1. Demographic development in Romania and in the construction industry
Couple of statistic data given by The National Institute of Statistics, The World Bank and The United Nation Fund regarding Population, shows that

- the total population of Romania has dropped in between 1990 – 2010 with some 1,8 millions of inhabitants from 23.2 to 21.4 millions;
- until 2050, the population of Romania will continue to drop at the total average of 16-17 millions inhabitants, with 6-7 millions less than 1990 (studies revealed by the European Union, World Bank, United Nations);
- the most pessimist scenario shows a dramatic fall in the Romanian population of 13,3 millions of inhabitants until 2050 (European Bank for Reconstruction and Development study published in 2008);
- the average life expectation in Romania has grown from 70 years in 1990 to 74 years in 2008 and is continuing to grow.

As a preliminary conclusion, the population decrease in number and the tendency seems irreversible and this phenomenon superpose the phenomenon of ageing who itself is accelerating. This demographic phenomenon took place in less than 20 years.

In the Romanian construction industry about 300,000 (2010) workers are employed in approximately 25,000 companies. After a big increase of production since 2000 the construction industry in Romania registered a decline of 15.2% in 2009. This decline was a result of a reduction in infrastructure investments by public as well as private sources. Romania’s construction industry was the strongest hit in Central Europe by the global downturn in 2009. One of the reasons for the poor performance of Romanian construction was that the overall economic deterioration was coupled with a continuous political crisis.

2. Description of the pension landscape
In Romania, the warranting of reasonable pension is the target of the local pension schemes and is strongly linked to the principle of fundamental solidarity between generation and among the same generation.

The drop and the ageing of population are huge pressure on the public pension fund budget, which must support with less and less contributors (employees and other tax contributors) a growing number of beneficiaries (pensioners from the public and private sectors). While in 1990 8.2 million of employees contributing to the public pension schemes, sustaining 2.5 million of pensioners in 2008 4.9 million of employees contributing to the public pension schemes sustaining 4.7 million of pensioners. One employee is contributing for the pension of 1.04 persons. This is dramatic in comparison with other countries. The number of pensioners has increased at the beginning of 2011 to about 5,495,000 with an average pension of 682 lei/month (about 150 euro/month).

In Romania, the last years reforms of the pensions schemes (pils I+II+III) has contributed only partially to limiting the fall of public pensions, and as an emergency measure take by the Government, it was taken extremely unpopular measures as diminishing the pensions, recalculating the pensions and recomposing the pension files.
The demographic problems in Romania shows that the public pension schemes system is no more sustainable as it is now and needs deep reform to avoids a collapse in the medium and long term future.

That is why the Romanian Government has introduced in 2007 the three pillar system of pension schemes, upon a tested and recommended model of The World Bank. The three pillar pension schemes system is composed as follow:

**Pillar I - compulsory (public pension administrated by the state)**
- it is a public pension scheme;
- it is based on solidarity among generations;
- it is based as a „pay as you go” system;
- the pension level is predefined.

**Pillar II - compulsory (public pension privately administrated)**
- it is a public pension scheme, privately administrated;
- the pension level is predefined;
- compulsory for persons non reaching 35 years and optional for persons of 35 – 45 years;
- the minimum warranted pension level (the total amount of contribution minus legal allowances).

**Pillar III - optional (private pension)**
- privately administrated;
- predefined contributions;
- optional participation;
- individual accounts.

**A. Pillar I - public pension scheme**
The public pension scheme is functioning upon the PAYG principle (pay as you go). The state is collecting the social contribution for pensions from the contributors and pays immediately the pension to the actual pensioners. The statistical data shows that this redistributive logic cannot functioning no longer, namely in the poor conditions of actual situation and the forecasted demographic development and employment.

**a) Pension for standard age limit**
Until 2000, the standard age for pensioning was 57 years for women and 62 years for men. In between 2000 – 2010 the age limit has been gradually pushed at 59 years for women and 62 years for men.
Starting the 1st of January 2011, the standard age for pensioning is 63 years for women and 65 years for men. These levels will be gradually reached as follow:
- between January 2011 and January 2015, the standard age for pensioning of women will grow from 59 years to 60 years and that of the men will grow from 62 years to 65 years;
- at the end of this period will be a gradually grow of the pension limit only for women from 60 years to 63 years until 2030.
In the last years and at the moment the vast majority of employees, especially the women, leave the labour market long before the normal age of pensioning.
In the meantime, the number of years of contributions required will grow from 13 to 15 years, for women as well as for men. That minimum stage will be realised gradually in between January 2011 and January 2015. On the other hand, the complete indemnity stage will reach 35 years for women as well as for men. This stage will gradually grow as follow: between January 2011 and January 2015 the complete indemnity stage for women will grow from 28 to 30 years and for men from 33 to 35 years. At the end of these period a gradually rise of indemnity stage is provided only for women from 30 to 35 years until 2030.

