Financial and Statistical Coordinates Regarding Farmers’ Pensions

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Abstract: The research model chosen for the subject „Financial and statistical coordinates regarding farmers’ pensions” is focused on decision and required going through the following stages: identifying the characteristics of agriculture and the pension system of farmers in order to justify the need to insure its viability, presenting the premises and the perspectives, as well as the indispensable variable (economic growth) in ensuring the long-term financial sustainability of the system we have referred to. We also turned to the general awareness model, hoping it will help channel the efforts towards solutions already validated as being appropriate in the developed economies.

Keywords: agriculture, farmers, pensions, insurances, prospects, viability

INTRODUCTION

Agriculture represents the branch of material production that deals with crops and livestock in order to obtain food and raw materials; all works and methods employed for this purpose (Romanian Academy, 1998). In agriculture, with the help of the living organisms of green plants and under the directed action of man, the radiating energy of the sun is transformed in potential energy as the only accessible form for the human body – organic substance (Dona, 2000).

The European concept of agriculture is complex. Agriculture is not only seen as a production branch but as a way of living, and the rural area is not only seen as an economic space but as a social and cultural one, with multiple functions (Otiman, 2005).

Thus, the rural area is a way of social existence, a support of human life and the source for food resources and raw materials for industry (Dona, 2000). At the same time, the countryside contributes to the domestic growth process and to the structural changes that lead to a better standard of living within regional and local communities.

Agriculture plays an essential role in the process of sustainable development, having, among others, the following tasks:

- to ensure security of food supply;
- to produce unconventional, renewable raw materials;
- to preserve and maintain the landscape heritage, taking into account that the countryside landscape has been a agricultural landscape for centuries;
- to preserve and promote values, ways of life, cultural aspects and other similar social features from the rural area in the interest of the community;
- to contribute to the maintenance of vital life bases (soil, water, air) and to their sustainable use through an agriculture close to nature, with adequate production means and an adapted animal husbandry (concern for a long-term stability of ecosystems);
- to contribute to the good functioning of the rural area, to a healthy life in the countryside, both economically and socially, as well as culturally (Otiman, 2005).
All these goals would be impossible to achieve without engaging the human resource of this economic sector, namely the farmers.

The farmer is the person that works in agriculture. The complexity of their profession requires them to play multiple roles. For many of them, agriculture is also a way of living.

Sustainable development and welfare are fashionable concepts/goals that must be achieved despite practicing subsistence agriculture, as studies show (Radulescu, 2006. Otiman, 2005), but also despite major discrepancies in terms of rewarding the efforts of the farmers as an active population employed in agriculture.

This study will approach the farmers’ pensions among all the forms of reward (wages, the price of the farm products, pensions, material aid etc). The principle of social solidarity (mutual undertaking of obligations and benefiting of rights for the prevention, restriction and elimination of social risks) and the principle of equal rights for the recipients of social benefits are included among the principles stipulated by the law for the public pension system.

In Europe, the community’s agricultural policies prefer private, family farms of human sizes, meaning agricultural holdings that enable staying in a rural area, in economic conditions that are viable for the family. Most of the labour forces in these farms are not receiving salaries. The European agricultural statistics regarding labour force show that approximately 80-85% of the EU’s agricultural labour is carried on by the owner or by the leaseholder.

Perhaps this state of the European agriculture is the motivation behind the legislation enacted in 2008 for another pension system for agricultural workers.

According to the law, in the category of agricultural workers are included the individuals and their family members who:

- hold, under any title, agricultural lands under exploitation or own forest lands, fish farms, livestock, beehives;
- conduct agricultural activities within their own household, as well as non-waged private activities in the fields of agriculture, forestry, animal husbandry, fish farming, apiculture, sericulture and others;
- are members of agricultural companies or other types of agricultural associations (Law 263, 2008).

The presented issues revel that this social category couldn’t have been excluded from the principle regarding the obligation to pay contributions to the pension system. Inherently, we must find the answers to the questions: To what extent are the active generations of farmers stimulated to contribute to the recovery of the main sector of the national economy and to its compatibility with European agriculture? What are the prospects?

