Scientific Papers (www.scientificpapers.org)
Journal of Knowledge Management, Economics and Information Technology

Special Issue
December 2013

The Evolution and Sustainability of Pension Systems the Role of the Private Pensions in Regard to Adequate and Sustainable Pensions

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The accentuation of the trend of demographic aging and the alarming deterioration of the economic dependency rate significantly affected the financial sustainability of the public pension system and stressed the need for a mixed system, public and private. Frank Fandenbrouke[1] *declared, with justifiable concern, that we are not sufficiently aware of the unprecedented scale of these social changes that will press very hard in the balance our future in the next 20-30 years.*

In this context, reforming pension systems should consider two major objectives, namely: long-term financial viability of the systems and ensuring adequate pensions towards maintaining a reasonable retirement income to prevent poverty and social exclusion of older people.

This explains the fact that over the last decade, a growing number of states, as part of reforms to improve the sustainability of pension systems, attempted to directly involve social partners and individual citizens in ensuring the pensions, by expanding the future role of the pre-funded systems, privately managed.

The impact of the financial crisis on private pensions and financial constraints of the state have highlighted some shortcomings of pre-

[1] Frank Vandenbrouke (the Minister of Social Affairs and pensions in Belgium, Bruxelles, 2001"La qualite de nos regimes de pension: unengagement europen"

financing, have seriously diminished public confidence in private pension systems and reinforced the need to develop appropriate and sustainable pension systems, from a social and political point of view. Future adequate pensions require pension systems to be funded in a sustainable manner in relation to companies subject to rapid aging. Pension adequacy and sustainability issues are thus inextricably linked. A recent World Bank report on pension reforms worldwide defined as proper a pension system "which provides benefits to the entire spectrum of the population and these benefits are sufficient to prevent poverty of older people, in addition to providing reliable means to ensure constant consumption over the lifetime for most of the population " (Holzmann and Hinz, 2005 and Draxler and Mortensen, 2011).

Keywords: *quality of life; sustainable development; public pension system; pre-funded pension system; sustainability; active aging; social inclusion; adequacy; recognition*

Introduction

International studies show that the largest part of the world is facing very serious demographic problems regarding birthrate and aging population level. The most recent demographic, published by Eurostat (Statistical Office of the European Union, 2011), shows that at the horizon of 2060, the countries from Eastern Europe will face the most unfavorable situation. Among these, Romania occupies a special place, with an accelerated aging of the population which means that in the next 20, 30 years this indicator will reach a critical level, with a share of the population over 65 years of 25% and a dependency rate of about 41%. All of this, due to the irreversible trend of decreased birth rates and increased life expectancy, which means very high pressure on the shoulders of the public pension budget.

In this context, arises the concept of "private pension" as an imperative measure of financial planning, with the aim of contributing to maintaining a decent life beyond retirement age. The first decade of the XXI century is a period of rapid expansion of the private pension system and reform of the public one. In this context, the European Commission and the Social Protection Committee (SPC), cooperate with the Member States for proper support, monitoring and evaluation of the impact of pension reforms on the double objective to cumulate adequate pensions and ensure long-term sustainability of pension systems.

Currently, CEE countries have managed to make the transition from the old systems, bankrupt from an actuarial point of view, to a more robust pension scheme, diversified and somewhat immune to political shocks. The system adopted by these countries, including Romania, is a multi-pillar one, tested and recommended by the World Bank.

Regarding adequacy, respectively the replacement rate that these countries want to reach, it remains at relatively high value that could reach a market share of 60-70%, under the existence of the three pillars of retirement, the first being the public pension system and the other two the private pension system, mandatory private pension or optional private pension.

With all this expansion, now in our country, too, the basis of the income earned after retirement age is already covered by Pillar I (compulsory state pension), making more evident the unsatisfactory standard of living at this age. In consequence, the public pension system must exist, it will surely exist from now on, but it has reached its limits.

The solution to compensate for the deficits in the public pension system is the establishment of private funds, financed from the savings of each individual in a personal account through professional management. Unfortunately, things are not quite so, the predominant tendency of the individual, especially if he does not have financial resources, being to cover his immediate needs, ignoring and delaying "pension issues" for other times, perhaps more prosperous. This ignorance can also derive from not knowing the real situation of the public pension system, which creates unrealistic expectations and personal ignorance in the spirit of saving for old age.

