PRIVATE PENSION PILLARS – AN ALTERNATIVE TO PUBLIC SYSTEM

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ABSTRACT

Nowadays, we all try to provide ourselves a better living and increase the wealth. The future is strongly related to the pension amount, especially being known the high probability of an increased retirement age. As a consequence, the International Monetary Fund has implemented the foundations of the multi-pillar system, as a response to the public difficulties faced for the last few years. The core goal of our paper is to analyze the main features of the Romanian system as a sine qua non for economic stability. We assert the accounting unit value and number of inactive accounts to be the key elements for the system assessment.

KEYWORDS: *multi-pillar system, pension system, accounting unit value, unemployment rate, accounts*.

The multi-pillar system was designed in order to provide a possible alternative for the future of social security in Romania. The main features are related to the participants' age and amount of contributions. We won't undersell the importance of the others core elements, but we stress out only these topics.

The switch to this system was thought in order to blanket the financial problem of the public pension system. Nevertheless, the issue of the guarantee provided by the private administrated funds still remains unforeseeable.

The purpose of the multi-pillar system was not to alter a positive state of facts, because it doesn't really exist. We don't need to be so anal to understand the real problems, because there are signs to prove the unbalanced financial situation:

- The state employees' wage reduction;
- The increase of retirement age for both men and women, up to 65 years old (in our opinion this is too much if we take into account the life expectancy of 68 years for men and 73 for women).

The purpose of the private pension funds system is assuring a private pension, different and that is a supplement of the public system given pension, based on collecting and investing, in the participants' interest, of a part of the social insurances' individual contribution.

The eligible persons are the ones that are **of age under 35 years old** and that are ensured according to the following stipulations:[1]

- The persons that have activities based on an individual work contract and the public servants;
- The persons that have their activity on elective functions or that are named in the executive, legislative and judicial authority, during their mandate, and also the cooperative member of a crafts' cooperative organization;
- The unemployed;
- The sole associate, the associates, the co-representatives or the shareholders;
- The administrators or the managers that have an administration or management contract;
- The members of the family association;
- The authorized persons that have independent activities;
- The employees of the international institutions, if they are not ensured by these institutions;
- Other people that make incomes of the professional activities;
- The people that have gross incomes by overlapping on a calendar year equivalent with at least 3 medium gross salaries and are in at least two of the situations of the sole associate, the associate, co-representative, etc..

Supplementary, the people **of age under 45 years old,** that are already ensured and contribute to the public pensions system, can also accede to a pension fund, in which case the obligation being inexistent.

About the contributions, a fall-off or a stagnation of the amounts that are to be switched for the second pillar cannot generate anything but the disequilibrium of the private administrated funds. This discussion is based on the fact that the Government enforced its opinions about the contributions transferred (relatively speaking) on the administrators.

We underpin the necessity to maintain the scheduled timetable for the switch of the contributions, due to a blow-to-blow analysis that was performed in order to accomplish the social security goals. We should not underplay the beginning of this process, because we have less than twenty years for the first layer of employees that are going to retire at that moment.

We must be very ardent about the second pillar implementation, as long as there will be few opportunities in the future for the today's teenagers, trying to find out a pleasant and less difficult existence[2].

If we are speaking about rates of return, there is no need for argy-bargy quarrels, as it was seen on TV and other mass-media channels because it is obvious that the whole population's interest is about yield.

It's impossible to boost the yields and provide a higher return for the elder participants by imposing a minimum percent related to inflation rate. The Polish experience is a living proof of this assertation[3].

The investments of the private pension administrators are bound to the lawmakers' regulations. As a consequence, the higher the return inflicted, more difficult to accomplish

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[1] Şerbănescu Cosmin, *Asigurări şi protecţie socială. Tendinţe europene*, Editura Universitară (Editură recunoscută CNCSIS), Bucureşti, 2008.

[2] Şerbănescu Cosmin, „Pilonii de pensii – între rentabilitate şi risc", Revista *Curierul Fiscal,* Editura Tribuna Economică, Bucureşti, decembrie 2007, pag 25

[3] Stoicescu Alina, Şerbănescu Cosmin, "Key elements to define a successful pension funds market. The polish experience", Revista *Analele Universităţii din Oradea –Seria Ştiinţe Economice*, Tom XVII, p. 585

a risky portfolio, able to generate such positive results. As financial crisis persist, the regulators must not provide harsher and harsher measures on the administrators.