MATERIALS AND METHODS

The objective of this paper is to create a panoramic image of how the Romanian peasant’s efforts were compensated when he lost his ability to work as a result of social risks, and what are the prospects in this regard.

In this sense, our epistemological approach combined several research methods: practical (the goal was to find the solution for a social problem), descriptive (as preliminary study, generating potential explanations for the current state of the agricultural pensioners, but also for getting to know the public system that has undertaken their social protection), qualitative (for the intention to discover the relation between variables time and size of the pension).

The informational support for the given methods was established by studying the literature, by reviewing the law regarding public pensions for agricultural workers and by
collecting, processing and interpreting statistical data. The procedures used in our cognitive approach were observation, visual materials / gathering documents, analysis (of the concepts, of the legal framework’s evolution, of statistics), the systematisation of the obtained data and the formalisation of reasoning.

Our action explores a social and human problem with the purpose of building a holistic, complex image, having as premise a multitude of stories about the dimensions of the problems that concern the agricultural retirees.

RESULTS AND DISCUSSION

Evolution benchmarks of pension insurances in agriculture
One of the striking characteristics of the evolution of social pension insurances is the generalization / extension to all social categories, including agricultural workers.
Without intending to rely only on history and using as argument the fact that “history is useful not only because we can read the past, but because we can read the future” (Jean-Baptiste Say), we mention that this social category was treated cruelly by the lawmaker in terms of being included in the category of insured, as well as in terms of the size of the granted pension. Thus, compared to public workers (including militaries), who were entitled to pensions since 1868, social insurance in agriculture was enacted only a century later by the State Council Decree no. 535 of June 23, 1966, implemented at January 1st, 1967. Although the issue of granting pensions to agricultural workers has been intensely debated since the inter-war period, gaining even international connotation, this social category was subjected to endless delays due to the “difficult economic situation”; as a consequence, two thirds of Romanian workers were excluded from social insurances (Giurumescu, 1984). We note that in the socialist period the agricultural workers were divided in two categories, as indicated by the legal provisions regarding farmers’ pensions in 1977, namely members of agricultural cooperative units and peasants with individual households (Law 4/1977 regarding pensions and other social security rights for the members of agricultural cooperative units and Law 5/1977 regarding pensions and other social security rights of peasants with individual holdings). The amount is another element that proves the inequity of the public pension system.

The current status of retired farmers
Social insurance in agriculture has to meet two requirements: the possibility of covering the contributions and the mandatory feature; considering the negligence of most rural dwellers in terms of preventive and curative measures regarding diseases. However, the pecuniary feature of the pension, which must cover social risks like old age, sickness, death, etc., is left out.
Naturally, the numbers speak for themselves. In 2001, the pension of agricultural workers was a fifth of the social insurance pension, being approximately 2.38 times smaller than the social insurance pension 9 years later.
Improving the discrepancy between the two categories of pensions is owed to the increment of the score given for the period of contribution, established by the law at 0.25 points per year (Law 19, 2000). The period of contribution represents the ratio between the annual work volume, expressed in quota, and the smallest annual volume of quota. It can’t be higher than the number of calendar years in which the work volume was provided. For the agricultural workers in the areas were there are not agricultural cooperative units, the period of contribution represents the years in which the minimum contribution was paid.
The table below shows the evolution of the average pension of agricultural workers compared to the average pension of the state social insurance between 2001 – 2009:


<table>
<thead>
<tr>
<th>Indicators</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average pension for agricultural workers</td>
<td>27</td>
<td>34</td>
<td>39</td>
<td>74</td>
<td>88</td>
<td>117</td>
<td>159</td>
<td>253</td>
<td>300</td>
</tr>
<tr>
<td>Average pension of the state social insurance</td>
<td>131</td>
<td>163</td>
<td>187</td>
<td>232</td>
<td>267</td>
<td>311</td>
<td>399</td>
<td>593</td>
<td>711</td>
</tr>
<tr>
<td>Ratio %</td>
<td>20.61</td>
<td>20.85</td>
<td>20.85</td>
<td>31.89</td>
<td>32.95</td>
<td>37.62</td>
<td>39.84</td>
<td>42.66</td>
<td>42.19</td>
</tr>
</tbody>
</table>