Romanian citizens do not have a singular attitude towards pensions, the saving instruments proving to be totally insufficient even in countries with a long tradition of financial services. But what differentiates us is the financial situation, which makes all the more necessary the concern for financial planning for retirement.

Long-term demographic evolution and its impact on the pension system. The need for pension reform

Demographic changes and the difficulties the pension systems are facing, make the social protection of older people a major challenge to many countries worldwide. Much of the international debate focused on pension reform, reflecting the fact that the increasing number of elderly and increased longevity leads to increased pension expenditure, highlighting the need to ensure financial sustainability of the systems. It is relevant in this respect the statement of Professor Joseph Stiglitz, former World Bank chief economist and Nobel Prize winner for economics: "There is no subject of greater importance than population aging and providing social protection for older people."

According to some authors, the financial difficulties faced by the public pension systems, present in most EU member states, are due to a single exogenous factor: demographic trends, the rapid increase in the share of elderly within the population. Other factors that contribute to this situation, namely the rapid decrease of participation of men in the labor market, the slow growth of women's participation, persistent high unemployment rate, the policy of increasing the value of pensions and early retirement stimulation are trends that "reflect political choices".

Demographic projections for Communitarian Europe highlight strong trends of aging. According to a study conducted for the European Commission by Calot and Sardon, the aging process will speed up until 2015 and the ratio of people over 60 years will increase between 1995 and

2050 from 20.6% to 33.9%; the proportion of those over 70 years will change in the same period from 10.6% to 21.7% and octogenarians will jump from 3.4% to 10.1% (Rotariu, 2000, p.199; Bălașa, 2005, pp.276-277).

Another major tendency characterizing Europe's demographic evolutions is the decline of active population (Boulanger and colab., 2007, pp.8,16) and the aging workforce. According to recent estimates, in the European Union, 0-14 age group will continue to decline in the coming years, from about 100 million in 1975 to about 66 million in 2050, while the population of working age will be the more numerous around the year 2010 (331 million individuals) and then will drop to about 268 million by 2050. Female employment rates are expected to rise from 55% in 2004 to almost 65% in 2025 and employment rates of older workers will increase massively from 40% in 2004 to 59% in 2025 (European Commission, 2007, pp.47, 57).

Our country is included in this general overview, after 1990 Romania registering a continuous and slow demographic decline, the population dropping from 21.5 today to 20.8 million in 2020 and 18.1 million in 2025. Worrying is that population decline is associated with the continuous decline by age (Roanian Government, 2005, p.12; National Committee for Population and Development , 2006, pp.1-8). According to a study (Ghețău, 2007, pag.32-34), Romania's population aged 60 years and over, in the coming decades, will see a rapid and massive expansion, the author's projections for 2050 indicating an increase of this population to 6.5 million from 4.16 million in 2005.

The employment rate of the population in Romania, aged between 16 and 64 years, was 59.1% in 2008 (Government of Romania, 2009, p.23) opposed the EU average of 63.8%, for 2010 the target (established by revised Lisbon Strategy) being 70%.

Regarding emigration from Romania, the large share is held by young emigrants - people aged 20-39 years (Ghețău, 2007, p.12) and among the negative effects of massive migration of Romanians is the decline of social security earnings.

For all these reasons, the issue about the future of pension systems has been put on the agenda of EU debates since the 90s and imposes a number of measures regarding its reform.

The European context of pension system reform

Globally, more and more states turn to the private solution to reform the public pension system.

In **Western Europe**, The basic model is the occupational pension funds offered and managed by the employing companies. In 1994 the World Bank, in its research report "Old age crisis prevention - policies for old age protection and promotion of economic growth", suggested the development of three security systems, together to achieve a co-insurance against the risks the elderly are facing. The three components to covered by the report are: a compulsory public system financed by taxes, a mandatory private one (personal savings plans or occupational pensions) and a system based on voluntary submissions (World Bank, 1994, pp.15-16). The above mentioned study identified three functions of the financial security of elderly people, to be taken into account in determining the national security programs of the elderly and referred to in supporting the multi-pillar system. These are: saving, redistribution (redistributive function) and insurance. According to the World Bank, pension systems must provide adequate benefits, be affordable, sustainable and robust.

