

Dynamics of the number of participants in the second pillar of mandatory private pension of Romania during May 2008 – November 2014

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Abstract

The demographic problems faced by the pension system in Romania and those related to insufficient funds to pay pensions accounted for the reasons that there were introduced in 2007, private pensions, under a new pension system built on three pillars, state pillar and two private pillars. The initial membership of participants periods to the market of mandatory private pension funds lasted four months, taking place in the period September, 17, 2007 – January 17, 2008. At the end, 4,156,316 people were registered to the 18 pension funds initially authorized of which 322 706 participants were randomly assigned. In this article we propose an analysis of how it evolved the number of participants in Pillar II of mandatory private pensions in Romania in the period following the initial accession, following these aspects: total number of participants enrolled in the Register, the number of participants with individual contributions, the number of participants with contributions paid in the current month, the number of participants with contributions paid in the current month, the number of participants without contributions, the number of participants randomly assigned, the number of participants in Pillar II grouped by age and by gender.

Keywords: mandatory private pension, participants, contributions, Pillar II, random distribution

1. Introduction

In the introduction it will be discussed the following: the evolution of the number of participants enrolled in the Register, the number of participants with individual contributions, the number of participants with contributions paid in the current month and the number of participants without contributions paid in the current month to Pillar II.

The activity of private pension funds is influenced and influences in turn the overall state of the economy. In recent years, the Romanian economy performed poorly in terms of economic growth, disinflation and control budget deficit, evolution reflected in the work at micro level, with knock-on effects, up to the employees of the company (Frunzaru, 2007 & Institutul Național de Statistică, Proiectarea populației României pe regiuni de dezvoltare la orizontul anului 2050, 2009)

Subsequent to initial accession, those eligible - aged up to 35 years, became participants in one of the private pension funds (continued adherence), on its own initiative, by signing an individual act of accession, either by random assignment of the National House of Pensions and Social Insurance (Popa, 2011).

We analyzed data relating to the evolution in time from the first month of collecting contributions, May 2008, of the number of participants in the mandatory private pension funds, with reference to: the total number of participants enrolled in the register of participants, number of

participants by age groups (under 35 and over 35 years) and gender, number of participants with individual contributions (for which contributions were transferred every month from entering the system), the number of participants with contributions paid in the current month, number of participants without the contributions paid in the current month, the number of participants without contributions (empty accounts) and number of participants randomized.

The number of persons entered in the Register has recorded a continuous increase in the six years examined, from 4156.32 thousand in May 2008 to 6252.49 thousand in November 2014, increasing by a total of 50.43%. The most significant annual increase of 9.04% (from 4156.32 thousand to 4531.86 thousand) was recorded, as expected, in 2008, and the lowest, only 3.53% (from 6039.26 thousand to 6252.49 thousand) in 2014. The continued growth in the number of participants in the system is due to the increasing number of entrants in the labour and forced by law to contribute to the system, to the voluntary joining to Pillar II of those aged between 35 and 45 years, and the fact that the number of exits in the system is slightly insignificant out of the system (cases of disability or death), whereas the first people who will retire will receive a private pension only in 2023 (Constantinescu & Constantinescu, 2005 & Dobrescu & Şeitan, 2005).