Therefore, according to art. 1 of Government Emergency Ordinance no. 67/2003, starting with January 1\(^{st}\), 2004, the annual average score for pensions in payment or the rightful pensions at December 31, 2003 is increased by 100% for agricultural workers (Government Emergency Ordinance 67, 2003). The score was increased for everybody in 2007 thanks to law no. 250, which stipulates: starting with September 1\(^{st}\), 2007, the annual score for each contributed year while working in agricultural cooperative units, as well as for each contributed year by peasants with individual households from areas that have no agricultural cooperative units is 0.57255 points until Law no. 80/1992 regarding the pension and other social security rights for agricultural workers, republished, with subsequent amendments goes into force (Law 250, 2007).

In this context, we believe the lawmaker should have considered limiting the gap between the two categories of pensions by establishing a higher score for the period of contribution. The score should be based on the average scores of the public system’s retirees.

Although it was considered that this category of population has certain resources, taking into consideration the cost of agricultural activities, the price of turning into account the produce, as well as the risks that agriculture is facing, it is obvious that the current pension of farmers is much to low to satisfy their needs. As a matter of fact, we are only witnessing the ongoing inequalities between farmers’ pensions and other state social insurance pensions, which, previous to the reform of the pension system, was less than 20% of the average pension level: 16% in 1980, 14% in 1985 and 15% in 1990 (Cenar, 2006)

Is there justice and fairness for agricultural retirees, who receive derisory pensions as “reward” after a lifetime of work? And, as if this wasn’t enough, the raised issue regarded saving money over time for this category of retirees and not the issue of identifying ways to make their old age as carefree as possible.

The chart’s data revels that over a period of nine years the number of agricultural retirees fell by over 55%, meaning from 1766.6 thousand persons in 2001 to 789.2 thousand persons in 2009. Considering that the former agricultural cooperative units were dissolved 18 years ago, this evolution is natural.

The next chart presents the evolution of the number of agricultural retirees between 2001 -2009:
Prospects for pension insurances in agriculture

In shaping what is foreseen as possible and achievable in the future regarding the pension system of agricultural workers, we will take into account two aspects:

- on one hand, reducing the size of the current pension system which benefits the members of the former agricultural cooperative units and the peasants in areas without agricultural cooperative units;
- on the other hand, the substitute of this component, enacted two years ago, which takes into account the transformations occurred within the Romanian agriculture in the last two decades.

The number of retired farmers and their average pension are variables in the equation of the sustainability of the farmers’ pension system. At the same time, these two variables are used to quantify the size of the effort put in by the state for the financial support of this social category.

Based on the numeric evolution seen in table 1, it results an annual average rate of decline in the number of retired farmers of approximately 9.27% (which was obtained by calculating a ratio between the sum of the annual percentage variations of the number of farmers and the number of considered years).

For simplicity, we believe that the downward trend in the number of retirees follows a straight line. The equation of the straight line is calculated by taking into account the annual average rate mentioned previously (r = 9.27%):

\[
\text{No. retirees}_{2000+N} = \text{No. retirees}_{2001}(1+r) - r \times \text{No. retirees}_{2001} \times N
\]

Where,
N – the year for which we calculated the number of retirees.

In order to anticipate the “terminus point” of the current pension system for farmers, we will determine N so that the number of retirees for the year 2000+N is zero.

Therefore: \(\text{No. retirees}_{2001}(1+r) - r \times \text{No. retirees}_{2001} \times N = 0\).

Resulting: \(N = (1+r)/r\). Replacing \(r = 9.27\%\) we get \(N \approx 12\).

Therefore, the state will no longer have to bear the cost of the pensions granted to “former farmers” in the year 2012.
At the same time, starting with 2011 (Government Emergency Ordinance 114, 2009), the government will no longer have to bear two thirds of the mutual contribution to the new pension system, in which agricultural workers aged between 16 and 63 are required to become insured based on the insurance statement. The document records the monthly contribution corresponding to the individual monthly contribution that must be paid the following year. It varies between 10 and 50 lei per month.

Getting the government involved is based on the principle of reciprocity, its contribution to the pension fund for agricultural workers being double compared to the individual contribution. One may speak about diminishing the differences between the sexes in terms of establishing the retiring age at 63 years old for both women and men and the complete contribution period at 30 years (with the condition of a minimum contribution period of 15 years).