The system based on three pillars concept has been extended so the pension system supported by the World Bank consists of the combination of five basic elements: pillar "zero" non-contributory, in the form of "social pension"; which provides a minimum protection; the first pillar - contributory system linked to wages; the second pillar, mandatory, essentially a savings account; the third pillar, voluntary – arrangements that may take various forms-individual, paid by the employer, defined benefits or defined contributions and a fifth element - support for the elderly, financial or non-financial, informal, within the family and intergenerational, including access to health care and housing (World Bank, 1994, pp.2-3).

The International Labor Organization supports a pension system based on four pillars, which has in its composition a pillar "anti-poverty fund" based on means testing and financed from general government revenues.

In **Central and Eastern Europe** models of multi-pillar type private pension were adopted, reform in this region beginning in 1994, first with voluntary private pension (pillar III) and then with the mandatory private (pillar II). In many respects, New Europe countries have made much more significant progress than the Western economies in implementing pension system reform.

"The potential benefits of reform are higher while its costs are lower," said Michael Rutkowski, the World Bank expert[2], in November 2000. Therefore, it is not surprisingly that, by comparison with the EU15, Central and Eastern - European countries have taken a more drastic reform of the first pillar of pensions (PAYG) and moved with more enthusiasm to implementing a multi-pillar pension systems, concluded Rutkowski. Thus, five years later, in 2005, World Bank experts[3] in pensions, concluded: reforms in Central and Eastern Europe have already led to the structuring of more adequate, affordable, sustainable and robust pension systems than those existing previously.

Thus, the CEE countries have managed to make the transition from old systems, bankrupt from an actuarial point of view, requiring annual budgetary subsidies, to financially healthy systems both short and long term. The new pension systems are more robust, being diversified

[2] Social Security : Is It a Different Issue for Accession Countries?, Michal Rutkowski, World Bank - Conference on Economic and Social Dimensions of EU Enlargement, Brussels/Belgium, 16 November, 2000.

[3] Old-Age Income Support in the Twenty-first Century: An International Perspective on Pension Systems and Reform byRobert Holzmann and Richard Hinz together with Hermann von Gersdorff, Indermit Gill, Gregorio Impavido, Alberto R. Musalem, Michal Rutkowski, Robert Palacios, Yvonne Sin, Kalanidhi Subbarao, Anita Schwarz (February,18,2005).

(by the coexistence of different formulas contained in the three pillars) and somewhat immune to political shocks.
Currently, over 30 countries around the world have adopted the multi-pillar private pension systems, 11 of which are from Central and Eastern Europe, including Romania. All have felt the full impact of the "demographic bomb" in their public pension system, which is why they launched in full global financial and economic storm, perhaps the most severe of the past 75 years, the private pension system, following the model tested and recommended by the World Bank.

Under these circumstances the new pension scheme, structured on the three pillars, presents common characteristics in Central and Eastern Europe countries:

Pillar I - the public pension system works by the PAYG principle, in which the state collects social pension contributions from employees and immediately pays them, system that proved fiscally unsustainable and required certain amendments regarding the tendency of increasing the retirement age and of less generous indexing algorithms.

Pillar II – the mandatory private pension system is the defined contribution type (in which each participant can save for their own future).

Pillar III – the voluntary pension system is a private pension scheme, fined contributions, with voluntary participation.

Regarding adequacy, meaning the replacement rate that these countries are aiming to achieve, it remains at high enough values, generally above 50% (or even more for categories of people with low incomes), whereas, by extending the voluntary participation schemes in Pillar III, it could easily reach a share of 60-70%.

The private pension system has several key advantages over the public one, namely:

- the participants' money are invested in the long term instead being spent immediately;

- the participants have ownership rights over their personal account, where they accumulate the related contributions and the increases obtained from reinvesting them;
- it gives participants the chance of a decent pension at the age of retirement from active life;
- competition between private pension administrators ensure system efficiency, respectively increasing yields at the investments made with the participant’s cash.