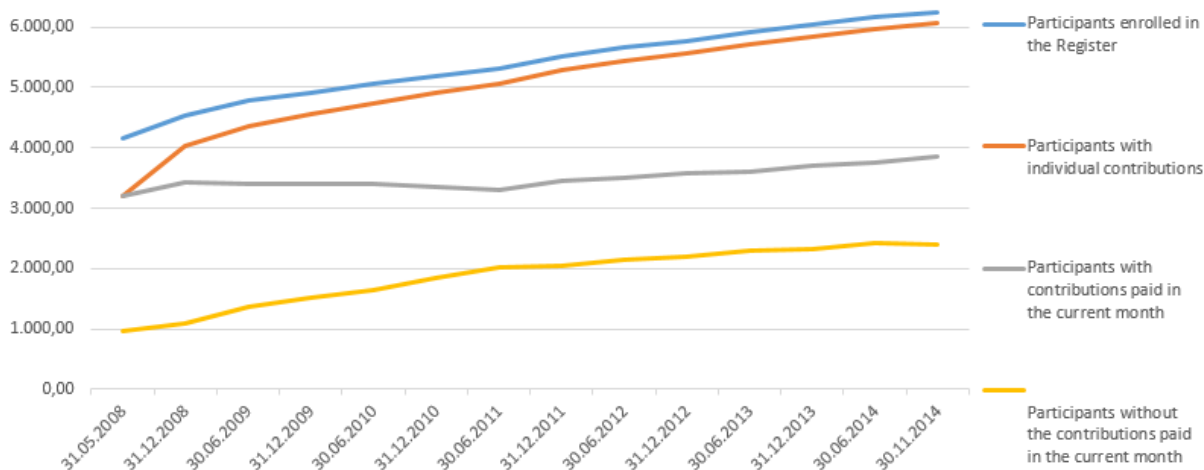


Figure 1. Evolution of participants enrolled in the Registry, of those with individual contributions, of the number of those with paid contributions in the current month and the number of those without paid contributions in the current month in Pillar II (thousand)

Source: www.csspp.ro, www.insse.ro, www.iasig.ro

And the number of people with individual paid contributions every month had a continuous increase of 90% from May 2008 to November 2014, from 3194.96 thousand people to 6070.52 thousand. And here the highest growth of 26.18% (from 3194.96 thousand to 4031.42 thousand) occurred in 2008 and the most modest in 2014: 3.85% (from 5845.32 thousand people at 6070.52 thousand). The share of these taxpayers in the total number of valid participants was also rising from 76.87% in May 2008 to 97.09% in November 2014, demonstrating the positive overall evolution of the system, but this discrepancy between the total number of participants and the number of those for which monthly contributions are paid remains quite high being an important issue to Pillar II.

A much sinuous evolution had the number of participants with contributions paid in the current month, which as a whole increased by 20.35% from the initial value of 3194.96 thousand at the final of 3845.04 thousand. The largest percentage increase of 7.56% was recorded in 2008 (from 3194.96 thousand to 3436.55 thousand), while 2010 saw the largest annual decrease of -1.36% (from 3392.28 thousand to 3346.26 thousand). Other reductions have taken place during 2009. However, the share of total participants in the Register has declined continuously since May 2008, from 76.87% to 61.5% on 30 November 2014.

A rising trend, with few exceptions, was followed by the number of participants without contributions paid in the current month, increasing by 150.8% from May 2008 to November 2014, from 961,360 thousand people to 2411.05 thousand. Here, the most important annual increases, was reaching 38.86% in 2009 (from 1094.77 thousand to 1520.21 thousand), while the smallest increase was 3.84% (from 2321.85 thousand to 2411.05 thousand) in 2014. The share of these participants in the total participants in Pillar II increased almost continuously from 23.13% in May 2008 to 38.56% in November 2014.

The almost continuous increase in the number of those without paid contributions in the current month is mainly due to the consequences of the financial crisis, which has reduced the workload of many companies or even bankruptcy of some of them.

2. The evolution of the number of participants without contributions and of the number of participants randomized in Pillar II

In the following, we recorded the evolution of the number of participants without contributions and of the participants randomized in Pillar II of mandatory private pensions from their appearance in May 2008 to 30 November 2014, whose representation is shown in *Figure 2*.

From the figure above it can be noticed the continuous decline of *the number of participants without paid contributions* into the system, from 961,360 thousand at the beginning to 170,780 thousand in November 2014, representing a decrease of -82.24%, the rate of decline becoming slower from year to year. The biggest annual decrease of -47.94% (from 961,360 thousand people to 500,440 thousand people) was in the first year and the slowest in 2014 of -6.14% (from 181 96 thousand to 170 780 thousand persons). Since the total number of participants has increased and the number of empty accounts decreased continuously, it is obvious that the *share* of the latter has been decreasing from 23.13% in May 2008 to 2.73% in November 2014.

The existence of empty accounts can be explained by the fact that employers have not submitted their declarations on time, according to the term provided by law or employers have not transferred the money in the account, even if the statements were submitted on time. It is felt therefore, among other things, the effect of mobility registered in certain segments of the labour market. It results a relatively large number of persons with contributor status changed recording inactive periods. As a result, every month, a certain percentage of contributions is, in fact, adjustments for outstanding amounts.

