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The Public Pension System of Romania between Crisis and Reforms. The Case of Special Pensions System

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Abstract. *The public pension systems have real difficulties, at the international level. The public authorities take different measures to reform the system, the multi-pillar system being considered as a "miraculous" solution. The incidence of the political factor is significant for the particular reforms and the social inequities will remain, no matter the specific efforts, as long as the interests of the financial institutions and the political factor stay strongly interconnected. Special pensions raise political and academic debates, mainly for the sums received by their beneficiaries. In this study we analyse the actual stage for the specific reforms and the degree of social inequity for the special pension case.*

Keywords: social security; revenue redistribution; public pension reform; social equity; special pensions.

JEL Codes: G23, H55, J26.
REL Codes: 7G, 13J.

1. Introduction

When Central and Eastern European countries began socio-political and economic transformations in the late 1980s, all countries started the process of reform of their public pension systems as well. From 1991, Romania had started the reform in this important area, but the inequalities in the public pension system were not solved even after 20 years.

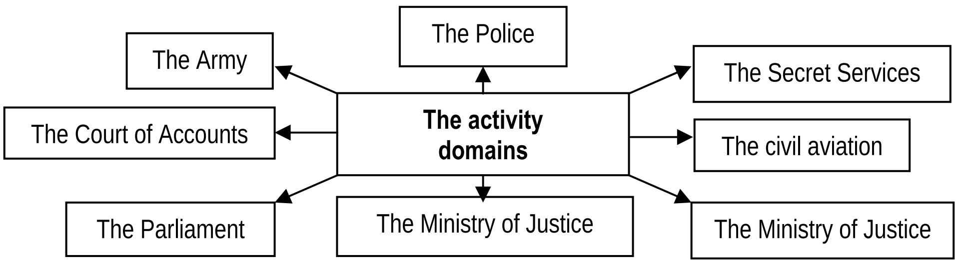
State actions, through its pension reforms, can distribute the economic costs of reforms unevenly across different groups. Researchers should thus consider the intersection of age relations with other inequalities, including gender and social class (Calasanti, Slevin, 2001). In this paper, we analyzed the intersections of age, retirement age required by the law, the period of contribution to the public pension system and social class by evaluating the extent to which persons of certain age groups and social classes are differently affected by the radical transformations of public pension systems in Romania.

Generally speaking, *social equity* (Adams, 1963, 1965, Thibaut, Walker, 1975) has been defined as a theory that explains how individuals evaluate the level of investment they make in an exchange situation against the level of benefit received by their exchange partner and can be described in various ways including consistency in their treatment, judgments made about the level of outcomes being in proportion to their inputs and according to the principle of reciprocity (Park et al., 2010). Specifically, the inequities in the public pension system are common phenomena in several countries of Central and Eastern Europe, as is the case of Poland, a country with which we are alike in many ways. We will make a comparison for the special pension case between those two emergent countries in the next sections of the article.

An accurate social equity definition is also provided by Ciucur et al., 2004, who state that *it challenges the equality of rights for the generations that are coexisting and they are coming-next-after in life*. In the context of public pensions, we consider that this definition emphasizes the fact that people must have the same rights (including the amount money that they receive during the retirement period), for the same paid contributions in their active life. Otherwise, the opposite situation will generate irritation among the individuals that are hampered by the unjust system.

The article 47 from the Constitution of Romania stipulates that *The State shall be bound to take measures of economic development and social protection, of a nature to ensure a decent living standard for its citizens*. The real situation is, to a certain extent, different from the cited principle form the Constitution, because at this time there are huge discrepancies between the pensioners' incomes. According to the National House of Pensions and Other

Social Security Rights, the average pension received in June 2010 by an ordinary retired individual was 740 ROL, much lower than the one received by an individual who has worked in the civil aviation that was 9169 ROL. Thus, we consider that an ordinary retired individual who lives in Romania doesn't have a respectable living standard. Even if during his active life the person who has worked in the civil aviation had earned much money than the other one, though the differentiation among their incomes wasn't so large. For making possible the existence of the special pensions, the difference between these ones and the real pension is financed from national budget(1).



Source: Our own findings.

Figure 1. *The privileged sectors with special public pension*

In the Romanian economy strongly affected by the financial crisis, the social security budget has a huge rising deficit, estimated to reach at the end of 2010, about 1.7 billions euro. The financial practitioners' expectations regarding this deficit(2) were among the reasons to have a negative perception, in the mass media and among the majority citizens, against the amount of money received as special pension, by the individuals who have worked in certain privileged economic sectors, as: the Army, the Police, the Secret Services, the Court of Accounts, the civil aviation, the Parliament, the Ministry of Justice and the Ministry of Justice.

This study is structured as follows: in Section 2 important aspects regarding the pension system reform were presented in an international context, in Section we analysed the most important legal provisions regarding special pensions in Romania. Section 4 presents some important statistical data for Romania in order to reveal the inequities from the public pension system, especially determined by the social class. Sections 5 contain some particular issues regarding the legal differences between "ordinary" public pension and the special ones, with numerical results related to the dissimilarities regarding the pension's specific calculation formulas. Finally, we have the conclusions of the study.

