

Elena POPA
THE IMPACT OF EUROPEAN INTEGRATION ON PENSION INSURANCE
MARKET IN ROMANIA

Abstract

The present article chose to treat this work whereas the pension insurance market in Romania is a young growing market. Romanians started to become that, if they want a decent pension, they must take a decision and allocate a sum of the annual budget in this direction.

*Insurance is one of the areas in our country that have suffered the most profound transformation in view of European Integration. A series of legislative changes have produced while preparing the accession to the European structures, in order to take into account harmonization with the *acquis communautaire*.*

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Insurance is one of the areas in our country that have suffered the most profound transformation in view of European Integration. A series of legislative changes have produced while preparing the accession to the European structures, in order to take into account harmonization with the *acquis communautaire*.

Everyone must accept the fact that Romania is in direct competition with the insurance market in other EU countries, in terms of institutional and economic performance after January 1 2007.

Insurance companies in Romania must face specific conditions: frequent legislative changes, management objectives changing, dynamics of development , dynamics of services, synchronization phenomena and processes with the insurance accounts, dynamics of insurance contracts (termination, suspension, cancellation, supplementation, resumption of the force, etc.), staff training in terms of products offered, strengthening of responsibilities, development of

hardware and software equipment, synchronization of changes in application, and the algorithms, etc.

Although the segment with the largest share (80%) throughout the insurance industry in our country is general insurance (non-life insurance), the proportion of non-life segment will fall in favor of life insurance and the private pension, due to expansion of the middle segment of the population, in the years immediately following.

Prospects are good for pension insurance market. Romanians started to become aware of the fact that, if they want a decent pension, they must take a decision and allocate a sum of the annual budget in this direction. Specialists estimated an increase of 25% on fund of raising awareness to educate the population on this field, following the implementation of private pension reform. The development will continue in the coming years, so that in 2015, life insurance and private pensions will hold half of the total insurance industry in our country. This increase will be based on increasing investment in the strength of sales, advertising, but also a possible modification of the Fiscal Code for the purposes of placing deductibility to complete life and pension insurance for employees by employers.

The main purpose in 2007 was to implement the system of private pensions. Interest was maintained in 2008 too, when the first contributions were collected, when administrators began to publish their first results.

Until the introduction of private pensions, pension insurance was included in the class life insurance, as currently they are a distinct class of insurance.

Private pensions is, by definition, a form of long term savings, with a specific destination, having major social impact, that makes the authorities of each state to be very interested in the proper functioning of the system.

Mandatory private pension benefit is that by paying the same contributions to the pension system, future pensioners will receive a higher pension and in case of death of the participant during the payment of contributions, the fund accumulated will be inherited.

Pension reform in Romania means the introduction of the pension system based on 3 pillars proposed by the World Bank and implemented successfully in other European countries:

Pillar I - the current system of state pension

Pillar II - system of mandatory private pension

Pillar III - system of voluntary private pension

Pillar I - The current system of state pensions - is governed by the provisions of Law no. 19/2000 on public pension and other social security, with subsequent amendments.

According to the provisions of Law 19/2000, the following categories of persons are provided in the public system of pensions:

- self-based individual contract of employment and public officials;
- people who work in elective office or appointed under the authority of the executive, legislative or judicial office during and cooperating members of an organization of craft co-operatives, whose rights and obligations are assimilated in the public pensions, with those employees with individual contract of employment / civil servants;
- unemployed;
- people who carried out a gross income per calendar year, equivalent to at least 3 average gross wages and which are found in one of the following situations, and those who carried out the overlapping gross income per calendar year, equivalent to at least 3 salaries Average gross and which are found in two or more of the following situations: single-member, associate comanditaria or shareholders, directors or managers who contract administration or management, family members of the association, persons authorized to conduct self-employed in international institutions if they are not insured, the other people who are making income from professional activities.

Pillar II - The mandatory private pensions - is governed by the provisions of Law no. 411/2004 on pension funds managed privately, republished with subsequent amendments (published in the Official Gazette, Part I, no. 482 of 18.07.2007).

According to the provisions of Law no. 411/2004, the private pension funds will be mandatory contributed by employees aged less than 35 years who are insured under art. 5. 1 of Law no. 19/2000 on public pension and other social

security, with subsequent amendments. People aged between 35 and 45 years, contributing to public pension system, may join in the pension funds managed privately (Pillar II), membership being optional for participants in that age group.

