AGRICULTURAL PENSIONS – MAJOR ISSUES AND POSSIBILITIES OF IMPROVEMENT

Buziernescu R.
Anca Mehedintu
R.C. Criveanu

University of Craiova, Faculty of Economy and Business Administration,
No. 13, A. I. Cuza Street, Craiova, Dolj
radu@profcons.ro, ancamehedintu@yahoo.com, raducrv@gmail.com

Key words: employment, pension system, improvement, life standard.

Abstract
The present paper points out all the problems regarding the increase of manpower employment rate, the demand provided by Lisbon Agenda. Among other actions which have to be undertaken, the growth of the occupancy rate in Romania inevitably implies a solution for the serious trouble generated by the Romanian agriculture, contributing to the formation of the GDP which is three times less important than the total share of employed manpower. The difference is provided not only by the insufficient technical endowment of Romanian agriculture, but also by the large number of people working in agriculture (40% according to official statistics). On the other side, the increase of the employment rate in Romania will generate a new issue for governors that of finding necessary resources for the retirement payment, including public and agricultural retirements. Considering the high proportion between the number of pensioners and that of working people, respectively 4.5 million pensioners reported to 6 million employees, the need for the improvement of the pension system in Romania becomes obvious.

INTRODUCTION

One of the conditions for the accession to the European Union is the growth of the manpower employment rate to 70%. This requirement is the subject of the so-called “Lisbon programme”, which projects the future European Union. In Romania, this requirement assumes the introduction of adequate conditions for handling certain issues which concern Romania and, which due to their atypical nature, lack solutions within the world register. An employment allocation of 70% represents a proportion of 7 working Romanian persons from 10. For a total of 22 million persons, representing the Romanian population, the active part is estimated to 45-47%, respectively over 10 million persons, and the employment share of 70% indirectly suggests a total of 7 million working people. At present, one cannot clearly specify the employment degree or share. The number of employees (which may be considered busy) is around 4.5 million, from a total of 5.5 million, the majority is working in agriculture, really engaged in the activity or just depending on agricultural works.

The enhancement of the employment rate in Romania necessarily implies the analysis of the serious issue determined by the Romanian agriculture, which provides the introduction of a GDP three times less important than the total share of employed manpower (see D. Sahn, S. Younger, K. Simler, 2000). The difference is provided not only by the insufficient technical endowment of Romanian agriculture and the unproductive distribution of agricultural exploitations in Romania, but also by the large number of people working in Romanian
agriculture. According to official statistics, a total of around 40% of the manpower is estimated working in agriculture, compared to the existing context within the European Union, where the share has been only of 4% before and continues to be preserved under 10% even after the accession of the last 10 new members from East.

MAJOR ISSUES OF THE PENSION SYSTEM

The enhancement of the employment rate in Romania generates a new issue for governors that of: finding necessary resources for the retirement payment, public and agricultural retirements (included within the public pension system according to optional contributions). In full process of European integration, Romania has the obligation to reach the globalization by means of financial flows, where the system of retirement funds holds an important role (see Breth S., 2002, Integration of Sustainable Agriculture and Rural Development Issues in Agricultural Policy).

Agricultors pensions

The social insurances system for agricultors, regulated by the Law no. 4 and the Law no. 5 in 1977, was financially sustained by CAP contributions, State contributions and those belonging to agricultors having individual farms within the areas lacking in the co-operativization process. This system started to collapse after shutting down the agricultural cooperatives in 1991.

The State contribution was absolutely necessary for the development of the legal framework and for the identification of certain financial resources indispensable for the payment of just rights to 900,000 pensioners at the beginning of the year 1992. According to this context, on July 1992, the Law no. 80/1992 was adopted it concerned the retirements and other just rights of social insurances intended for agricultors, introducing thus as main income source for social insurance budget of agricultors the contribution of 2-4% resulting from the total income achieved by companies, which produced, industrialized or commercialized agricultural and alimentary products. As a supplement of incomes deriving from these contributions, the law also covered the possibility of granting subsidies from the State budget, as well as the individual contribution of insurers in agriculture.