Also, changes in the retirement age and reduction of privileges for specific categories of pensioners, have improved the situation in terms of affordability and sustainability. However, the income after retirement is still provided by Pillar I, but it becomes increasingly obvious that we cannot talk about a satisfactory standard of living at retirement age in the absence of completing these incomes with a complementary source represented by participation to the private pension system.

Pension reforms generally consider two main objectives, namely: ensuring long-term financial viability of the systems and ensuring an adequate level of pensions towards maintaining a reasonable retirement income to prevent poverty and social exclusion of elderly people. In terms of pension policies, most of the Member States have worked hard for a better transparency of policies, on the whole and in the direction of the insured knowing their rights.

In the early years of transition, "pension system has been used as an important instrument for cushioning the social impact of economy restructuring" (Zamfir C., 1999, p.81). Ever since 1990, early retirement has been "triggered", a factor that had a major contribution to the high rate of retirements during this period, the transition representing "a genuine pensioners factory" (Bell, 2001, p.201).

Smaranda Dobrescu and Mihai Seitan estimate that while "PAYG schemes raise the question of balance between the active period and the retirement one, capitalization schemes raise the question of balance between maintaining the purchasing power of present and future pensions" (Dobrescu and Seitan 2005, p.27).

Ioan Marginean believes that "between private and social insurances there are no exclusion relationships, no competition but they can influence and support each other, without the need to speak about complementarity or full substitution of one by the other" (Mărginean, 1995, p.49).

System operation and success of the reform depends on many factors, including: the level and dispersion of coverage level of the system, contribution and yield levels, a stable macroeconomic framework, proper regulation and supervision of the financial sector, a healthy banking system, public information and restoring confidence in the stability of the pension system by increasing transparency, the introduction of fiscal facilities to encourage saving (Visco, coord., 2005, pp.37-41), the operationalization of the IT infrastructure, private pension fund management by specialists in order to make successful investments, minimize administrative costs of pension funds, responsible choice of depositories, efficient supervision of the system, ensuring the financial security of pension funds, appropriate treatment of taxation, administrator - participant partnership based on trust and honesty (Dobrescu, 2006, p.17).

The financial sustainability of the public pension systems is currently in danger because the conditions that led to the creation of the current systems in the Member States have experienced, over time, a number of major changes that have greatly affected the social security, throwing them into a major crisis. The growing trend of population aging, worrying deterioration in the rate of economic dependence, increasing deficits in pension systems are currently a serious concern for the EU countries. The issue of pensions is subject to extensive debate at EU level.

Pension adequacy refers to their ability to prevent poverty and social exclusion in old age and to ensure a decent standard of living for pensioners, enabling them to benefit from the economic welfare of their country and to participate in the public, social and cultural life. For pensions to be sustainable socially and politically, they must be adequate, and for pensions to maintain adequate, they must be financially sustainable, that can be financed without undermining the funding of other key aspects of sustainable societies. Future adequate pensions require pension systems to be funded in a sustainable manner in relation to companies subject to rapid aging. Pension adequacy and sustainability issues are, thus, inextricably[4] linked.

To address the challenge of an aging population, the European Commission and the Social Protection Committee (SPC) are collaborating with the Member States to support, monitor and evaluate the impact of pension reforms on the double objective of accumulating adequate pensions and ensuring long-term sustainability of pension systems.

What is relevant for CPS is the first place, is to examine more closely the contribution of pension schemes funded and privately managed at the adequacy and sustainability of pensions and, in particular, to clarify some key aspects of pension systems funded and privately managed, which must be well known, for a good functioning as instruments of social protection.