To participate in a private pension scheme it is mandatory that the person under the age of 35 years to be engaged and to pay CAS, to choose a pension fund to bring in and sign the instrument of individual accession.

According to the legislation mentioned, all employees aged less than 35 years old, who entered the labor market starting on January 18th 2008, are obliged to choose a pension fund by pillar II in less than four months after the approval of the fund manager. Those who choose not to fund in these four months or those who have signed more than a pension fund during this period enter into the lottery, that is, are randomly distributed in proportion and between funds. The law also allows employees aged between 35 and 45 years who have not previously acceded to do so now - but they are not bound and therefore not get in the lottery.

Pillar III - Participation in a voluntary pension fund - is permitted in accordance with the provisions of Law no. 204/2006 on optional pensions (published in the Official Gazette, Part I, number 470 of 31.05.2006) for all employees, civil servants, persons authorized to carry out an employment or income persons who engage in professional activities or agricultural. Law no. 204/2006 does not specify an age limit up to which one can adhere to a voluntary fund. In the above mentioned act in art. Article 93 2. it is stipulated that "the right to voluntary pension opens at the request of the participant, with the following cumulative conditions":

- a) the participant has reached the age of 60;
- b) 90 monthly contributions have been paid at least;
- c) personal assets are at least equal to the amount necessary to obtain the pension provided by voluntary minimum standards adopted by the Commission.

Considering legal retirement age of 60 years, one may opt to join a voluntary pension fund until the age of 52 years.

Judging in the spirit of the law, the text states that "the right to voluntary pension opens at the request of the participant". It follows that, in principle, a participant is not required to open the right to optional pension at the age of 60 years, necessarily, but he may decide to contribute a period, which would allow him to complete the 90 contributions even if he entered into the system after 52 years. We can conclude that if this age overcome it will be necessary to request the opening of the right to a pension at a date later than when reaching the legal retirement age of 60 years, so the contribution to reach 90 months.

The law contains indicators on the situation in which the participant, for various reasons, can not meet the three conditions cumulatively. Thus, if the participant decides to request the opening of his rightfull pension at the age of 60 years, even if the length of contribution of 90 months has not been achieved or acquired assets have not reached the minimum required for the minimum optional pension, it may receive "the existing account or single payment or installment payments staggered over a period of up to 5 years, at his option."

Under current legislation, the level of contributions transferred to the mandatory private pension increase from 2% of gross income in 2008 with half a percentage point per year to 6% of gross income in 2016.

Committee on Oversight System of Private Pensions (COSPP) is preparing a proposal to accelerate the increase contributions transferred to the mandatory private pension (Pillar II), the half-percentage point per year to one percentage point per year, because the level of contributions to reach 6% in 2012, not 2016, as required by current legislation. But the pace of increase in contributions is included in the mandatory private pension law, which is why the amendment may be made only by Parliament. Speeding contributions will help to increase the assets of pension funds and will give participants the chance of higher private pension.

COSPP has proposed to the Finance an increase in deducibility for the voluntary pension of 200 euros per year (for both the employee and the employer) to a variable phased deducibility, which can reach up to 1.000 euros per year for both the employee and the employer - ie a total of 2.000 euros per year. Deducibility increase in Pillar III will take the modifying Fiscal Code in September 2008. This increase in tax deducibility for optional pensions (Pillar III)

will be included in the draft amendment to the Fiscal Code, the project will be completed by the Ministry of Economy and Finance in September, to enter into force on 1 January 2009.

The procedure for the transfer of pension funds administered privately (Pilon II) is governed by the rule no. 3 / 2008 on the transfer of participants between pension funds managed privately. Thus, in the case of pension funds administered privately (Pilon II), and the voluntary pension funds (Pilon III), the transfer of funds is permitted without penalty, having gone through a period of at least 2 years after initial accession to the pension fund. If the participant wants to transfer earlier to another pension fund, the operation is possible on condition of the payment, to the initial fund, of a transfer tax of maximum 5% of the net personal assets held in that fund. In case a participant wants to transfer to another voluntary pension fund managed by the same manager, that person does not due transfer penalties to the manager.

