on defined contribution and ensures that any individual can accumulate additional savings to the mandatory system, the choice and possibilities of each. However, there are certain aspects which the State must consider: tax exemptions and the shape or size they may take. To be successful a reform of national social security system must be grounded in substance. For this to succeed, social policy makers should take into account the system design process, critical dimensions, and public and private sector must be strong enough to meet its appropriate role in this process.

One of the most delicate issues of pension reform is to finance the transition period (Barr, 1994). Normally, the reform is carried out gradually, requiring a longer time to reach maturity, and during this period the State must conduct two parallel systems. There are two basic ways to deal with the situation: reducing consumption or increasing revenue. Consumption could be reduced by increasing the retirement age or reduce the value of pensions. Lowering the value of pensions to current retirees is incorrect, throwing their weight on. Increasing the retirement age would solve a problem to some extent, but since the population is an aging, is unlikely to increase retirement age to facilitate financing during the transition. In increasing revenue, reform can be financed either through taxation or through claims. If you choose financing through taxation, it can be considered invalid for the current generation, which has suffered a difficult task anyway. Debt financing may be considered more politically attractive, since it allows taxes to remain constant and does not place additional weight on the present generation, however, transferring the costs to future generations.

Unemployment insurance is a special form of insurance designed to compensate for the lack of revenue for a limited period of time. Unemployment insurance programs were originally created to provide financial assistance to those who have lost their jobs and are seeking another.

Differences that arise between countries in the unemployment insurance systems are related to different ways of financing benefits they cover. Even if both employers and employees contribute to fund insurance (main source), consisting of both differences in their methods of calculation (percentage they contribute) and the presence or absence of additional source, usually the government is. Also, differences are observed when dealing with the typology of social support mechanisms and measures for the unemployed. Such benefits for the unemployed, which varies according to each country's legislation, fall into two sets of measures: passive and active.

On European social model is proposed for unemployment insurance in the modern social policies are based on the idea of developing a modern market conditions and an economy to function successfully. Therefore, specific labor market policies are priority targets unemployed protection actions to counteract the effects caused by the spread of poverty phenomenon in relation to that country and market development. This model is seen as a universal system of unemployment insurance viable in a world of both globalization and individualization. Beginning premise of this model is that labor markets are characterized becoming more "internal risks (need to change the job or geographical area due to various personal issues or professional reasons) or" manufactured "combined with "external risk" (low cyclical downturn in the economy or natural disasters). Since the "internal risks" are increasing, social policies should be directed towards risk management. Social risk management aims to combine logic with rational choices of insurance during life of individuals (such as career planning) and appropriate risk taking. That unemployment insurance should be redesigned and combined with elements ensure mobility. Together with effective measures taken in the active labor market policies these three pillars will strengthen a coordinated system of employment insurance to support the transitional labor market segment (Răboacă, Bucharest).

Transforming traditional system of unemployment insurance in a system of employment insurance general perspective emphasizes the social management of risk characteristic of the transitional segment of the labor market. If this change is concurrent with reform of the pension and health insurance when consistency, rationality and even security systems could be real, and system performance indicators (aggregate) social security would reach considerable value. The transition from unemployment insurance to employment insurance does not necessarily involve public extension. Such an employment insurance system is formed from a low public component to the basic function (hedge loss due to involuntary unemployment wages).

A second component consists of individual insurance is strictly related to employment relationships that the individual mobility. Contributions, gradually covers a first step, classical unemployment insurance costs (unconditional solidarity) and the second stage, the costs imposed by individual mobility (its value may be required by law or may be negotiated collectively, reaching as negotiated solidarity). The third component includes active labor market policies (publicly funded) programs that include active and selective for the unemployed. Interest in the **health services sector** can be partly explained by the fact that it consumes a considerable amount of resources. Based on demographic facts on the background of technological development, the health insurance system is in a strong dynamics. Health care system forms a special type of market with a number of characteristics that differentiate it from others. Market is the uncertainty surrounding the timing of disease but also knowledge and information disparity between the various stakeholders. Health care market does not have mechanisms for pricing and products / services are heterogeneous. Demand is driven by governments through prevention services segment as healthy individuals reduces future health care needs, use the "tools" for awareness raising (through specific campaigns) but can be induced to offer health care providers conduct their own economic interests pressure .

Both the organization and functioning health care system based on specific funding mechanisms. Although theoretically the funding mechanisms have advantages and disadvantages in practice it is possible to combine elements of several systems for achieving the desired objectives (Vladescu, 2000). Methods of financing health care do not appear in pure form but are tailored to the specific conditions of each country.