Concerns for social issues, the degree of priorities achievement of the Social Policy Agenda at EU level and the identification of joint actions in the context of demographic pressure on social security systems, particularly on pension systems, led the EU Council to approve three general principles: protection of systems' capacity to fulfill their social purpose; maintaining financial sustainability; adaptation to changing societal needs. Therefore, at the Gothenburg Summit, the EU Council has mandated the Social Protection Committee and the Economic Policy Committee to apply the open method of coordination in the pension field, in the joint effort to develop some comprehensive

[4] Private pension schemes. Their role regarding adequate and sustainable pensions, European Commission, General Directorate for Employment, Social Affairs and Equal Opportunities, Unit E.4, December 2009

global strategies to seek solutions the economic and budgetary challenges and to the aging of population. The open Method of Coordination actually involves three elements: establishing, by consensus, common global objectives, translating them into local strategies, regular monitoring of the progress achieved, based on a set of indicators defined by mutual agreement.

Private pension schemes. Their role regarding adequate and sustainable pensions

By the early '90s, private systems only played a significant role within the pension system in Denmark, Ireland, the Netherlands, Sweden and the United Kingdom, where the initial limitation of the public insurance of the PAYG pensions to basic ones, lump sum for everyone, stimulated the growth of the private pension system, in the form of collective occupational pensions, or as individual pension insurance contracts.

In the last decade of pension reforms, in response to the aging population, more countries have expanded the role of existing private pensions systems and introduced new elements of the pre-funded, privately managed pension systems in their pension schemes.

This happened specifically to either improve the overall adequacy of pension provision by adding some private components on the scope of the public system, or to compensate for reductions in future replacement rates of the public systems resulting from the reforms, or from a desire to diversify insurance, increase choice, enhance transparency and encourage greater individual responsibility.

When a number of Member States, such as Estonia, Latvia, Lithuania, Poland, Romania, Slovakia, Sweden and Hungary, have reorganized their guaranteed systems by introducing a mandatory component of the privately managed pension systems to complement the TSG, they have created an entirely new blend of public regulation and private management within the European pensions, although, in most of these cases, the transition is not yet complete and some important political decisions are still to be taken.

Also, there is a category of countries that use in a lesser extent private funding and do not intend to change this (Spain, France, Luxembourg, Malta) and countries that have appropriate public pension systems, but now transfer some of their expectations in terms of suitability in order to increase the private pension systems (Belgium, Germany, Italy, Aust).

Thus, we can say that in most Member States, the income of most retirees is still provided by the PAYG system, the private ones offering only supplementing income to pensioners. On the other hand, as private schemes were introduced only in the last decade, it means that they still need 30-40 years to reach maturity, their contribution to current pensioner's income remaining quite limited.

When governments are assigned a significant role in ensuring the privately managed, pre-funded pension systems, they must take into account the key deficiencies related to the social protection structure of the system's structure, such as: issues like the level of coverage and contribution, managing multiple risks associated with the phases of accumulation and redemption, the impact of taxation and the need for information, financial education and monitoring the performances of the system. All these issues must be addressed, in order to make the private systems completely trustworthy actors who contribute to the adequacy of the overall pension system.

Along with the sudden emergence, in the early autumn of 2008, of an unprecedented financial crisis and taking into regard the following powerful economic recession, the imbalances of the public funds have increased and the confidence in the safety "promised" by public systems upon retirement was affected.

The risk of a low and uncertain income on retirement is higher in less developed countries with public systems based excessively on solidarity and minimal social protection.

Private pension systems have undergone a major decline in the book value of their assets, from which they have not yet recovered. The steep recession and subsequent rapid growth of unemployment, made it difficult to maintain positive anticipation according to which a rapid increase will allow active people with incomes to create their own additional pension funds, at the same time financing the pensions of their parents and grandparents.

Another consequence of the fiscal constraints caused by the crisis is the partial reversal, on a limited term, of the flow of contributions transferred to Pillar II. In Romania, such an interruption took place in 2009, which delayed by 0.5% the increase schedule of the contribution corresponding to Pillar II.

"Unfortunately, the crisis came at the time when the DC-type funds are less important than they will be in the future. Those participating in DC systems and are far from retirement will have time to recover their losses from the crisis, at least partially. For those who are closer to retirement, the impact can be real, with lower pension incomes or can result in delayed retirement"[5].

Conclusions

Expanding private pensions, as a supplement to the guaranteed PAYG pension schemes, has innovated and possibly strengthened the ability of the Member States to provide adequate and sustainable pensions. As system structures in many Member States are often not complete, nor fully optimal, there is a wide scope for improving the overall performance of pension funds as instruments of social protection.