2. The pension system reform between necessity and fulfilments. A brief analysis in an international context

After the falling of communism, East European states had to rethink the entire pension system philosophy and to implement radical reforms. Among the factors that made the reform in CEE necessary, the most important were considered: the demographic tendencies, the informalization of economy in post-socialism, the diminishing of the state's tax collecting capacity, the migration towards the West of Europe for a significant part of the active population, the devaluation of the reserves held by the pension funds in the context of a considerable inflation rate during the transition period (Rutkowski, 1999, Kritzer, 2002, Schmahl, Horstmann, 2002, Schmahl, 2002, Fultz, 2003, Rein, Winfried, 2004).

The reforming of the pension systems and of those of social protection for the third age are problems which present interest in an international context: Western Europe, North and South America, or Central and Eastern Europe (CEE). Advised by the World Bank, many of these countries considered necessary to create a multi-pillar system that would take a part of the pressure over the public budget. Experiments were made, for the first time, with questionable results, in Latin America (Orszag, Stiglitz, 2001, Mesa-Lago, 2002, Stiglitz, 2002). The public system is also affected by the low level of absorption in certain economic sectors, because of the low possibilities of professional re-conversion, especially for the age group of 50-60 years (Pelleg, 1998). In these conditions, appears a complementary effort from the part of social security budget, because there is the obligation of additional payments for the anticipated pensions. In the same time, international institutions like the World's Bank and the IMF insisted that the CEE countries to adopt a multi-pillar pension system offering the example of the states that have already implemented such strategies, and insisting on the macroeconomic correlations awaited between the development of the private pensions system, the development of the capital market and the economic growth (Impavido, 1997, Muller, 1999, Srinivas, Whitehouse, Yermo, 2000).

Arza (2008) made an interesting diagnostic analysis of the mixed pension system established in Argentina in 1994 and notes that "over the past two decades, major transformations of social security systems have taken place worldwide. Ten Latin American countries have privatized part or all their pension arrangements, and similar processes can be found in nine Central-Eastern European and ex-Soviet Union countries. Other Western European countries (such as Sweden, Denmark, and Italy) have also created individual funded accounts as a new layer of their dominantly public system of old-age income protection. Nowadays there are roughly 23 countries which have mandatory systems of private individual accounts and many others where private arrangements are voluntary" (calculated from International Social Security Association Database *Social Security Worldwide)*.

The integration in the European Union (EU) of most CEE countries made the EU undertakings to facilitate the pensions' transferability inside the Union and made the prudent person principle as a premise for the pan-European reform of the pension system to be an actual issue in the Eastern Europe, too (Fultz, 2003, Wagner, 2005).

The viable solutions were those of creating of the pillar II (privately and compulsory administrated), III (privately, but facultative administrated), and even a pillar IV (privately, and also facultative administrated), especially created in countries like Bulgaria and Hungary, for the stimulation of investments on a larger trellis of actives (obligations, mutual funds, commerce effects), than that allowed for pillar II and III (Zoltán, 2004).

Due to the population ageing, the active part of the population diminishes and each country must implement particular reforms, depending on the social aspects that must be considered (Harris, Painter, 2002). The success of these reforms is sustained by the existence of over 20 million clients (pillar II and III), in Poland, the Czech Republic, Bulgaria, and Hungary (representing about 31% of the population).

Arza (2008) correctly pointed out that "private pensions could be less susceptible of political manipulation, due to property rights and private management: political pressures for poor design features – such as early retirement, non sustainable pension levels, and hidden redistribution to influential groups – are avoided because each person's contribution determines the benefits that retrench). Competition and choice were two additional elements attached to funding and private management. Competition between administrators was expected to increase efficiency in capital allocation (World Bank, 1994), while individual choice would make the competitive system work better by encouraging firms to be more efficient".

It can not be underestimated the theory according which the design of one pension system is the result of political compromises, too, and reflect the ideas that prevail at a given moment of time as well as the balance of power in the political process (Castles, 1982, 1993, Esping-Andersen, 1990, Korpi, Palme, 2003, Arza, 2008). Moreover, structural pension reform was considered as a politico-economic strategies of "signalling" the international community on the commitment of government toward structural change (Arza, 2008) in order to improve the country's standing for foreign investment (see Barr (2002) and Orszag and Stiglitz (2001) for theory-based analyses). A considerable financial literature was developed especially after 90's regarding the interest group's influence on pension systems (Verhoeven, Verbon, 1991, Breyer, 1994, Grossman, Helpman, 1998). Kemmerling and Neugart (2009) develop a model in which firms from the financial market lobby the government to lower compulsory contributions to the public pension system. Firms lobby in order to increase demand from households for their old-age savings products. They argue their theories taking two major pension reforms in Europe – UK and Germany, exemplifying the influence of financial market lobbies on pension policies(3). The pension reform in the UK (1987) involved a significant reduction in public pension scheme and introducing a mandatory private savings with a huge development of the number of private pension contracts from 1.3 million in 1988 to 5.7 million in 1994 (Bonoli, 2000).