b) Pre-pensioning
According Law no 263/2010 regarding the public pension schemes, valid since 1.01.2011, pre-pensioning is possible in maximum 5 years prior the standard age of pensioning. This only applies to workers with 8 or more contribution years on the time required by law. Pre-pensioning is not taken into consideration the following stages: the compulsory military stage, the university stage, pensioning by disability, the military school. Those stages will be valid when passing at the standard age pension limit. Penalties for the total pension is a fix one: minus 0,75% for each month (9% per year) of anticipation, who might brings to a maximum penalties of 45% from the standard age pension. The penalty is valid until the standard age limit is reached.

c) Partial pre-pensioning
Partial pre-pensioning is possible in maximum 5 years prior the standard age of pensioning. This only applies to workers with less than 8 contribution years on the time required by law. There is only one exception of partial pre-pensioning without penalty: for those persons who were residents at least 30 years in extremely poluted areas of copper, lead, sulphur, cadmium, arsenic, zinc, manganese, fluorine, chlorine (as they were before 1990 the urban areas of Baia Mare, Copşa Mică and Zlatna), in a range of 8 km around those towns. In that particular case the appliant of partial pre-pension may benefit of two years reduction of standard age limit pension without any penalties. The reduction of standard age limit foreseen for pre-pensioning or anticipated pre-pensioning cannot be added to any other reduction foreseen by the law.

d) Disability pension
Disability pension is given to persons who lost total or partial at least half of their work capacity, because of work accidents and professional sickness, schizofrenia, AIDS, etc as well as normal sickness and accidents unlinked to the work places. According the law, there are three degrees of disabled as follow:
- first degree - total loss of capacity of work and capacity of self care;
- second degree - total loss of capacity of work but having the capacity of self care;
- third degree - losing at least half of the capacity of work, the person is capable to perform an activity for a maximum of half of the work time.
The pensioner in the first degree of invalidity have the right, apart of the pension, to an indemnity for a companion as a fix revenue representing 80% from the value of one pension point.
e) Pension for survivors

Pension for survivors is given to the orphans or to the surviving spouse if the deceased was a pensioner or in a position to get a pension.

Orphans have the right to a successor pension until the age of 16 or if they are continuing studying in a legal form of assignment but not overlapping the age of 26 years or during invalidity (disability) of any degree got in period mentioned above.

The surviving spouse has the right to a successor pension, when reaching the standard age limit for pension, if they were married for at least 15 years. If the length of marriage is in between 10 to 15 years, the pension of the survivor spouse is diminishing with 0.5% for each month, or with 6% for each year till 15 as a penalty.

The level of the successor pension is calculated by applying a percent on average annual point of pension realised by the breadwinner as follow:

- for one successor – 50%;
- for two successors – 75%;
- for three or more – 100%.

B. Pillar II – compulsory pensions privately administrated

This pension scheme is compulsory for those up to 35 years who are already participating for the first pillar and are contributing for that system. It is optional for all those from 35 to 45 years who are already participating for the first pillar and are contributing for that system.

When signing the application form, the subjects are informed regarding that pension scheme, especially of rights and obligations of the two parts, financial risks, technical risks or any other risk as well as regarding the type and the distribution of those risks.

The one who has not apply for a pension fund in four months from the moment he was obliged to do it by law, was automatically linked to a fund by the legal authority who is keeping the register of the pensioners in the public scheme of pensions.

The basis for the calculation and terms of payments of the contribution are the same with those for the first pillar. When starting collecting the money into this fund in 2008, the contribution quota was 2% from the basis for the calculation. Up to 2016, the contribution quota will rise to 6% (0.5% per year) starting 1st January of each year. For example, in 2011 the contribution quota for the second pillar is 3.5%.

For the second pillar, the majority of subscribers are from the industries, commerce and construction. For example, 8% from the total number of subscribers for the second pillar, namely 416,000 persons worked in the construction sector.