Community Acquis Concerning Security System in the European Union

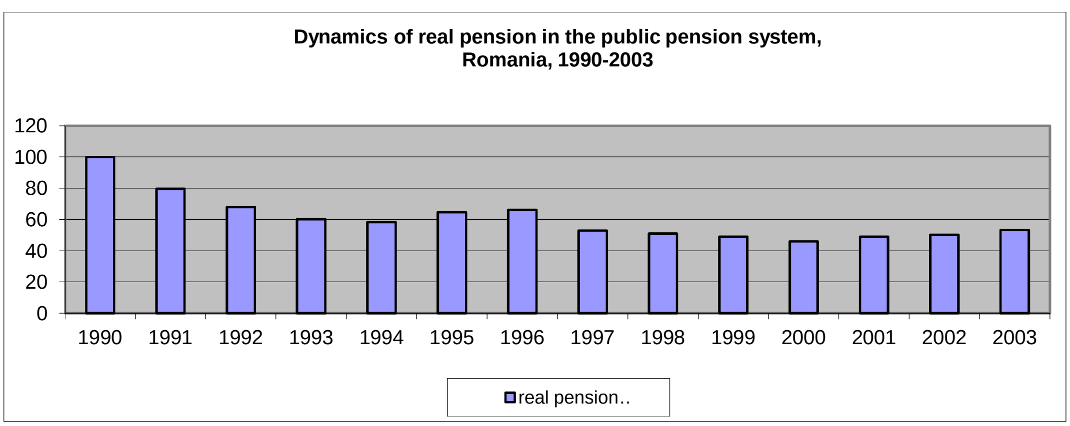
Becoming a member of the European Union for Romania was a key objective. To align with EU norms and standards (acquis relevant to this sector is represented mainly by Chapter 13 - Social Policy and Labor Force) should accelerate the reform process in this area. Romania has opened this chapter in the second half of 2001 and closed in the first half of 2002, without requiring transitional periods or derogations. Efforts were made to meet the entry criteria and end all negotiation chapters. Officials responsible for policymaking in this area were more active than ever, trying to meet deadlines for implementation of the reform process. Law occupational pensions (third pillar) has been adopted by Romanian Parliament in July 2004 and then repealed and replaced by voluntary pension law transposing EU directives on the protection of supplementary pension rights. Law on private pension funds was adopted by Romanian Parliament in October 2004, as amended in 2007 (Pillar II). Pillar II participation is mandatory for persons aged 35 years, while the third pillar is voluntary. These two pillars are integrated into the National Pension system is based on publicly managed mandatory pension (first pillar). From the perspective of social security and pension system, Romania has developed a social protection system that can compare to those of Member States. There are obvious differences in the effective functioning of the institutions involved, something that causes the need for training programs for staff involved in implementing the reform.

Key institutions responsible for implementing the acquis in this direction are:

• Ministry of Labour, Family and Social Protection, the institution develop and implement policy and legislation on social security measures;

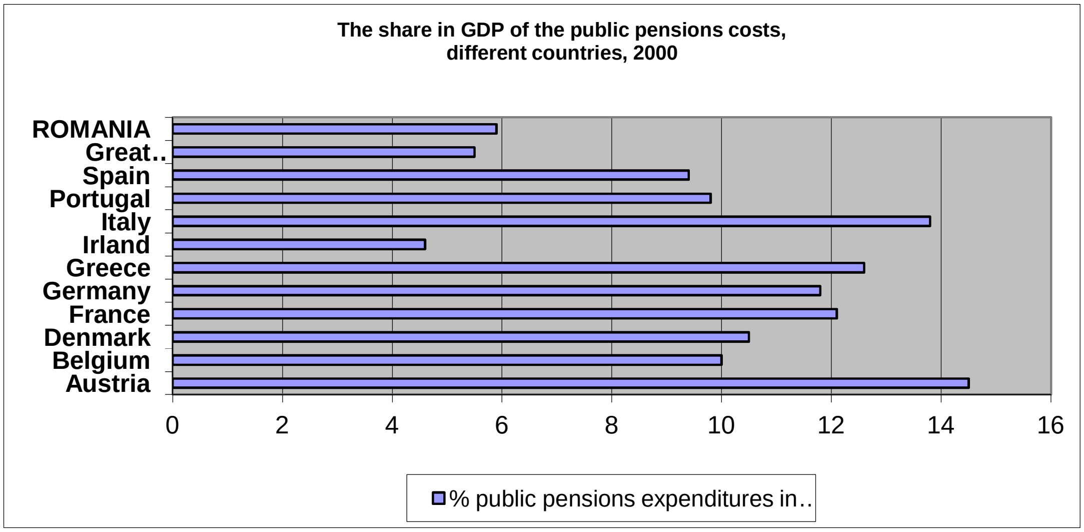
• National House of Pensions and Other Social Insurance Rights (NHPOSSR) is the institution which operates under the authority of the Ministry of Labour, Family and Social Welfare and which administers and manages public pension system and other social insurance rights.

Although spending on pensions in Romania hold an important share of total social security expenditure in GDP, though the living standard of pensioners has not improved the purchasing power of pensioners is reduced on average by ca. 50%.



Source: CNPAS

Compared with similar international data on the share of pension expenditure in GDP, Romania was only in 2002 close to the worldwide average level recorded in 1996 (6.6%), being much below the European average in that year (12.1%). As well, in 2000, the share in GDP of the pensions expenditures in the Romanian public system was still below the level in other European countries with similar systems.



Source: CNPAS

Starting from the premise that social security provides, in most cases, a minimal level of protection, each nation has decided - in some stage - encouraging private insurance, the individual savings, namely the granting of tax relief, so that ensure greater social protection, concern that has to deal with more and Romanian Government.

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