This law led to the implementation of social insurance system for agricultors and forest land owners, as well as for the members of their families aged over 18, who carried out unpaid activities within individual farms or agricultural associations. The insurance in the system was optional, the share of insurance contribution representing 7% of the insured income, which was not less than ½ of the national minimum gross salary. Minimum length of service necessary for obtaining a pension was 10 years and all services of social securities intended for the insurers of the public system were conferred. The law also covered the possibility of gathering more than one pension namely personal pensions, pensions from other pension systems and even survivor’s pension resulting after the death of the husband/wife, if the retired person was married.

Once the Law no. 19/2000, on the 1st of April 2001 entered into effect, the pension system for agricultors was included within the public pension system and other rights of social insurances.

Initially, the agricultors achieving an annual gross income, representing the equivalent of at least 3 average gross wages, had the obligation to insure themselves by presenting the insurance declaration. Due to the fact that there were few persons achieving this level of income, the compulsory nature of the insurance declaration was withdrawn. By the
Governmental Emergency Decree no. 9/2003, the agricultors insurance became *optional*, there was the possibility of concluding a social security contract, and thus these persons were excluded from the insurance domain.

*Concerning the existing level of land pensions for agricultors*, the Government agreed with the pension increase starting from September 2005, this arrangement planned the elimination of all discrepancies generated by different levels of pensions calculated according to the statues of the former social security system in agriculture (prior 2001) and those calculated according to the existing statues (see table 1). The *elimination of all disparities of treatment* generated by the Governmental Emergency Decree 76/2003 was also considered, according to it agricultors pensions calculated until the 1st of April 2001 should be doubled.

### Table 1 Pension indicators for agricultors (as of end of December, 2005)

<table>
<thead>
<tr>
<th>Pensioner categories</th>
<th>Number of pensioners</th>
<th>Pension value, according with pension decision</th>
<th>Medium pension in current month (RON)</th>
<th>Medium pension in last month (RON)</th>
<th>Medium pension in current month, last year (RON)</th>
<th>% col.3/col.4</th>
<th>% col.3/col.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>1. Total of agricultors</td>
<td>1,053,250</td>
<td>108,072,878</td>
<td>103</td>
<td>98</td>
<td>80</td>
<td>104.60</td>
<td>128.26</td>
</tr>
<tr>
<td>1.1 Age limit</td>
<td>915,659</td>
<td>102,664,823</td>
<td>112</td>
<td>108</td>
<td>87</td>
<td>104.14</td>
<td>128.87</td>
</tr>
<tr>
<td>Out of which women</td>
<td>768,545</td>
<td>85,082,541</td>
<td>111</td>
<td>108</td>
<td>92</td>
<td>102.41</td>
<td>120.33</td>
</tr>
<tr>
<td>- with full probation</td>
<td>313,316</td>
<td>42,709,827</td>
<td>136</td>
<td>133</td>
<td>116</td>
<td>102.25</td>
<td>117.51</td>
</tr>
<tr>
<td>Out of which women</td>
<td>263,073</td>
<td>35,230,983</td>
<td>134</td>
<td>132</td>
<td>115</td>
<td>101.84</td>
<td>116.45</td>
</tr>
<tr>
<td>- without full probation</td>
<td>602,343</td>
<td>59,954,996</td>
<td>100</td>
<td>95</td>
<td>75</td>
<td>104.84</td>
<td>132.72</td>
</tr>
<tr>
<td>Out of which women</td>
<td>505,472</td>
<td>49,851,558</td>
<td>99</td>
<td>96</td>
<td>81</td>
<td>102.61</td>
<td>121.76</td>
</tr>
<tr>
<td>1.2 Invalidity</td>
<td>26,796</td>
<td>2,227,470</td>
<td>83</td>
<td>79</td>
<td>69</td>
<td>105.81</td>
<td>120.47</td>
</tr>
<tr>
<td>Out of which women</td>
<td>20,581</td>
<td>1,780,215</td>
<td>86</td>
<td>82</td>
<td>73</td>
<td>104.89</td>
<td>118.49</td>
</tr>
<tr>
<td>- grade I</td>
<td>2,021</td>
<td>145,695</td>
<td>72</td>
<td>72</td>
<td>63</td>
<td>100.76</td>
<td>114.43</td>
</tr>
<tr>
<td>Out of which women</td>
<td>1,206</td>
<td>90,313</td>
<td>75</td>
<td>74</td>
<td>65</td>
<td>100.52</td>
<td>115.21</td>
</tr>
<tr>
<td>- grade II</td>
<td>24,775</td>
<td>2,081,775</td>
<td>84</td>
<td>79</td>
<td>69</td>
<td>106.25</td>
<td>121.78</td>
</tr>
<tr>
<td>Out of which women</td>
<td>19,375</td>
<td>1,689,902</td>
<td>87</td>
<td>83</td>
<td>73</td>
<td>105.18</td>
<td>119.48</td>
</tr>
<tr>
<td>1.3 Strains</td>
<td>110,795</td>
<td>3,180,585</td>
<td>29</td>
<td>28</td>
<td>25</td>
<td>102.49</td>
<td>114.83</td>
</tr>
</tbody>
</table>