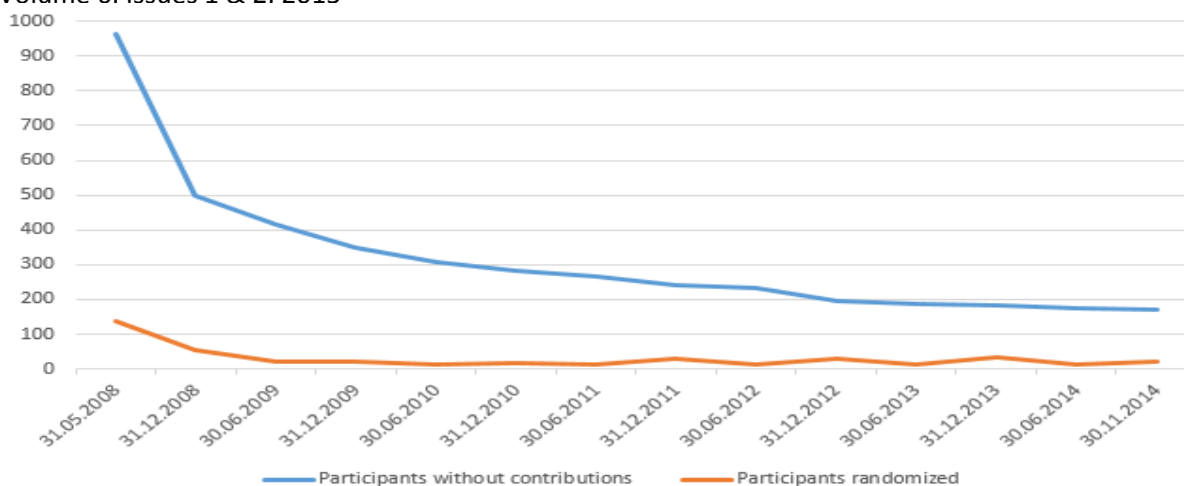


Figure 2. The evolution of participants without contributions and of those randomized in Pillar II (thousand people)

Source: www.csspp.ro, www.cnp.ro

Financial discipline of employers at the moment of the payment of contributions of participants is important because the non-transfer of money monthly from individual accounts to private pension funds could lead to decrease in operating assets and therefore ultimately of the benefits from their investment.

Another explanation of not transferring monthly contributions in certain accounts is that, for various reasons, participants were no longer employed in that month (childcare leave until 2 years of age, unemployment, seasonal work, etc.) although they were active in the previous months of joining, validation and their inclusion in the register of participants. Subsequently their reemployment, accounts for funds from Pillar II system are to be loaded again by re-payment of the contributions.

Similar to the initial membership period in 2007, when nearly 4 million people have been validated in Pillar II system, the 1st of May 2012 has given the start for accessions for lawyers, notaries, judges, soldiers, policemen, gendarmes, secret service employees, employees in prisons and of other professions in the category of employees recently integrated into the public pension system, which until then, had not contributed to the public (Mărginean, 2000). This new wave of participants in private pension funds, however, differs considerably from that originally joined. Although the number of employees with special status is not officially released, estimations are between 150,000 and 200,000 new participants. On the other hand, they have higher average incomes than the average national level and their flow is characterized by greater stability, as opposed to existing participants in whose lines enter seasonal workers and unemployed persons. In fact the last two examples are given as causes for non-transferring of money every month in accounts with amounts signifying contributions.

Clearly the most uneven development was that of *the number of the randomly assigned people* which has seen each year periods of growth and decline, falling by -84.17% from 138,18 thousand people on 31 May 2008 to 21,88 thousand in November 2014. As annual evolution, the year with maximum overall growth was 2011, when the increase was of 55.89% (from 18,86 thousand people to 29,4 thousand people), and the year with the largest decrease was 2008 of -

61.2% (from 138,18 thousand people to 53,6 thousand people), but these values are not relevant as variations and significant percentage sizes were extremely frequent. The *share* of persons in total participants assigned randomly fell from 3.32% on 31 May 2008 to 0.35% in November 2014. *It can be seen that each year the number of randomized drops most in June.*

Random assignment of people who have not opted for a specific pension fund or completed several acts of accession has sparked and sparks much controversy. By December 2009, it was made in *proportion to the market share of the funds*, which generated a huge *discrimination* between funds, the highest market share receiving the majority of participants randomized.