Pinto-Duschinsky (1989) demonstrated that roughly half of the funds for the (re)election campaign of Mrs. Thatcher and the Conservative Party was financed from the donations of the firms operating in the financial sector. "On an anecdotal basis one may note that Thatcher rewarded many of her donators directly. For instance she made them elected peers in the House of Lords so that the percentage of peers coming from the financial sector climbed steadily (Riddle, 1989; Shell, 1985). The close financial and personal ties of the Thatcher government generated well-known benefits for financial service companies in many policy areas such as corporate taxation or exchange rates (Helleiner, 1994). Overall, it is very plausible that the financial sector exerted a strong and effective lobbying on the nature of pension reform in 1986" (Kemmerling, Neugart, 2009).

The financial situation of social security in Romania (similarly with Latin American countries) had been weak for some time when reform started to be discussed. The lack of adequate actuarial basis for the pension schemes conducted to financial imbalances. The first significant moment of imbalance was in the year 1995, when revenues of social security budget (as a % of GDP) were exceeded by the social security spending (as a % of GDP) and this situation remain in this deficit until 2005. The years 2006 and 2007 were the single two years with no deficit for the social security budget from the entire period between 1995 and 2010. So, the public pension system required increasing budget transfers and it must be noted that financing problems were not just the result of system maturation. Starting from 2008, the deficit of this budget had an exponential growth, up to 2,000 millions ROL in 2008, and around 6,500 millions ROL, in November 2009. If the political factor will be taking into consideration, an interesting monthly evolution of the social security budget deficit can be observed in the year 2009, a year with disputable public election for the Romanian presidency. Therefore, the budget execution had a deficit which rose from 400 millions ROL in January 2009 to 2.5 billions ROL in August 2009 (cumulative values from the beginning of the year) and in November 2009 was transformed in budget surplus of around 796 million ROL. In the year 2010 the macroeconomic context was changed dramatically and public accounts were less able to cope with deficits. The cumulative values of the deficit for the social security budget rose from 1.7 billions ROL in February 2010 to 2.6 billions ROL in March 2010 (cumulative values).

In Romania, as in other countries with significant problems in PAYG system, the multi-pillar pension system it was seen as an almost "miraculous" solution, in order to achieve permanent financial sustainability. But Arza (2008) very clearly pointed out the expectations and the reality regarding the two pension systems: defined contribution (DC) versus defined benefits (DB). (1) The DC system is better suited to face the demographic transition, and (2) DC system is always financially balanced because individual benefits are equal to individual contributions. But the reality is like this: "while demographic change affects PAYG systems by shrinking the contribution base (the number of workers, and hence pension system revenues), it may affect funded systems by a mismatch between supply and demand of financial or monetary assets" (Arza, 2008). The DB system sets the value of benefits and then adjusts the other parameters (contribution rates, subsidies, retirement ages, etc.) to get the resources required to pay for those benefits. The DB system sets the parameters and makes adjustments on the benefit side. "In the long-term equilibrium can be obtained, not because administration is private, nor because the system is funded, but because benefits are no longer defined and can thus adjust automatically to existing resources. The political feasibility of such a system will depend on the performance of the pension fund market and the ability of governments to contain the political and social costs of crises on benefit levels" (Arza, 2008).

The DC system is considered, in theory, very useful in order to prevent the old-age poverty. The studies realized for other countries which have experienced the multi-pillar system before Romania (and similar countries from Central and Eastern Europe) proved that in economies with significant unemployment rates, high rates of informality and tax evasion the capacity of this system to guarantee poverty prevention is extremely limited. For example, in Argentina, according to Bertranou and Sanchez (2003), only around 8% of workers who have paid contributions at some point in time do it systematically year after year – the rest have contributory gaps and may also find it hard to achieve the 30 years required to get basic benefits.

In the last few years, World Bank and different authors, such as Gill, Packard and Yermo (2005) and Holzmann et al. (2005) propose a "zero-pillar" – a non-contributory benefit specifically oriented to prevent poverty. Romania adopts in 2009 a law referring to minimum social guaranteed public pension (Law no. 196/2009) with a monthly level of 350 ROL. In June 2010, the designation of this indicator was changed in "social indemnity for pensioners" and its level can vary depending on the evolution of the macroeconomic variables and based on the level of the financial resources (Law no. 118/2010).

Another myth regarding the DC system is about the exempt from the plitical risks. Barr and Diamond (2006) has demonstrated that the private pension market action under this type of risk, due to the fact that pension system parameters continued to be dependent on the political cycle and the socio-economic environment of the country. For example, the Romanian case regarding the raising of the percentage which can be invested in state bonds (up to 70% from the private pension funds' portfolios) is not an exception. A similar case is Argentina in 2007: "in the wake of public debt default, the elimination of the maximum investment limit was a policy concerned with financing state deficit (to which pension reform had itself contributed), rather than with securing pension savings" (Arza, 2008). PAYG systems also suffered from political risks, which are well documented. But while in the old PAYG DB system pensioners could (at least in theory) claim their benefit entitlements to the state, in the new system there is no ex-ante benefit to claim: political risks are fully borne by current and future pensioners.

