

Current Issues of Private Pension Insurance System in the Republic of Moldova

Elena FUIOR

***Trade Co-operative University of Moldova, Chisinau,
REPUBLIC OF MOLDOVA
elenafuor@rambler.ru***

Angela FILIP

***Moldova State University, Chisinau,
REPUBLIC OF MOLDOVA
filip77@mail.ru***

Abstract: *The phenomenon of aging population recorded in the last period changes significantly the ratio between employees and retirees. Thus, according to the actual pension insurance system in the Republic of Moldova (PAYG), employees have to pay for a greater number of pensions. The state policy of the majority of the countries of the world is directed on expansion of additional pension insurance which in Republic of Moldova is in a stage of the development. In the context of mistrust of many citizens to non-state pension funds, tightening reforms carried out by the state, and increased competition in this market segment research becomes extremely important. Nowadays the pension system is characterized by numerous urgent problems which demand immediate consideration due to economic reasons and demographic recession. To solve this problem, the most appropriate solution is to modify pension insurance system by that proposed by the World Bank, based on three pylons.*

Keywords: *private pension funds; income from private pension funds; pension assets, pension reserves*

Introduction

The economic crisis during the last period has intensified the need in studying the subject of formation and distribution of funds for the aging population. In a situation of financial crisis, as well as of demographic level, were found more and more weaknesses of existing pension systems in the world, facing the impossibility to honour pension promises.

Pension insurance is considered an indivisible element of social insurance system of the population of any country as it affects both the interests of pensioners as well as of the working population.

1. The Concept and the Types of Pension Insurance System

The results of the performed researches among the population of Eastern Europe have proven that, in addition to the fear of terrorism, ecological disasters and crime, they show a high degree of fear of old age [4, 102-111]. More than 60% of respondents noted that they do not want to become a burden on their relatives, to be in constant search of cheaper medicines and to depend only on pension, which is why most retirees tend to prolong the activity, as at least not to become a part of the socially vulnerable population. Experts in the field have a contrary opinion of those who are retired in Western Europe, and consider the period after retirement as well-deserved rest, when you can enjoy the travels around the world.

Countries have quite different pension systems as ways of financing, but, fundamentally, are based on two models, Bismarck and Beveridge. The first is based mainly on contributions with express purpose of social protection: moderate share of wages in GDP about 45-50%, increased level of resources reserved for compulsory social insurance (10-15% of GDP, optional insurance – about 2- 3% of GDP), the size of pensions being established for the majority at the level of 70% of the national average wage, the second is based on general collected taxes (UK, US, Canada) with high share of wages in GDP about 60-65%, moderate level of resources reserved for compulsory social insurance (about 12-

14% of the payroll or 6-7% of GDP), optional insurance – 3-4% of GDP. In general, according to compulsory and optional insurance, for most employees, pension size is about 50% of the national average wage. For both models applies the holding by retirees of large sums of money in savings and property.

The result is that Bismarck model tends to limit the redistribution of benefits among different income categories of citizens, while the Beveridge model inherently contains a redistribution of the collected money. Technically, the first seeks to preserve the living standards of those who contribute and maintain a correspondence relationship between the contributions paid during the period of activity and later received benefits in the form of pensions, while the second, to provide subsistence after a uniform standard [2].

In international practice there are two models of formation of pension systems: solidary and accumulation system, as well as two methods of transition from one system to another.

Solidary system is based on collecting insurance contributions directly related to the size of the salary; therefore, the size of the pension derives from the size of the salary and seniority. The principle of pension formation assumes the funding of past generation by the present one, so, the welfare of pensioners is directly proportional to the economic situation and welfare of the present generation. Specialists invoke this system a number of negative elements including: elements of equivalence of pensions, strengthening social dependence, indifference to the formation of economies, more than that, in this system the state has the monopoly role that allows it to manipulate the payment conditions and the size of pensions, not giving the pensioners the possibility to choose.

The accumulation model is contrary to the solidary system. In this case, the contributions are allocated in a special account within organizations that aim to place resources, collecting on the financial market in order to capitalize them. The solidary system is less sensitive to the problems related to the population aging process. Through the contributions paid throughout life the pensioner forms by himself the retiree pension. Among the advantages of the accumulation system we can mention that they:

- are not sensitive to demographic issues;
- allow the efficient use of the collected financial resources for the developing of the economy;
- ensure the differentiation of the size of pensions depending on accumulated contributions and their investment efficiency.

There are two methods of transition from one system to another. The first method involves the formation of voluntary funds while maintaining the state fund. The second method involves the formation of mandatory voluntary funds besides the existing state fund.

Analysing the state of actual pension system in Moldova we find stagnation to 23% from 2009 till now of the size of employer contributions and 6% as individual contributions. It should be noted that the medium term budgetary framework for 2015-2017 provides for the maintenance of these rates until 2017.