We do not want to break the spirit of the nowadays employees, but without strong measures in the field of commitments it's hard to reach the expected returns. However these measures won't be conducive to appointed aims if their boundaries are unsuitable to the market realities.

Broad-brush opinions could be considered unsuited to scientific studies, but they don't have been brushed-off from analysis. The bullish regarding the private pension system is hard to achieve without strong entities operating the domestic market. The actual trend of market concentration is a sign of the system healthiness, six funds of the total eighteen authorised to conclude businesses being already absorbed by the remained ones for the last sixteen months. Never mind, this evolution was predicted by the specialists who claimed that a high concentration for the first funds, from the participants' perspective, was to be achieved.

In the following table, we compare the statistical data for the biggest East European markets: Poland and Romania. As it can be noticed, the evolutions are similar, with the specification that we have to consider the time gap between these two markets (eight years)[1]. We decided for the below split (respectively the first two, four and six funds) based on the segmentation of the Romanian market, where there are two leaders (ING and Allianz Tiriac Viitorul Tău), some other two funds were reporting a higher market share than the rest (Aripi Generali and Pensia Viva Aviva) and there are two more that qualify as important players (AIG and Eureko, ex Interamerican).

A market concentration comparative study for the Polish and Romanian privately administrated pension funds

Table 1

Number of funds	**Romania**		**Poland**	
	Market share in August 2008	**Market share in August 2009**	**Market share in August 2008**	**Market share in August 2009**
The first two	59.77%	59.39%	40.75%	40.75%
The first four	75.93%	75.74%	63.51%	63.12%
The first six	88.47%	88.74%	73.88%	74.16%

Source: The authors' analysis based on CSSPP and KNUIFE available data.

The success of the second pillar is to be conceded as long as the administrators' goals are accomplished and we are talking from both an intrinsic perspective (the administrators' management), but also an external point of view (lawmakers, political decision-makers, NGO's opinions, different organizations, etc).

Even CSSPP calls the shots on legislation, the market authority should keep on mind that business is business, but the rules must be obeyed. The administrators that get given their cards are quite important legal entities on other financial sectors.

In our opinion, there are no possibilities for the administrators operating the Romanian market to burgeon, even the limits imposed for the lotteries are quite permissive. For example, the Polish market faced stronger and harsher rules, such as: only the selected funds participate in the lottery – those which have generated rates of return higher than the

[1] Şerbaăescu Cosmin, "Pilonul II de pensii. O provocare europeană a României", Conferinţa internaţională Politici financiare şi monetare în Uniunea Europeană, Revista *AGER,* 2008, p. 148.

weighted average rates during the two past accounting periods and whose assets have not exceeded 10% of the total value of all funds. All funds meeting these criteria participate in the lottery to the same extent.

Another important topic is related on marketing agents and their role in the future development of the market. Even the marketing agents were trying to follow-up “specific” information in order to get financial advantages from their skills, actually we have legal background to prevent this from happening. Off the record, we have to realize that it is abnormal for the marketing agents to receive „hush-hush” information, because the provider could be at the helm in cases of „data leak”. Alas, the final legal document on this matter was promulgated a little bit too late, so frauds were not entirely prevented.

The third pillar is also an important aspect of the multi-pillar system, but the fringe in the private sector and the complementary tax burden (as it was stated in the amended Tax Code in mid 2009) are also causes for the give in to attend third pillar.

Additionally, the deductibility for the third pillar contributions should foster the market development, but the financial crisis mingled with the people’s lack of trust or feckless are still hard hurdles to overcome.

If we cave in not to fulfil a third pillar insurance, we face a possible difficult financial scenario in the future. So we have to delve very carefully about portfolios, legislation, participants and investment regulation.

Conclusions

The second and third pillars seem to be the only viable option for a safe retirement. No matter is our job or social status, the most important question the lawmakers should answer is if we are able to support ourselves in retirement. The agriculturalists’ problem appears as an awkward issue, but it is true that we cannot afford to bankroll this awry matter forever.

We have to chew on this topic of social security due to the multiple implications both on individuals and public budget. The economy is very sensible of this drift from public administrator to private administrators, as it can be seen for the second pillar starting March 2008. If we disregard this problem, we will end by not complying with the final goals: stability, equilibrium, social correctness.

Also is difficult to draw a conclusion on the future market evolution based on the negative evolution of the unemployment rate, especially if we combined it with our reluctance to convert something we think is for sure with a promise.

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