Generally in the European Union and particularly in Romania, the population aging and the fast approaching retirement of the large cohorts of baby-boomers put very much pressure on the PAYG pension systems. It is widely agreed that providing future retirees with benefits of similar size to that enjoyed by current generations can only come at the expense of large increases in future payroll taxes. Therefore, most industrialized countries have made various attempts to reform their pension systems, by targeting lower benefits and greater labour participation by their more senior workers (Martin, 2010). Different models were made in this context, from the original Auerbach and Kotlikoff (1987) to models of Auerbach et al. (1989), De Nardi et al. (1999), Kenc and Perraudin (1997a), Hirte (2001), Fehr et al. (2005), Rojas (2005), Fehr et al. (2003), Díaz-Giménez and Díaz-Saavedra (2009), Martin (2010), for different European countries, like Germany, Norway or Spain.

A very recent model developed by Martin (2010) reveals that all the measures which has been taken by the Spanish Government regarding the public pension system (in 1997 and 2001, respectively) completely fail and determine larger pension liabilities (the pension system would run into deficit from 2018, and the imbalance will peak around 2045, at a figure greater than 14% of the GDP). The most important changes made in these two moments were: to extent the length of the averaging period for contributing to the pension system from 8 to 15 years and to reduce the annual early retirement penalty from 8 to 7% (1997 reform) and to extent the entitlement to retire early to all cohorts, irrespective of when they had started to make contributions, compensated somewhat by the one-year-increase in the Early retirement age (2001 reform[(4)].

Martin (2010) takes into consideration in his model two different measures to reduce the liabilities of the public pension system: (1) delaying the legal retirement age (up to 67 years) and (2) extending the averaging period in the pension formula (from 15 to 40 years) to cover most of the individual's life-cycle[(5)].

The public measures which had been taken in the last 10-15 years (or more recently, differ from country to country) do not include correctly the population aging phenomena into the macroeconomic model (and implicitly into the adopted regulations) because the costs are transferred to the future cohorts and reveals the unwillingness of current cohorts (who control the political process) to share a part of the future costs of aging. The proposed measures distribute the efforts both for current and future generations.

In Romania, starting from 2009, different measures were proposed and a part of them were already implemented, even if there are a lot of public voices who criticized these regulations. A new law for the public pension system was proposed by the Romanian Government, in order to reduce the deficit of the social security budget. The political principle affirmed by this public authority to be the foundation for these "reforms" is to show more consideration to the social equity concept and simultaneous to equilibrate the PAYG pension system.

So, they proposed to rise the age for normal retirement to 65 years for both women and men, to eliminate the special pensions and to recalculate them on the general basis (applied for the most part of the categories of the social contributors). The Romanian Government had in mind to reduce all the public pensions with 15% at least until 2011, in order to reduce the social expenditures, together with the other forms of public social indemnity (such as unemployment assistance, the maternity subsidies, etc.). The proposed public pension cut was considered an unconstitutional measure and is not applied, but the rest of the reductions were adopted and already put into operation through the Law no. 118/2010.

Because until August 2010 the project for the new regulations regarding a "new" public pension system is not adopted, we will analyze in the following parts of the article the measure which was considered and presented to the public opinion as the most "social equitable": the removal of the concept of "special public pension". Because the most part of the social contributors are "normal" ones (with pension calculated based on the active working life and the normal stage of contribution), it can be considered as the less disputable decision in the public pension system in this period of strong financial and economic crisis for Romania.

3. Legislative changes regarding special pensions in Romania

The second article of the Law no. 19/2000 regarding the public pension system and other social security rights, published in the Official Journal of Romania no. 140 from 1 April 2000, defines the *equality principle, which guarantees to all the participants in the public pension system, as contributors and consumers, an undiscriminating treatment as regards their rights and duties.* This principle is applied to all the participants in the public system, by using a calculation method based on the pension point's[(6)] accumulation. The exceptions from this principle are the special pensions, which are determined on the basis of the specific laws according to the specific sector.