Since 1999 there can be noted an increase of revenues and expenditures of state social insurance budget by about 17% per year (the last 4 years – 10%) and 18% per year, increases due mainly to aging population and the annual indexation of pensions. The total expenditures of the State Social Insurance Budget (BASS) for 2014 amounted to about MDL 12 billion, estimating that they will reach over 11% of GDP [3].

On the background of world economic and financial crisis, with reflections in the national economy, and the country's aging population, since 2009, the State Social Insurance Budget (BASS) has been facing critical shortages. The downturn in the growth of revenues from compulsory contributions (about 7,5% per year on average) and maintaining of significant and unavoidable costs (pension shall be paid); BASS is supplied annually by over a billion MDL from the State Budget. BASS recorded in 2014 a deficit of about MDL 1.1 billion or about 1% of GDP. In 2015 is also planned a deficit of about MDL 1.4 billion, which will also be fully covered from the State budget. In the period of 2007-2010,

the number of pensioners grew by an average of 1700 people per year, while in the period of 2011-2014 the number of pensioners increased by an average of 11,700 people per year. According to the demographic forecasts, similar trends, with even more pronounced expansions will occur in the future. As a result, the size of contribution will continue to be high, replacement rate will remain low and the state, under these conditions, will be required to subsidize the social insurance budget [3].

2. Pension Funds and their Management

In the Republic of Moldova, at the moment, has been established a solidary pension system, which invoked after itself a number of issues including:

- reducing credibility of citizens towards the pension system;
- low level of average size of pensions, which is under the level of the existence of pensioners;
- reducing of the contingent that performs breakdowns to the social insurance fund, mainly caused by the 'black' employments, as well as the migration of the active population;
- exhaustion of the financial resources, including reserve funds, the social fund budget;
- rapid growth in the number of beneficiaries of all categories of pensions;
- premature withdrawal from the field of work;
- low level of wages from which are calculated the social security contributions;
- facilitating certain categories of pensioners with special merits.

The solution in solving the listed problems is evidently the shift from solidary system to the accumulation pension system, which involves at least the development of mandatory private pension funds. Their development is hampered by certain obstacles, among which are:

1. *The formation of a normative-legal base for voluntary pension insurance* – aspiration to the activation and the progress of non-state pension funds can be reached only after their collaboration and thus with the National Commission of the Financial Market;
2. *The creation of an effective organizational structure within non-state pension funds* – by the cooperation of non-state pension funds, regulatory bodies and other financial market participants;
3. *The development of a scientific treaty regarding the possibility of providing citizens with private pensions* – by combining international practice in the field with the aspects of psychology and national culture;
4. *The use of modern technologies in the automatization of nongovernmental pension funds* – through the development of programming products in order to accelerate the collection and the processing of information.
5. *The development of an accounting mechanism based on SIC* – the specific of the activity involves variables in the process of keeping accounting records as in the case of insurance companies.

In the context of economic and demographic crisis, the transition from solidary system to the accumulation system is unavoidable; it involves the formation and the activity of private pension funds. The activation of private funds being generated by the citizens' need in ensuring with decent pensions supported by CNPF and promoted by state policy.

The implementation of a modern private pension system will have significant effects on all institutional participants in this sector. Advantages for all institutions are considerably superior to the current situation, when there is only the public pension system, of a redistributive type [4].

THE STATE

- Reducing the costs of the public system for the payment of pensions by:
 - ✓ Stimulating late retirees;
 - ✓ Self-increasing retirement period (major interest for accumulation in order to obtain a higher pension);
 - ✓ Reducing the cost of transition to a system of accumulation (transfer of transition costs to private funds);
- Transferring the risk of future unknown payments from the state to the participant by the application of the principle of defined contributions;
- Formalization of jobs;

- Maintaining a constant income of the social security budget;
- Stimulating the interest of accumulation;
- Growing and developing an investment market;
- Reducing the migration;
- Reducing the fiscal pressure;
- Correct redistribution, depending on the size of contributions;
- Formalizing the revenues obtained illegally;
- Raising the living standard at old age and reducing the psychological factor when passing into the category of pensioners;
- Opening property rights over their own money.

EMPLOYER

- Optimization of the expenses through the tax deductibility (at the time of implementation);
- Reducing the overall costs with the labour force;
- Increasing financial result of the activity;
- A method of keeping and motivating employees (the retention and loyalty of employees);
- Recruiting valuable employees – increasing the performance of the organization;
- The image of a responsible institution;
- Providing a modern and comprehensive compensation package, not just salary (similar to the European one).

Conclusions

The reformation of the current pension system in Moldova faces organizational problems, financial problems caused by modest breakdowns, as well as those of fructification of contributions once the capital market is underdeveloped.

Many of the proposals for reforming the pension system do not have a logical end, remaining with a question mark regarding the mode of formation and use of funds collected by the non-state pension funds in the Moldovan economy.

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