During 2009, Supervisory Commission of the Private Pension System (SCPPS) examined the effects of the continuous accession process and random assignment of participants on the market structure of private pension funds, to identify the optimal solution appropriate to the institution's principles ensuring efficient markets and a competitive environment and to the administrators' efforts to attract new participants in the private pension system Pillar II. Following this approach, in November 2009, (SCPPS) approved *changing the way of random distribution through elimination over a period of 2 years from January 2010, of the pension funds with a share of over 20% of the total number of participants*. For other pension funds, random assignment was to be carried out according to the number of eligible persons validated in the current month in the validation process.

3. The evolution of the number of participants in Pillar II grouped by age

One aspect that needs special consideration is the distribution by age groups of participants in Pillar II. They were divided into two groups: participants aged under 35 and participants aged over 35 years.

From Figure 3 is observed primarily the supremacy in Pillar II of the presence of those aged under 35 years, precisely because they are required by law to contribute to private pensions. In total, the number has increased by 18.24% from 2683.42 thousand in May 2008 to 3172.81 thousand on 30 November 2014. Each year, the biggest increase was in 2008, of 9.15% (from 2683.42 thousand to 2929.04 thousand people), while in 2014 we recorded a decrease of -0.53% (from 3189.86 thousand to 3172.81 thousand people). With the exception of 2008, every year there were some periods of decrease of this number.

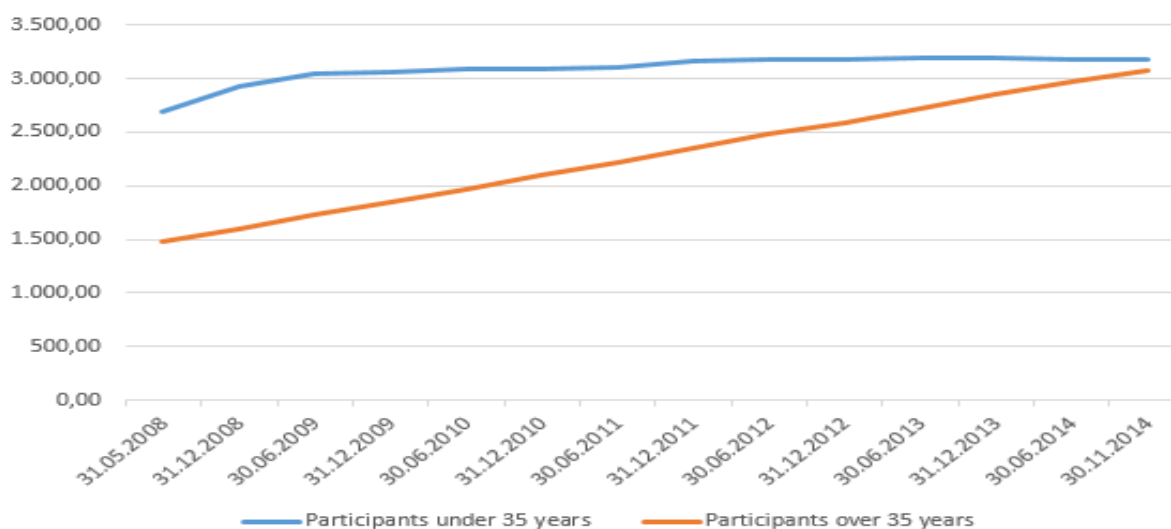


Figure 3. The evolution of the number of participants in Pillar II grouped by age (thousand persons)

Source: www.csspp.ro, www.cnpas.org

Instead, the evolution of *the number of participants over 35 years* has been steadily increasing, explained both by their age (some going in from under 35 category in over 35 years category) and by increasing the attractiveness of private pensions due to positive overall evolution of the system. Their number increased in this period by 109.09% from 1472.9 thousand to 3079.67 thousand people. In percentage, the largest annual increase was in 2009, of 15.44% (from 1602.82 thousand to 1850.33 thousand people), while the most modest was recorded in 2014, only of 8.08% (from 2849.4 thousand to 3079.67 thousand people).