C. Pillar III - optional private pensions

The third pillar started in June 2007. The amount of contribution to those funds is fiscally deductible for each subscriber from its gross monthly wage or any other assimilated revenue if the total amount is not overlapping the equivalent in lei of 400 euro in a fiscal year.

The same situation is occurring for the employer side.

The investments of the funds assets from the third pillar are tax free until the moment of payments toward subscribers.

At the moment 221,600 Romanians choose the third pillar pension scheme, 10% comes from the industry.

3. Value and evolution of the point of pension

At 1st January 2011, the value of one point of pension is 732,8 lei (approximative 175 euro). The calculation of the value of a point is complex and will not be further detailed.
Starting the 1st of January 2012, the value of the point of pension will be annually indexed with the rate of inflation plus 50% from the real growth of national gross average wage registered in the previous year (for example, if in 2011 will be registered an inflation rate of 5.3% and a growth of a gross average wage of 0.4%, the value of the point of pension (732,8 lei) will be indexed with 5.3% plus 0.2% =5.5% that means that the new value of the point of pension is 773,1 lei.
If one of those key figures is registering negative values, in establishing the value of the point of pension will be used only the indicator with positive value; if both key figures have negative values, the last calculated value of the point of pension will be preserved. It is clear in that case that the value of the point of pension will not decrease.
Starting 2021 the value of the point of pension must be annually indexed with the inflation rate plus 45% of the real growth of the average gross wage registered in the previous year. Then, after 2021 procentual growth of the average gross wage taken into consideration at the annual indexation should be reduced gradually by 5% for each year.
Starting 2030, the value of the point of pension must be indexed with 100% of the inflation rate of the previous year.

4. Pension for employees who have worked in difficult and/or special work places
Those who performed activities in difficult and/or special conditions are the beneficiary of reducing the standard age limit if they realize a complete stage of payment upon the law, as follow:
  a) for difficult conditions are the work places where the professional risks factors or specific conditions on all length of working time could bring professional sicknesses, risky behaviour in activity, with serious consequences at the work places;
  b) special conditions are the work places where the professional risks factors or specific conditions are present for at least 50% from the total working time and may bring professional sicknesses, risky behaviour in activity, with serious consequences at the work places.
For all those who had worked in difficult conditions, the cuts in the standard age limit for pension are between one and 8 years related to the number of years worked in those conditions.
The number of working years in difficult conditions which bring a reduction of the standard age limit for pension are of a minimum 6 years. As well, standard age limit for pension is reduced for all those who performed activities in special work places as for example tunneling and boring underground caverns, exploiting stone through tunnels, all other activities developped in the underground; performing mentenance and repairing roads tunnels, railway tunnels with more than 8 m length; masoning and repairing industrial ovens, work with silica bricks associated with all other types of refractory bricks; activities with asphalts including preparations of asphalt mixtures.
A reduction of the standard age limit for pension, including those prevailed by other laws, may be cumulated but all the reductions cannot overlap more than 13 years.
The age limit for pension in those conditions cannot be less than 50 years for women and 52 years for men.

5. Contributions
Starting 1st of January 2011, the contribution quota for the pension system are:
  a) 31,3% for normal working time conditions, by which 10,5% are payed by the employee and 20,8% are payed by the employer;
b) 36.3% for difficult work time conditions, by which 10.5% are payed by the employee and 25.8% are payed by the employer;
c) 41.3% special working time conditions, by which 10.5% are payed by the employee and 30.8% are payed by the employer;
In the individual quota for social insurance is also included the contribution quota for pensions for the second pillar.

6. The transferability of pensions
The pension may be transferred for all pensioners in the public system of pensions who have their residence in any other member states of the European Union, in the European Economical Space, Turkey, Macedonia and the residents of other states as well (if Romania is having a bilateral agreement in that sense).
For all Romanian citizens with abroad residence, who decided to transfer their right of pensions from Romania in the territory of residence (for the member states of European Union, in the European Economical Space, Turkey, Macedonia) the procedure for paying will be a bank transfer.
The total amount of contribution to pillar I goes into a unique fund at the national level, no matter to how many employers the employee had worked during his working life time. Regarding the pillar II, if after a certain period of time from the appliance the evolution of the fund is not satisfactory, the applicant may asked to be transferred to another choosen one from the total of nine funds existing, but paying a penalty according the law. If the transpherements is asked in the first two years from subscription, the subscriber will pay a transpher penalty of a maximum 5% from its personal account into the pension fund.