Moreover, the crisis has shown the vulnerability of private schemes to the volatility of the financial markets and highlighted the

[5] European Commission, 2010,"The Join report on Social protection and Social Inclusion, Supporting Document" http://ec.europa.eu/social/main jsp p 128

need for a more cautious promotion by policy makers, regulators and supervisors managing people's retirement savings.

With a large number of losses and an even greater capacity to absorb the shock, the differences between the structures of pension funds and investment strategies have an obvious importance. From the differences of impact in the EU, important lessons can be learned on how to ameliorate the private pension systems and how to obtain a better balance between risk, safety and accessibility.

Therefore, in many Member States, a new agenda for the necessary changes of the financed models and a rapid analysis of the unfinished parts of the new mandatory systems is required - for example, in terms of safer standard options, changes in the portfolio's structure when close to retirement age ("life-styling"), capping of taxes, regulations for conversion into annuity, the payout phase and shock absorption capacity.

Achieving these objectives will largely contribute to regaining and maintaining public confidence in funded pensions, privately managed. Moreover, the crisis has highlighted how pension funds should be included among the measures to stabilize the financial markets. The need for better regulations will also have a European dimension.

Like other former socialist countries, Romania entered the transition with a PAYG pension system. Social insurance contributions puts us in a leading position compared to other European countries, in terms of magnitude of the contribution and the cost to the employer, which is generally perceived as a "fine" applied to labor, the contribution not being found in the social counter performance.

However, the contributions paid by the participants (and / or their employers) to the voluntary private pension funds (Pillar III), are deductible up to 400 euros a year for both the employee and the employer. With this level, Romania ranks last in Europe and in the region in terms of stimulating voluntary individual savings for retirement. Another problem is that the deduction is granted only to the income tax and not the employee's social contributions (employer, if applicable).

Pension reform requires the following immediate steps:

- Gradual transition from the intergenerational solidarity system to the principle of contributiveness, which involves the accumulation of social security contributions in personal accounts, managed partly by the state and partly by the private system (eg. Pillar II pension);
- Systematic decrease in social security contribution rates, up to their halving within a few years. In the long term, depending on the performance of the private pension system, it can be considered a continuous reduction of contributions to the public pension system and the ability of individuals to choose how to participate. All those who have contributed to the public system can remain in the system and will receive the pension established by the Social Insurance system. Pillar I will work until the last pension will be paid to those who have contributed to the old system;
- Supporting voluntary pension schemes, by increasing the threshold for deductibility to the amounts with which the employers contribute to such a system for their employees. Increasing tax deductibility for Pillar III - doubling it from 400 to 800 euros a year for both the employee and the employer;
- Removing the maximum limit of contribution currently imposed (15% of salary) to the participant for the optional pension scheme to which he adhered;
- The sustained development of Pillar II, on the economic principles of contributiveness and private administration of individual savings accounts for retirement. Only gradually, mandatory private pensions will be topped by a voluntary private pension system, in which the state's role will no longer be to collect contributions and to redirect them to pension funds. Each employee will be able to determine the percentage of contribution and the employer will retain and transfer it to the employee's individual account, opened to the pension fund

to which he has subscribed. The contribution to the pension fund should not, however, be less than the minimum established by law;

- Implementing a development strategy of the insurance schemes for old age, centered on active aging and adequate and sustainable pensions from public and private sources.

The financial crisis showed the volatility of the financial market and hence the vulnerability of pension schemes. Increasing life expectancy and the need to manage financial market risks increase system costs by reducing the anticipated revenues. As a protective measure, regarding the funds, the length of contribution and thus the retirement age increase, the transfer rate reduces and, in terms of the individuals, they extend their working life.

Generous public systems based on social solidarity, increasingly erode income security, potentially proving more durable the active security systems through employment - active aging and customization of old age savings schemes based on different contribution potential and different consumption needs. To bring to the attention of Europeans the pensions issue, 2012 was declared "the European Year for Active Ageing and Solidarity between Generations".