Table 1

Changes of the legislation for the special pensions in Romania

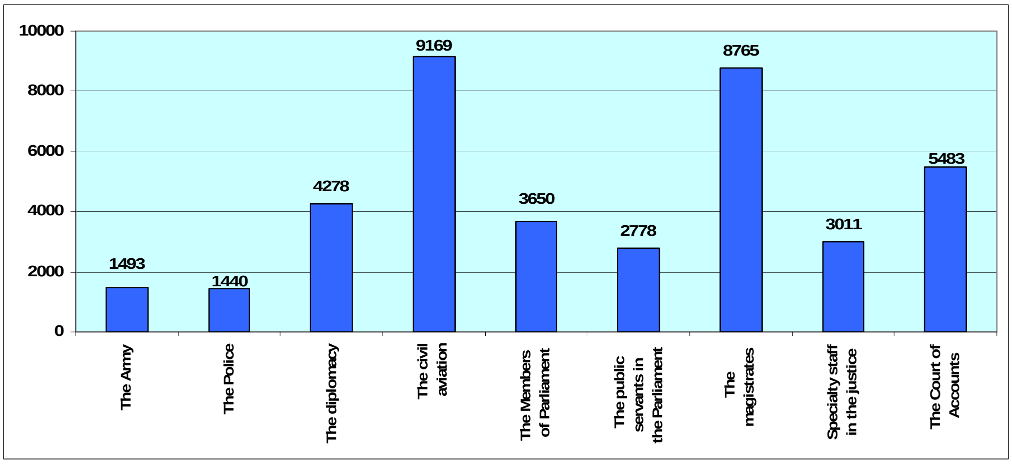
The sector	The specific legislation
The Army	The actualised Law no. 164/2001 regarding the public military pensions, published in the Official Gazette no. 748 from 14 October 2002
The Police	The actualised Law no. 179/2004 regarding the public pensions and other social security rights of the policemen, published in the Official Gazette no. 633 from 13 July 2004
The Ministry of Justice	The actualised government emergency ordinance no. 36/2003 regarding the retirement system for the diplomacy and consular members, published in the Official Gazette no. 376 from 2 June 2003
The civil aviation	The actualised Law no. 223/2007 regarding the statute of the civil aviation navigator staff form Romania, published in the Official Gazette no. 481 from 18 July 2007
The Members of Parliament	The actualised Law no. 96/2006 regarding the deputies and the senators statute, published in the Official Gazette no. 763 from 12 November 2008
The public servants in the Parliament	The actualised Law no. 7/2006 regarding the public servants in the Parliament statute, published in the Official Gazette no. 35 from 16 January 2006
The magistrates	The actualised Law no. 303/2004 regarding the magistrates statute, published in the Official Gazette no. 576 from 29 June 2004
Specialty staff in the justice	The actualised Law no. 567/2004 regarding the specialty staff in the justice statute, published in the Official Gazette no. 1197 from 14 December 2004
The Court of Accounts	The actualised Law no. 217/2008 regarding the Court of Accounts structure and operating, published in the Official Gazette no. 724 from 24 October 2008

Source: Our own findings according to the legislation for the special pensions.

4. Statistical analysis regarding the special pensions in Romania

In 2010, there are about 200,000 individuals who receive special pensions and their total cost for the public budget reach at about 1% of GDP, almost equal with the social security budget deficit. From March 2009 – since the statistics was published until June 2010, the number of the special pension's beneficiaries has increased sharply in all the sectors, between 3.8% in the case of the Parliament Members and 23.7% in the case of the magistrates. The augmentation is higher than the increase in the case of the ordinary pension's beneficiaries which was about 1.3%, during the same period of time.

We conclude that the high value of the special pensions is an incentive for the potential receivers to have an early retirement, hoping to preserve the special pension advantage for a long period of time. Another incentive for their early retirement is the approval of the Law no. 119/2010 regarding some measures implementation in the pensions' domain, published in the Official Gazette no. 441 from 30 June 2010, which will apply the same calculation regulations as for the ordinary public pensions, to these advantaged beneficiaries, excepting the magistrates.



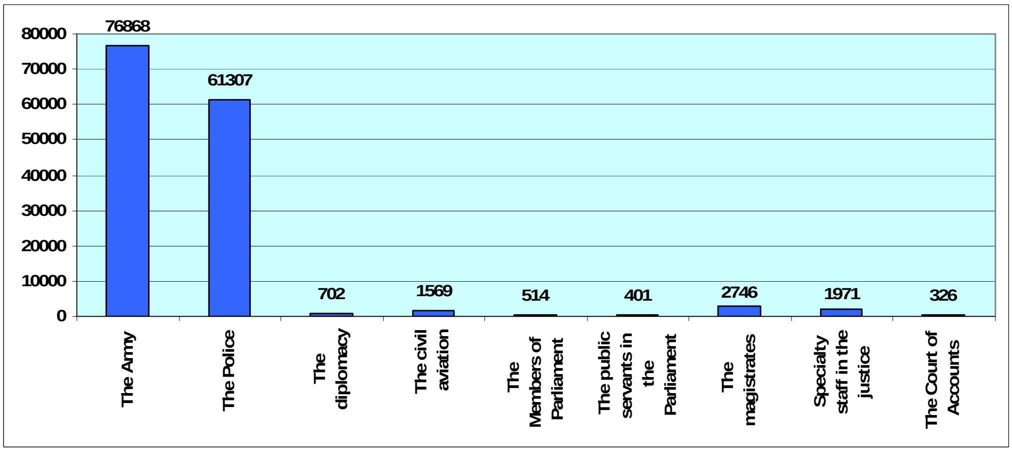
Source: Our own findings based on data from the Ministry of Labour, Family and Social Protection.

Figure 2. *The average level of the special pension received in June 2010 (ROL) in different "special" economic sectors*

Each of these advantaged sectors has its own law and there is a consistent discrimination between the specific regulations, which creates a strong differentiation between the average pensions received by their members. As we can see from Figure 2, the highest level of public "special" pension is in the civil aviation sector, about 9169 ROL, and the lowest level is in the Police, about 1440 ROL. Nevertheless, fewest privileged sector has a level of public pension double than the average one received from the social security budget.