Other facilities have also those who are moving from one work place to another, from one residence to another or from a country to another country. In those cases, they may decide to continue to contribute in Romania at its pension fund or to move the funds to a pension fund from the country they had residence or they work.
Furthermore, their funds accumulated in the pension fund from that pillar may be transfer in a country where the applicant is decided to become resident, according international conventions to which Romania is a part.

7. Cyclical temporary unemployment
In the construction industry it is manifested only during winter time period when is too freeze to work from the technical and human point of view.
As a consequence, at the end of 1998 the social partners in the construction industry settled a foundation “The Builders’ Social House” (called in Romanian Casa Sociala a Constructorilor). The Builders’ Social House is a voluntary organization. Through that body one third of the workers in the building industry are covered for a maximum of 90 days (from November to March) by a winter time allowance. The winter time allowance represents 75% from the average gross wage of their last three months they worked prior to go on that scheme.
In the period of 90 days, the worker is not anymore registered as unemployed and stays linked to its company. All other social taxes are covered by the winter time allowance and are paid by the Casa Sociala.

8. Industrial relations in pension policies
In Romania, except the three pillars with only one exception, the construction industry, there were not discussions and tendencies to organize a sectoral private pension schemes as an agreement between employer organizations and unions.
By creating four years ago (through their first Social Agreement in the construction industry – a strong document apart the Branch Collective Agreement in Construction), an instrument called today The Self Regulatory Sectoral System in Building (in its Romanian abbreviation S.A.SE.C) it was created the premises of settling The Builders Pension House (Casa de Pensii a Constructorilor) as a private pension scheme based on pillar III.

The Builders Pension House is to be organized nowadays and needs some legislative adjustments in order to become fully operational.

9. **Solidarity in the construction industry**
Until The Builders Pension House becomes fully operational, there is no particular solidarity inside the sector.

10. **A typical case**
Supposing a 64 year old employee retires at 1st of January 2011. He has worked since 18 years in the field of construction and has paid 33 years of contributions to the pension system. We presume that the employee has worked as a skilled worker, he is married and has two children, no problems at the work place, no medical leave, no other interruptions. In that case the pension is calculated at the level of 1100-1200 lei/month (260-285 euro/month).

The same example, but has worked as an unskilled worker, the pension is calculated at the level of 800-900 lei/month (190-215 euro/month).

11. **Impact of the economical financial crisis**
The economic and financial crisis has been aggravated by the ageing process of the population. The interdependence between pension schemes and having in mind the weak points of those schemes, the crisis acts as an advertisement for all three pillars. All pension schemes are confronted with huge difficulties in accomplishing their task for offering a pension mainly because: rise of unemployment rate, diminishing economic growth, a boost of the public debt and a volatility of financial markets. Private pension schemes may absorb partially the pressure on public pension schemes, but they cannot solve totally the problem.
Consequently, if the private pension schemes fail to accomplish their task, then inevitably will be pressure against the state in order for it to cover the hole.
In Romania, the second pillar is not yet paying any pension to anyone, but it is still accumulating according the law. There were pressure from the social partners that the flow of money (coming from the pillar I) into pillar II to be cut temporarily back again to pillar I in order to sustain the payments of current pensions. But in the end, the state „solved” the whole problem borrowing huge amounts of credits from the internal and external financial market in order to cover this deficit.
Having rather secure amounts of money from the public pension scheme who were appointed to fulfill the role of automatic stabilizers, the present pensioners were until the cut of their pensions, among the less affected by the crisis. But the crisis and the weak perspective of growth will affect probably all types of pension schemes.
As a size, the fiscal deterioration is equivalent with the loss of 20 years of fiscal stability. Therefore, fiscal constrained will be extremely severe in the next decade. Forecast says that the crisis will put a huge pressure on the public debt on long term, mainly because
economic growth seems to be very limited (previsions for 2011 are in between 0.5 – 13.5%) and the moment when the recover will be completed is totally uncertain. On the other hand, the crisis will have another serious impact on the future of pensions mainly because many workers will become unemployed and other workers will be constrained to accept lower wages or a reduced time of work. In that case, a huge provocation will be to keep the actual level of pensions.