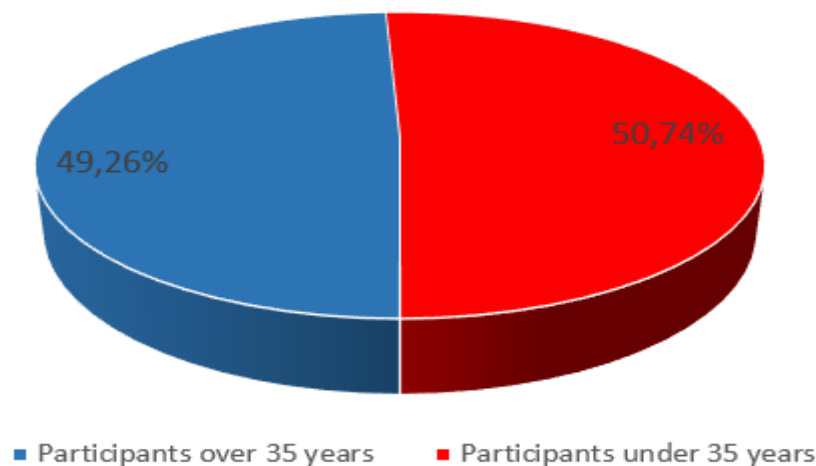


Figure 4. Distribution of participants by age categories in Pillar II on November 30, 2014 (%)

Source: www.csspp.ro, www.mmuncii.ro

Regarding *the share of each age group in the total number of participants* it has increased almost continuously the share of those over 35 years to that of those under 35 in total, from 35.44% to 64.56 ratio% in May 2008 up to the ratio of 49.26% to 50.74% in November 2014, report shown in Figure no.4. The only year in which this report has evolved in favour of those under 35 (compared to those over 35 years) was the year 2008, when their share increased from 64.56% (compared to 35.44%) in May up to 64.63% (compared to 35.37%) in December.

4. The evolution of Pillar II participants grouped by gender

Looking from the perspective of gender of participants, it is noted from *Figure 5* a slight *preponderance of men* in total participants in Pillar II. Their number has increased continuously during the period May 2008 - November 2014, a total of 53.46% from 2118,43 thousand to 3251 thousand people. Annually, the largest percentage increase was recorded in 2008, being of 10.25% (from 2118.43 thousand to 2335.49 thousand people), and the lowest was in 2014, only of 3.65% (from 3136.64 thousand to 3.251 thousand people).

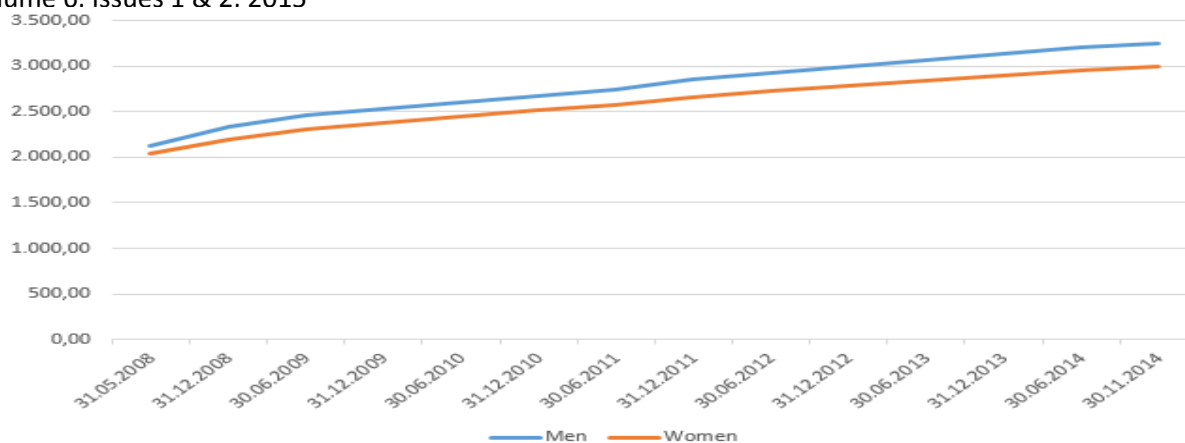


Figure 5. The evolution of Pillar II participants grouped by gender (thousand people)
 Source: www.csspp.ro

The number of women who participated in Pillar II was also in a permanent increase in the period analyzed, from 2037.88 thousand to 3001.49 thousand people, increasing by 47.28% in November 2014 to May 2008. The fastest pace of annual growth was in 2009, the number increasing by 8.31% (from 2196.37 thousand to 2378.93 thousand people), and the slowest growth occurred in 2014, being of 3.41% (from 2902.63 thousand to 3001.49 thousand people).