The special pensions beneficiaries are interested to maintain their privileges and they invoke the principle that a gained right (the pension) may not be taken back. Until September 1, 2010 the special pensions will be recalculated according to the same rules for all the social security pensioners, with the exception of the pensions from the Army and the Police, which will be recalculated Until January 1, 2011.

There is not enough transparency about the special pensions' beneficiaries in relation to the sector where they have worked before. For example, we have no information about the number of the pensioners who derive from the secret services and also about the amount of their pension.



Source: Our own findings based on data from the Ministry of Labour, Family and Social Protection.

Figure 3. *The number of beneficiaries of a special pension in June 2010*

Analyzing the beneficiaries' number of special pensions we observe that most of the people have worked in the Army – 76,868 and in the Police – 61,307 and the fewest people have worked in the Court of Accounts – 326 and as public servants in the Parliament – 401. The Army and the Police have their own House of Pensions, and the social security contribution for an employee in these domains is only 5%, much smaller than the contribution for the other employees.

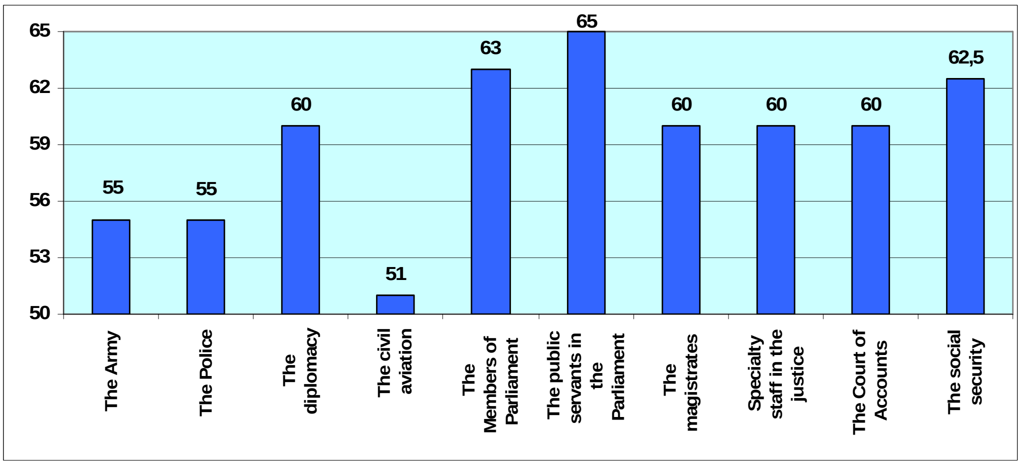
5. The special pensions vs. the social security pensions

Analyzing the specific legislation regarding the special pensions and the social security pensions, we noticed that there are two major distinctions: regarding the retirement age and the complete contribution period and also the pension's specific calculation formulas.

5.1. Distinctions regarding the retirement age and the complete contribution period

According to the social equity principle, the employees who have worked in the same conditions should have the right to retire in the same moment. In Romania, there are three possible working conditions: ordinary, difficult and special. The people employment in one working condition category is done according to the specific risks of the job.

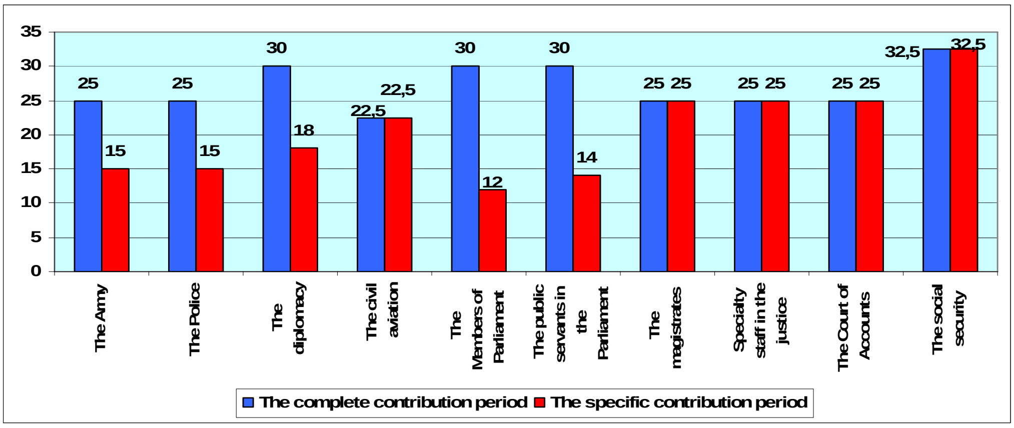
An individual who retires earlier has the opportunity to receive the pension a longer period than the one who retire lately. For example, a man whose life expectancy is 68 years will obtain the pension for 18 years, if he was a pilot and for only 3 years, if he was an ordinary employee.



Source: Our own findings according to the pension's legislation.