Source: www.insse.ro

Thus, starting with the 1st of September 2005, they increased with 10% taking into account the annual average scheme obtained by improving, according to the law, each profitable year achieved within former cooperative farms; each year of contribution achieved by agricultors working within individual farms in areas lacking in co-operativization, until the effectiveness of the Law 80/1992 regarding pensions and other rights of social securities for agricultors; the periods of contribution achieved after the 29th of July 1992 and until the 1st of April 2001. The enhancement was applied to persons having the right to receive the due pension, or those who were already receiving it, prior to the date of 1st of April 2001, or during the period April the 1st, 2001-August the 31st, 2005. The provisions of the Decree are available for the pensions granted starting with the 1st of September 2005. These provisions
were also used by persons receiving pensions recalculated according to the Governmental Emergency Decree 4/2005.

The existing situation of the public pension system

As other ex-socialist countries, our country entered the period of transition with a PAYG pension system (the so-called step by step system) according to this system pensioners are paid from the existing wage-earners’ contributions, thus the pensions are related to the income level, but not directly related to the total contribution. The Pension system reform in Romania became a necessary condition after 1990 thus two types of arrangements meant to straighten up all issues have been undertaken:
- **short-term arrangements**, emergency arrangements, they succeeded only in part to solve certain issues;
- **a long-term reform**, materialized on one hand in the retirement funds separation and their organization controlled by the budget and the central public administration (the process was achieved not only in Romania, but also in Albania, Czech Republic, Hungary, Slovakia), and on the other hand, in changes generated according to the new law since 2000

The Law 19/2000 entered into effect on April 2001, reforms the pension system, which has the following structure:
- **redistributive compulsory structure**, publicly managed (1st Pillar);
- **compulsory structure**, based on capitalization, privately managed (2nd Pillar);
- **optional structure**, based on capitalization, privately managed (3rd Pillar).

As a result of the inefficient policies adopted after 1989, the pension system in Romania confronted with extremely serious issues during transition:
1. inequal calculation of the pension for persons retired during different periods of time;
2. postponement of the system reform and instability of the field legislation;
3. decrease of the number of payers from 8 million in 1990 to around 4.5 million at present, causing an important crisis regarding the pension funds financing; Within certain sectors there is a reduced number of payers who contributes to the pension system;
   Within certain sectors there is a reduced number of payers who contributes to the pension system;
4. alarming increase of the number of pensioners (from 3.5 million in 1990 to 6.19 million in December 2005) – see fig. 1
   The increase of the number of pensioners was achieved by including within the general pension system for pensioners in agriculture (around 1.7 million, a reduced number, then 1.512 million in December 2005), according to numberless anticipated retirements approved by the government during the last 16 year, by the artificial increase of the number of pensioners due to certain disabilities (see fig. 2).
5. reduced collecting rate (non-payment of the contribution by certain employers, especially in the public sector;
6. lack of declaration of real incomes;

---

1 “The most important pension in Romania is of 109 million ROL, this amount exceeds 42 times the average pension, which, at the beginning of January, was settled to 2.6 million lei. According to the last data provided by the National Institution of Pensions and other Social Securities (NIPSS), at present, from 6.7 million of pensioners, only 1,157 receive pensions exceeding 10 million ROL. Among them there are former magistrates, managers of enterprises and bankers. At the opposite side there are 1.7 million of agricultors, who monthly receive pensions varying from 200.000 to 800.000 lei. The most insignificant pension in the country is of 400 lei, the unfortunate beneficiary is Gheorghe Homoc (67 years), from Cladova, Timișoara city. The fortunate owner of a 109 million pension, the equivalent of 2,660 euro, is a former manager of a foreign trade company.”