Thus, the contribution unit replaces the contribution period, and the calculus of this element will use three decimal places instead of five like in the case of the average annual score.

The pension system of agricultural workers is based on collecting resources (funds) from the insured and on their distribution to those who are faced with a risk.

The value of a contribution unit is calculated by using a percentage between 0.1 and 0.5 over one fifth of the gross average wage used to build the state social insurance budget. We believe that this calculus method maintains the inequalities between the two categories of retirees. To justify this statement we must note that the value of the pension point for the year 2010 is 39.91% of the gross average wage, and the value of a contribution unit will be between 7.2% (0.2*0.1%*12*30) and 36% (0.2*0.5%*36) of the same computation basis.

Keeping the condition to achieve a minimum contribution period of 15 years reveals that the funds gathered within the pension system of agricultural workers will be used especially after this period (with the exception of the persons who will turn 63 years old in 2011 and the persons who have less than 15 years until the retirement age, who may pay retroactively provided that they pay the contributions for the minimum contribution period required to obtain a retirement pension in a period of up to two years).

Therefore the gathered financial resources will be blocked, unused during this period; the budget execution will record a surplus and the government will mobilize (which is hard to believe) a part of its already quite limited financial resources.

At the same time, we emphasize the continuity of the social insurance pensions for agricultural workers and the adaptation of the legal framework to the current structure of the population in the rural area.

CONCLUSIONS

Sustainable rural development is defined by coordinates like: the stabilization of the rural population by eliminating or significantly reducing the rural exodus, eradicating (fighting) poverty by stimulating and increasing labour force, promoting equal opportunities for all dwellers, improving quality of life and general welfare, preserving, protecting and improving the quality of the environment and of the rural landscape.

It is vital that the transition towards sustainable agriculture consider the need to keep the agricultural sector competitive and efficient in terms of economy, which will respond to the changing consumer preferences and which will ease the development of the commerce with produce, preserving at the same time the environment and the resource basis for the future.
Among the objectives that must be achieved by sustainable agriculture are included the support of the viability of farming and a better quality of life for agricultural workers. Another factor that can not be neglected and on which the welfare of farmers depends upon is the pension.

At European level, the Common Agricultural Policy targets a series of goals among which maintaining and developing a modern agricultural system are included. This system will ensure a fair standard of living for the agricultural population.

Against this background and considering the presented aspects, the following conclusions may be written:

- the numbers regarding the current pension system for agricultural workers reveal an unfair reality for the Romanian farmer, whose pension is much lower than other categories of pensions;
- simplified linear approximation of the current component of the public pension system for agricultural workers highlights that by 2012 it will no longer have beneficiaries, which will diminish the financial burden placed on the state budget and will force the introduction of a different pension scheme for the “new” farmers;
- starting next year, a pension system for agricultural worker will function, which corrects some of the current inequities, but which still keeps agricultural retirees on second place;
- last, but not least, we appreciate the intention of the government to get involved in the financial support of the pension system for farmers based on the principle of reciprocity and with an effort that is two times more consistent than the one put in for the recipients of social benefits.

Pensions are seen as one of the biggest challenges of contemporary Romania.

This opinion is fully justified if we consider the estimates that by 2050 the ratio of employees to pensioners will be 0.4 to 1. Furthermore, it is foreseen that “if the public system of pensions is kept at current parameters, in 50 years, Romania will spend half of the general consolidated budget only for the payment of public pensions. (http://www.presidency.ro/static/CPARSDR_raport_extins.pdf)

Regarding this last observation it should be added that we are in full economic crisis and measures to cut expenses and to emphasize taxation are being taken. But, whatever these are, it’s clear that only economic recovery can bring the Romanian pension system afloat. Personally, I don’t think that increasing the retirement age (at least not generalized), the taxation of pensions and increasing the shift towards private pensions will resolve the problem, and these measures are not realistic and only postpone the collapse of the public pensions system and more. Investing in new technologies, increasing the gross domestic product, taking measures to increase employment and the number of people employed in the real economy may give an upward trend to the economy and may sustain agricultural pensions.

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