12. Current political trends and trade union observations
The Government proposed reform has been adopted in the late 2010, as Law no 263 and its key points were:
- integrating in a single public pension scheme all subscribers who used to be integrated in special schemes (army, police, secret services, etc.) as well as those from liberal professions (except lawyers);
- strengthening the financial sustainability of the scheme by introducing more restrictive conditions to pre-pensioning and the disability pension;
- keeping the purchasing power of pensioners linked to the inflation rate;
- equal treatment for next subscribers and regulating the way of calculating payments of pension to the contributions during the work time;
- discouraging the pre-pensions by rising the penalties;
- implementing more strict criteria regarding the access to the disability pension;
- rising the age limit pension as a consequence of rising the hope of living of the population;
- gradually equalizing the complete stage of contributions for man and women until 2030.

For the next decades, public pensions in Romania will not be able to furnish, as it is the case in almost all EU countries, a sufficient revenue able to maintain at the same level the living standard the subscribers used to have during their work life time. Therefore, the public should be informed and financially educated in order to have a correct image regarding the future of public pension schemes and to take decision for the pension period, even from the moment they started their careers.
Compulsory private pension schemes represents a solid alternative, sustainable and with a wide social coverage to back up public pension schemes. To better fulfill their task, it is, however, most needed legislative stability and accelerated growth for the level of contributions who may reach 8-10% from the gross salary.
It seems to be clear that pillar II is most needed to ensure the financial comfort to pension; for efficiently saving the money is most needed to have total deductibility far more consistent than at present in order to encourage the employer to include in the wage package, its contributions for the optional pensions.
The financial education for the public is a top priority, especially regarding the young generation, in order to secure a comfortable ageing period using private pension schemes.

On the other hand, the unions push to change the pension law in a sense that in the end of the subscription period the total amount of money saved for a pension will not drop under the total value of contributions plus the cumulated inflation rate. Practically, that means the minimum performance asked for the private pension scheme, to be at least equal to the inflation rate.
In the union view, for an average inflation rate of 2.5% (a very low rate for Romania who is not reached yet - i.e. for 2011 is forecasted 4% inflation rate), but which is in the limits
of Maastricht Treaty for the euro zone, the value for a certain amount of money is halving in 28 years.
If taking into account an inflation rate of 7-8%, (the one in 2010) the halving of the amount is reached in only 9 years. That means that the employees may discover in 20-30 years when going on pension that they have far less money than they contributed at the pension fund.
But the real solution for making all pillars valuable is generating a combined healthy policy of the state and private sectors of the economy, by: 1) creating more and better pay work places cumulated with 2) encouraging birth rate, 3) encouraging migration and, in extremis, to push for higher age limit pension (cumulated with net growth of living expectation).

References:

Law no 263/2010 regarding public pension schemes
Presenting the public pension schemes in Romania (www.mmuncii.ro/ro/domenii/pensi)
Public pension schemes (www.cnpas.org)
Viable and secure European pension schemes (www.europainfo.ro)
Pension pillars (www.pensii-private-online.ro)
From where they come most subscribers of the third pillar (www.financiarul.com)
Pension reform in Romania (www.apapr.ro)
The Builders’ Social House - Casa Sociala a Constructorilor (www.casoc.ro)
Romania - Results / data / facts at a glance

Construction sector: Number - Workers: 300,000 - Firms: 25,000

How is the general pension system organised?

1st Pillar: PAYG, compulsory, public pension scheme
Contributions: Employer: 20.8% normal working time conditions   Worker:
25.8% difficult work time conditions always 10.5%
30.8% special working time conditions

2nd Pillar: privately administrated by funds, compulsory for workers up to 35 years, optional for workers between 35 and 45 years
Contributions: 3.5% will be diverted from the 1st pillar

3rd Pillar: optional private pensions

Statutory retirement age: 62m/59w
Number of years' contributions required: 2011 = 33m/28w, 2015 = 35m/30w, minimum 13 (2015 = 15)

Actual general retirement age: less than 60 years
Planned / future statutory retirement age: 2015 = 65m/60w, 2030 = 65m/63w

Minimum pension in €: 90

Average wages 2010 for all pensioners without farmers: gross 470€, net 342€

Early retirement possible: yes Reduction in pension: 0.75 per month
From age: 5 years before the legal retirement age, for workers with 8 or more contribution years on the time required by law
Early retirement in connection with arduous work: 1 – 8 years before the legal retirement age related to the number of years worked under difficult and/or special conditions, only for specific occupational groups, not for the normal construction worker

Are there any collective agreements? No
Are there any paritarian funds? Yes - The Builders Social House (winter time allowance)
Current discussions/demands: legislators, trade unions, employers: see chapter 12