The share of men in the total validated participants increased slightly during the period May 2008 - November 2014, from 50.97% (compared to 49.03% share of women) to 51.76% (compared to 48.24%). The only year that the ratio of shares evolved unfavourably to men was 2010, when their share declined from 51.58% (against 48.42%) to 52% (against 48%). On 30 November 2014 the situation of participants in Pillar II assigned by genres was the one in Figure 6.

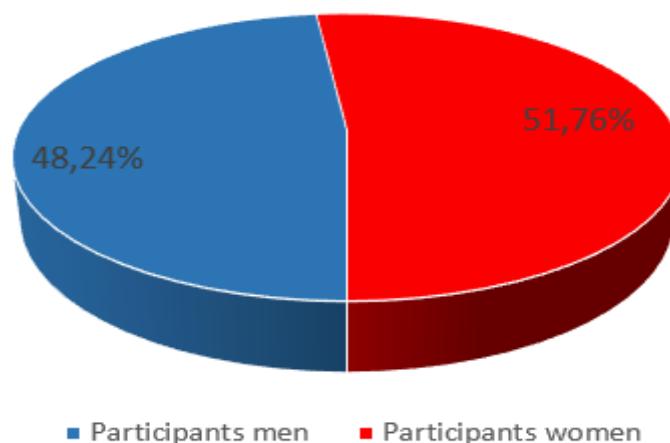


Figure 6. Distribution of participants by gender in Pillar II on November 30, 2014 (%)
 Source: www.csspp.ro

6. Conclusions

The number of participants in Pillar II system has reached 4,156,316 people, after completion of the random distribution of the 332,706 people who have not joined a private pension fund, although they had this obligation, or who signed documents for accession of more funds.

The number of employees under 45 who entered the process of automatic redistribution to a mandatory private pension fund accounted for 13% of those who could get in this initial stage of the accession process. Initial expectations amounted to about 40%.

About 34% of the 4.16 million participants who joined the private pension funds (Pillar II) were between 35 and 45 years, meaning that they have entered the system without being obliged by law. This item and the total number of acts of accession which exceeded all initial expectations sustain the success of the initial accession process to Pillar II.

In terms of number of participants, *Romania* (4.2 million participants) *became at that time the second mandatory private pension market in the region of Central and Eastern Europe* after Poland (13.3 million). Romania has already exceeded from 2007 other markets in the region, such as Hungary (2.8 million) and Bulgaria (2.7 million).

Regarding the evolution of the number of participants in Pillar II of the private pension in the period following the initial accession, it always followed an upward trend. Thus, *the total number of persons enrolled in the Register* has recorded a continuous increase in the six years analyzed, increasing overall by 50.43%, *the number of people with individual contributions paid every month* had a continuous cumulative growth of 90%, *the number of participants with contributions paid in the current month* as a whole grew by 20.35% and *the number of participants without contributions paid in the current month* increased the most in this period, with 150.8%. If we consider *the number of participants without contributions paid into the system*, it recorded a decrease in the percentage of -82.24% overall, the rate of decline becoming more slowly from year to year, while the most uneven development was that of *the number of randomly distributed* that each year has seen periods of growth and decline, overall falling by -84.17%. Analyzing the composition of Pillar II participants by age, *the number of those aged under 35* increased by a total of 18.24%, while *the number of participants over 35 years* recorded a faster continuous increase, reaching the level of 109.09%. As a share of total participants in Pillar II, people under 35 were the majority, but their share is steadily declining, they will soon be overtaken by those aged over 35 years. The last aspect analyzed was the composition of Pillar II participants grouped by gender, where we found that the number of male participants has increased continuously during the period May 2008 - November 2014, with a total of 53.46% and the number of feminine participants was also in a permanent increase with a total of 47.28%.

Delayed more than ten years, private pension represents a financial instrument of savings with tradition in mature markets, but without any history in Romania. According to estimates at the time of the companies concerned, private pensions will become the business of the next decade, a market that quickly reached one billion Euros in the first three years and will reach ten billion Euros in the first ten years.

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