They are not to pay penalties for transferring, participants who:

- requested the transfer due to changes in the pension scheme prospectus, if the request is made within 4 months of the amendment authorizing the prospectus;
- were engaged in missions abroad, ordered by the Romanian State and have been subject to random allocation as a result of its inability to adhere to a fund managed by private pension within the time prescribed by law and Commission rules. As a proof it is the attesting to that effect issued by the employer.
- fall in the statement referred to art. 33 of Rule no. 18/2007 concerning the accession of the original records and participants in pension funds managed privately, with subsequent amendments. Thus, people who have been subject to random assignment procedure, although they have signed a single act of individual membership during the initial accession to the pension funds managed privately, and 17 September 2007-17 January 2008, may submit to the COSPP a written complaint with copy of the instrument of accession individually signed and a copy of the notice of identity, within 6 months from the date of random allocation. If the Commission finds legal referral participant, he, together with his personal assets are transferred to the pension fund to which the

participant has signed the Act of Accession individual without a penalty charge transfer.

If the insured dies while helping to fund pays, the money is not lost, as in the case of Pillar I. Participants to compulsory private pension funds (Pillar II) arriving in the disability before they receive payment from the pension system will receive the existing funds in the private pension in full, according to rules approved by the COSPP (rule is issued in accordance with the Law no. 411/2004 on pension funds managed privately). Also, in case of death, the legal heirs of the participant will receive the amount of the mandatory private pension in the same way as a single payment. In the case of voluntary private pensions (Pillar III), secondary legislation requires all single payment in the event of disability or death. Under the act, active participant in disabled staff will continue to be administered and in the time period between the last payment of contributions to the fund participants and the payment date unique due to its rights. On the death of the participant, their personal assets continue to be administered and in the time period between the last payment of contributions to fund a participant before death and the date of transfer rights due to the beneficiaries.

At the time of retirement, a taxpayer will receive a pension both from the private administrator and the CNPAS. Each participant in the private pension funds mandatory (as well as optional) will receive at the time of his retirement a pension from the public pension system (from CNPAS) and the additional private pension system, according to the funds contributed to the (mandatory, optional, both or none). Retirement age must be different in this case. Thus, the public will be 65 years in the private system mandatory for all 65 years, but in private voluntary it will be a minimum of 60 years. The law provides that the creation of providers of pensions (annuities) when the private pension system will enter the phase of payment (the earlier, more than 6 ½ years in voluntary retirement and 20 years at the mandatory). Those suppliers pension will be calculated on the basis of actuarial value of pension and private pay. The amount of pension will depend on the amount accumulated in the personal account (which depends on the amount and duration of contributions and investment yields of private pension fund) and actuarial calculations that will be made at the retirement age for determining life expectancy.

At the time of retirement, a taxpayer will receive a pension administrator from both private and the CNPAS. The legislation on private pensions are being prepared, with the deadline for completion July 2009. For preparing the draft law has appealed to international consultancy. While the draft law on private pension payment is funded by the World Bank, the company that is to develop this project must be approved both by the Ministry of Labor and the World Bank. According to current legislation, Parliament must adopt the law for the calculation and payment of private pensions in July 2009, three years after the entry into force of the first private pension law (optional). It follows after the adoption of the mandatory private pension law in December 2006. Law of calculation and payment for private pensions will cover phase of payment (payout phase) for both systems: the compulsory and voluntary.

In principle, global practice mentions two systems of pensions' payment:

- Single amount (lump sum) - pension payment to the beneficiary of the entire value of the account or in a single tranche;
- Annuities (annuities) - the formation of viagere rents that can be paid either by the company managing the fund, or by a specialized company. The amount of monthly annuity is determined on the basis of actuarial calculations that take into account the amount of economic parameters and data contained in biometric tables showing life expectancy for various categories of the population.

In practice, we can also meet combination of the two systems mentioned above.

Romanian legislation in force in the field of private pensions shows that a single sum payment is possible if the participant in the pension fund dies (in which case his legal heirs will receive the amounts accumulated in the account) or calls the right to a pension before the length of contribution 90 months have been reached or have accumulated the minimum required assets for the minimum optional pension. In this case, the participant or his heirs may receive "the existing account as a single payment or installment payments staggered over a period of up to 5 years, at his option." A similar provision is working in case the participant is receiving invalidity pension for illnesses which do not allow the resumption of activity (defined according to Law no. 19/2000 on the public system of pensions and other social security, with subsequent amendments)

International experience has shown that the entire collection of values of the economies in a single block is not indicated. The statistics proving that most of those who have proceeded in this way have spent that amounts for purposes other than pension (facing difficulties from the low level of state pension). Taking into account that, in this context, the purpose of social protection system of private pensions is not reached, representatives of the Romanian surveillance in the area have expressed, on several occasions, the view that they will support the adoption of a system of pension payment through annuities.