Figure 4. *The standard retirement age*

From our estimations, the retirement age for the civil aviation sector is an average value between the pilots retirement age (50 years) and the technical navigator employees retirement age (52 years). We determined the retirement age for the social security as an average between the men retirement age (65 years) and the women retirement age (60 years). In the privileged sectors, both men and women retire at the same age. The earliest retirement age (51 years) is in the civil aviation and the latest one (65 years) correspond to the public servants in the Parliament and to the social insured men. The pension legislation for the workers in the Army and in the Police stipulates that they may retire starting at 50 years, if their jobs are restructured.



Source: Our own findings according to the pension's legislation.

Figure 5. *The complete and specific contribution period to the public pension system*

We determined the complete contribution period for the civil aviation sector as an average value between the pilots complete contribution period (20 years) and the same index for the technical navigator employees (25 years). We calculated the complete contribution period for the social security as a mean between the men complete contribution period (35 years) and the same index for the women (30 years). In the privileged sectors the men and the women have the same complete contribution period. The minimum complete contribution period (25 years) is in the Army, in the Police, in the magistrates' case, in justice specialty staff case, in the Court of Accounts case and the maximum complete contribution period (32.5 years) match to the social security.

The minimum specific contribution period (12 years) is for the Members of Parliament, in the magistrates' case, in specialty staff in the justice case, in the Court of Accounts case and the maximum specific contribution period (25 years) corresponds to the magistrates, to the specialty staff in the justice and to the Court of Accounts employees.

In Poland we found a similar situation, the 1991 Act maintaining the inequalities by preserving pension advantages granted to uniform-service personnel (such as the military and police) in terms of both age eligibility and benefit levels. Wiktorow (1995) showed that, as a result, many workers in these occupations could collect high retirement benefits at lower ages than anyone else, even before the age of 50, while still continuing gainful employment. The 1990 and 1991 Acts thus helped the most impoverished elderly, but also maintained a system of occupational privileges that shaped class and gender inequality among pensioners. Zajicek, Calasanti and Zajicek (2007) have highlighted that, in 1995, "the average monthly pension for both the military and the police was more than double the pension for the general population ($347 and $291, respectively, compared to $139)". In fact, in 1995, "the average salary was 32% lower than the average military pension" (Wiktorow, 1995). And a 1997 study estimated that "a retired lawyer with 40 years of employment and five years of higher education could expect to receive a pension in the amount of $521; a skilled worker could anticipate $277; and a nurse or a librarian about $210" (Zienkowski, 1998) – an amount just above the minimum pension.

In conclusion, the social equity principle can not be observed, because the individuals who have worked in the advantaged domains retire earlier and have a lower complete contribution period than the social insured employees.

5.2. Dissimilarities regarding the pension's specific calculation formulas

In this chapter we will compare the pension received by nine persons (men), who had identical conditions during their active life, but each of them has worked in a different sector. We suppose the following hypothesis:

- during his active life each man started to work at the age of 25;
- the gross salary of the employee was, in the last six months, of 5,853 lei per month;
- the worker has retired as early as the specific law allowed, in June 2010.

We will establish the type of public pension he had the legal right to receive, as it follows:

a) *An employee who has activated in an ordinary sector of activity*. With the purpose to retire in June 2010, a male should have 63 years and 10 months old and he must contribute to the social security budget for 32 years and 8 months. The average gross income in Romania was 1951 ROL in June 2010, the employee has 3 pension points in the last worked month and we assume that he has an identical score for all the contribution period. The pension point value is 732.8 ROL. The social security pension is calculated multiplying the pension points number by the pension point value.

The social security pension = 3 × 732.8 = 2198.4 ROL, that is 2,199 ROL.

b) *An employee who has activated, in normal conditions, in the Army or in the Police sector*. He is 55 years old and he has contributed at his own House of Pensions for 30 years, as military man or as policeman. The special pension is calculated multiplying the gross salary with 60%. In addition, he will receive 2% from his gross salary, for every supplementary year above the complete contribution period (25 years).

The special pension = 60% × 5853 + 2% × (30 – 25) × 5853 = 4097.1, that is 4,097 ROL.

c) A*n employee who has activated in the Ministry of Justice*. In June 2010 he is 60 years old and he has contributed at the social security for 35 years, as a diplomat. The special pension is calculated multiplying the gross income of the employee by 80%. In addition, he will receive 1% from his gross income, for every supplementary year above the specific contribution period (18 years).

The special pension = 80% × 5853 + 1% × (35 – 18) × 5853 = 5677.4, that is 5,677 ROL.

d) *A former pilot who has activated in the civil aviation*. In June 2010 he is 50 years old and he has contributed at the social security for 25 years, as a pilot. The special pension is calculated multiplying the employee gross income average in the last three months by 80%. In addition, he will receive 1% from his gross income, for every supplementary year above the specific contribution period (20 years).

The special pension = 80% × 5853 + 1% × (25 – 20) × 5853 = 4975.1, that is 4,975 ROL.

e) *A former senator* who has activated in the Parliament. In the present he is 63 years old and he has contributed at the social security for 38 years and as senator for 18 years. The special pension is calculated multiplying the gross income of the employee by 80%. In addition, he will receive 1% from his gross income, for every supplementary year above the specific contribution period (12 years).

The special pension = 80% × 5853 + 1% × (18 – 12) × 5853 = 5033.6, that is 5,034 ROL.