Simulating regulation of social insurances market and of pension funds. The appearance on the social securities market of new funds should be free, but regulated in a transparent and simulative manner: the requirement of minimum capital being correlated with the number of contributing members. Also, each employee can change the pension fund up to two times per year. The elimination of the current restrictions on the structure of the investment portfolio, each pension fund being able to freely manage its capital in order to maximize operational efficiency.

Given the recent developments in financial markets, the stage and the performance of the pension system in Romania, the experience and problems of the pension systems and the guidelines concerning their long-term sustainability, in the demographic and post-crisis business environment context, the European Institute of Romania[6] proposes as feasible two ways of improving the pension system in Romania:

- The "soft" or "continuation" way, which starts at the current stage of the reform and development of the system and propose a set of adjustments to modernize and streamline the system, making it more attractive for potential contributors;
- The "radical" or "innovative changes" way, consistent and immediate, which is based on building a healthy culture of saving for old age, as an "active" source of insuring the necessary income for the third age.

Referring to the approaches of the European Union, the World Bank and the International Labor Organization regarding configuration the pension systems. In the European social model, the public pension system remains the mainstay in protecting the elderly, this allowing the Member States to maintain a certain degree of redistribution and the solidarity needed to provide adequate incomes for the elderly and to mitigate the risks associated with private pensions. Traditional classification of pension systems includes: Pillar I, represented by the regulated pension systems, mandatory, public or private; Pillar II, occupational schemes, mandatory or voluntary and Pillar III, represented by the individual pension plans (European Commission - The Social Protection Committee, 2005, p.4).

EU objectives related to pensions are: adequate, sustainable and modernized pensions (European Commission, 2006, pp.84-148; Council of the European Union, 2001a, pp.5-7). An essential element of the European pension reform is flexibility in the transition from working life to retirement. This can be achieved through flexibility regarding the retirement age, appropriate incentives for working longer and the possibility to cumulate the pension with the salary (European

6 Prof. Univ Valentina Vasile(coord) and others „Analiza politicilor sociale in UE in ultimii trei ani-pensii suplimentare private si impactul imbatranirii populatiei" Strategy and Policy Studies -SPOS 2011(nr.4), Bucharest, 2012

Commission, The Social Protection Committee, 2007, p.33). Increasing the real retirement age and achieving higher rates of employment requires actions such as: discouraging early retirement (United Nations, 2008, pp.28-29) and improving labor market opportunities for older workers (removing the "barriers" on the labor market, equal access to lifelong learning and skills upgrading, attractive working conditions).

To improve the dependency rate, in many Member States is necessary to increase participation of women on the labor market (in accordance with the Lisbon objective) and for this purpose providing childcare facilities (Council of the European Union, 001B , p.36).

Because of the low real value of pensions in Romania, the retiree status, despite a regular income earned through employment in the formal sector of the economy, is not a guarantee of overcoming the poverty (Institute for Quality of Life, 2004, p.14).

It can be concluded that private pensions are, therefore, not only the way to ensure your best living standards on retirement, but also an advantageous form of saving.

However the low level of "financial literacy" limits the support from the public for the private pension systems and the competition between pension funds. Therefore, financial education is the condition for individuals to be able to correctly appreciate the needs, risks and opportunities and to understand the concepts and private pension products. Unfortunately, studies and surveys conducted by reputed institutions of the world emphasize, repeatedly, a worrying level of financial "illiteracy", a critical deficiency given that the modern world is increasingly forced to rely on the individual’s responsibility the care for their financial future in retirement. Future retirees can no longer afford financial "illiteracy", a direct result of this being that most of the citizens are at high risk of being caught completely unprepared on financing the latter part of their lives.

In these circumstances, the first and most important step to ensure the financial security of future generations of retirees is to financially educate people. Otherwise, no matter how well settled would be, legally and operational speaking, all the components of the pension system, their social efficiency has at least limited.

"Forewarned, is forearmed," says popular wisdom. Regarding pensions, at least it can be said that "a forewarned man has the best chances to become a happy retiree", while ignorance may be paid at the expense of an impoverished old age.

The complementarity of the public pension with other categories of income from private pensions and active aging remains a fundamental constant in the construction of an efficient sustainable old-age insurance system, attractive regarding benefits and financially sustainable[7].

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