The contribution of a participant in a voluntary pension fund is converted into units of the fund in a participant account and pension fund manager invests the money in the voluntary financial instruments according to its policy of investment, defined in the prospectus voluntary pension fund. The amount accumulated in the participant account (equal to the number of units held responsible for it and multiplied by the value of a day of fund units) represents personal assets. The participants own personal assets from this account. The account can not be subject to any enforcement measures, it may not be pledged or licensed, it can not be used for providing loans or guarantee loans.

Almost one million of the 4.3 million participants in mandatory private pension funds (Pillar II) may wish to check any private pension, by accessing an Internet site made available by the company managing the fund. Until now, only four of the 14 mandatory pension funds offer this service, but the list will enlarge. Even so, over 68% of the clients of the mandatory private pension can always see their personal private pension (a list of these Internet sites, where you can check private pension, in order of launching the service in question is as follows: ALLIANZ - Tiriac, ING, BT Aegon, INTERAMERICAN).

Nearly 68% of participants to the optional pensions (Pillar III) enjoy this benefit as part of salary package, the employer contributing to a pension fund as such. Thus, in 68% of cases, the employer pays the optional pension contribution of the employee respectively, whether or not the employee contributes in its own name. This is segmental "corporate" market. On the other side there are participants that pay their own contribution to the optional pension system, without any employer's contributions. In this case we may find 32% of

participants (end-March of 2008) to the optional pension funds that represent "retail" market.

A compulsory private pension fund can not go bankrupt whereas all administrators of private pension contribute to the Guarantee Fund of the pension system, administered by the Committee of Private Pension. In accordance with the provisions of Law no. 411/2004, COSPP authorizes, endorses, controls and monitors all private pension funds. The regulation, coordination, supervision and control of activities of private pensions are the main coordinates of COSPP according to which they operate and protect the interests of participants and beneficiaries. One of the main objectives of the institution is ensuring the effective functioning of the private pension system and the necessary information.

In the first six months of 2008, COSPP approved and launched in the public debate over 15 acts, studies and analysis of the private pension system, participated in special events and meetings, both held in the country and abroad, also granted penalties for breaching the laws in the field.

The growing of insurance markets and private pensions in Romania is inevitable, but nobody can say how much they will increase.

Although there are enough insurance companies to be concerned by the increasing market share, what is really important is the tendency to look to the final outcome. It notes the increasing importance of quality service to policyholders. A key role in developing the insurance will have the education of population, while we witness an increase of the purchasing power.

Pillar II private pension is, alongside the introduction of the flat tax, one of the most significant achievements of the current legislature in terms of developing economic environment. Private pensions market, either optional or compulsory, is at the top of the road.

For 2009, COSPP has ambitious plans, intending to promote another bill that would make corrections and changes in November to the Law no. 411/2004 on compulsory private pension funds, as well as to the Law no. 204/2006 on optional private pensions. The new law would introduce a series of new concepts, and a liberalization of the pension funds market. The project is still in

an early stage, many issues are still being discussed within the COSPP. Among the most important changes there are:

- introduction multifond: pension companies will be able (Pillar II) or will be forced (Pillar III) to administer at least 2 and 3 respectively pension funds, at different risk investment, so that participants can change options during the period of accumulation of contributions, according to the risk and the period of contribution that we still have to go;

- Average accepted yield calculation will be done differently by groups of risk investment;

- relaxation (Pillar II), or even elimination (Pillar III) of quantitative limits on imposed percentage for the investment of pension funds.

Also, COSPP intends to continue in 2009 lobbying to increase the deductibility on optional pensions, to accelerate contributions to the required pension funds.

Current legislation ensures the functioning of pension funds, without any risk, through numerous controlling ways, guarantees establishing the existence of the depositary and audits of companies authorized by CSSPP. The legislation will not be but never complete, there will always be processing in the light of market developments, the problems reported by operators and supervisory bodies. The practice is to say, certainly, the final word.

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