We have to mention that for receiving the special pension, this employee must had been a senator or a deputy at least three times. For every fewer mandate the special pension decrease by 20%, respective 40%.

f) *An employee who has activated as a public servant in the Parliament*. In June 2010 he is 65 years old and he has contributed at the social security for 40 years and as a public servant in the Parliament for 18 years. The special pension is calculated multiplying the gross income of the employee by 80%. In addition, he will receive 1% from his gross income, for every supplementary year above the specific contribution period (14 years).

The special pension = 80% × 5853 + 1% × (18 – 14) × 5853 = 4916.5, that is 4,917 ROL.

g) *An employee who has activated as magistrate*. In the present he is 60 years old and he has contributed at the social security for 35 years and as judge or prosecutor for 28 years. The special pension is calculated multiplying the gross income of the employee by 80%. In addition, he will receive 1% from his gross income, for every supplementary year above the specific contribution period (25 years).

The special pension = 80% × 5853 + 1% × (28 – 25) × 5853 = 4,858 ROL.

h) *An employee who has activated as specialty staff in the justice*. In the present he is 60 years old and he has contributed at the social security for 35 years and as specialty staff in the justice for 26 years. The special pension is calculated multiplying his gross salary by 80%. In addition, he will receive 1% from his gross salary, for every supplementary year above the specific contribution period (25 years).

The special pension = 80% × 5853 + 1% × (26 – 25) × 5853 = 4,740.9, that is 4,741 ROL.

i) *An employee who has activated as specialty staff in the Court of Accounts*. In June 2010 he is 60 years old and he has contributed to the social security for 35 years and as accounts councillor for 27 years. The special pension is calculated multiplying his salary by 80%. In addition, he will receive 1% from his gross salary, for every supplementary year above the specific contribution period (25 years).

The special pension = 80% × 5853 + 1% × (27 – 25) × 5853 = 4,799.4, that is 4,800 ROL.

In conclusion, there is a huge difference between the special and the social security pensions, which is due to the different calculation formulas. Thus, the special pensions are calculated as a percent from the last salary and the social security pension is determined multiplying the pension point's number by the pension point value. Frequently, the last gross salary received by a person in the public sector is very high comparing to the gross salary received by a beginner. The point's number refers to the complete contribution period for an individual, and the pension point value represent less than 40% from the average gross income.

6. Concluding remarks

The public pension system, even in the case of existence of the multi-pillar one, is in great financial difficulties both in countries from the European Union, but in other countries, too. The private mandatory pension was seen as a solution to solve a significant part of the, sometimes, huge, imbalances of the social security budgets. But the reality is somehow different, the "magic" solution is not found yet and the political risk remain one of the most significant factor for financial disturbances in the pension system, no matter the country to be analysed. This article revealed part of these attempts and problems from different countries around the world (such as Spain, Argentina, UK or Germany) and the solutions are still waiting to be find and, after that, to be applied, taking into consideration the benefits for the persons who work and paid social or individual contributions.

Another important goal of this article was to identify the degree of social inequity from the public pension sector in Romania, because we were already convinced that the simple existence of different laws and system of calculation for the public pension will not permit to have an equitable pension system.

Even if the regulations in this area were changed over the years, the significant differences between the levels of pension remain until now. The statistical data and our example, both, revealed differences between the “special” pensions and “ordinary” public pensions and even among the different types of “special” pensions. The social security pension is the small one – 2,199 ROL and the highest “special” pension – 5,677 ROL is the one deserved to the diplomat. From the retirement age point of view, the most advantaged employees are those from civil aviation, and those from the Army and Police sectors.

From the social equity perspective we consider that would be a massive improvement the special pension’s calculation as the social security pensions and the elimination in the future of the specific advantages. As a result, the social security expenditures might decline and the retired individuals would not be considered any more as a burden for the young generation, who pay contributions.

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Notes

(1) The funding process is accomplished trough the ministry specific budget.

(2) That is very difficult to be financed during this period of time.

(3) We motivate our argument by looking more closely at time and cross-country correlates of net-replacement rates of pension systems, the scope of the financial markets, and pension reforms for OECD countries. These descriptive statistics prompt us to analyze more deeply the interplay between financial market lobbies and governments' pension policies. We focus on a causal mechanism that has hitherto been somewhat neglected, namely that governments distort policies in favor of the financial market interests in exchange for some sort of favor that they receive from these lobbyists (Kemmerling, Neugart, 2009).

(4) With these political measures, all the mild improvements achieved by the 1997 reform disappear. It means that the pension reductions achieved by increasing the minimum period of contribution to the public pension system from 8 to 15 are undone by the extension of the early retirement rights to all cohorts. Spain was back in the 1997 situation (Martin, 2010).

(5) According to the model, these reforms will be “effective” to reduce the generosity of pensions and make large groups of workers willing to stay in the labor force until more advanced ages. As a result, the liabilities of the system are reduced by 25 percentage points when the pension formula extends to 40 years and by 10 percentage points when the normal retirement is set at 67 years (Martin, 2010).

(6) This index is determined as ratio between the employee revenues and the average revenue in economy.

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