Source: Gardianul (The Guardian), February 2, 2004
7. reduced rate of insuring the active population by means of pensions;
8. postponement of introducing complementary solutions to the parametric ones (introduction of the 2nd and 3rd pillar – pensions privately administrated).

Figure no. 1 Evolution of the number of pensioners by categories (thousands of persons)
Source: processing of data obtained from CNS

Fig. 2. Number of agricultural pensioners on pension categories (dec. 2005)

POSSIBILITIES OF IMPROVEMENT

It is obvious that, due to the growth of the number of old persons, a new balance of the ratio between the resources alloted to the pensions and the due costs, becomes necessary. According to a study effectuated by the European Institute in Romania, this new balance may be achieved in two ways:

- The increase of allotted resources (system enterings);
- The diminution of outlets (retirement demand, number of pensioners, etc.)

It is very important to find out the way of materializing these objectives.

1. The increase of resources may be achieved in the following situations: a) the happiest alternative of the resources growth is achieved through the "economic growth" (GDP growth) and the upholding of the share of social costs within the GDP limits, fact that may lead to an increase of the real value of social costs meant for pensions; b) The increase of the tax rate or of the contributions to the social funds; c) The increase of the collection rate, any increase percentage provides possibilities for increasing the average pension or reduces
the State budget fund subsidy; d) Governmental loans for the pension fund; e) Share of privatization – public estates sale (including natural resources) which should be oriented to the insurance fund. f) Introduction of new taxes for social services; g) Growth of State incomes by other means, for example, non-repayable funds. For Romania this alternative needs to be analyzed; h) Growth of the collection base (of the number of insured persons) by creating new jobs, by attracting the payers who do not fulfill their obligation at present; i) Growth of declared incomes.

2. Diminution of costs for the insurance system may be achieved through the following ways: a) Responsibilities transfer from the State to other welfare suppliers such as private companies; b) Encouragement of certain beneficiaries (by means of tax diminution for example) the use of private retirement services; c) Diminution of the number of beneficiaries by imposing drastic criteria (raising the real average retirement age). d) Diminution of the pension or other rights rate (for example, the lack of a complete indexation or in time of benefits using the inflation index); e) Diminution of managing costs necessary for the fund by reducing the number of employees or reducing their wages or reducing the costs for pension distribution; f) More efficient investments of funds (if they are in excess).

CONCLUSIONS

Considering the need for manpower employment, a condition for becoming a member of the European Union, finding new jobs for almost 3 million of persons, even if they are in the rural area, as well as the modernization of the activity for those who decide to stay in agriculture would solve not only the agriculture issue but also the issue of budgetary resources in general, and those allotted to the health and pension system in particular. At present, in agriculture social contributions and very high taxes are not paid. The increase of the employment rate due to numerous movements from the agricultural sector towards other sectors, as well as the modernization of this sector probably constitute the most important interest of the years to come. What other employment will millions of discharged persons find in agriculture? And where to find important resources necessary for the endowment of agriculture and rural development?

These are serious questions for the period to come. The international migration releases the labour market, but the issue of resources remains unsolved, and a great part of discharged persons in agriculture will be old persons, who will contribute to the increase of the number of pensioners or those persons enjoying the social support.

BIBLIOGRAPHY

3. European Institute in Romania (2004), Studies of Impact (PAIS I), Romanian System of Social Securities and of integration to the European Union
4. European Institute from Romania (2005), Studies of Impact (PAIS II), Financial Management Solutions and Options for Providing the Real Growth of the Pension Rate in Romania
5. Law no. 80/1992 concerning the pensions and other rights to social securities for agricultors
6. Law no. 19/17.03.2000 concerning the pension public system and other rights to social securities