

## **APPROACHES AND DEVELOPMENTS OF PUBLIC PENSION SYSTEM IN THE REPUBLIC OF MOLDOVA**

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*This study aims to analyse the current public pension system in Moldova under the financial developments, demographic and political conjuncture. The prospect of effective development of alternative pension schemes in Moldova will be investigated into ensembles public pension systems operating effectively in some EU countries. The research will provide workable solutions to reform the public pension system in the country, to ensure fairness and to respond effectively to social and economic challenges.*

***Key words:*** reform public pension system; public pension system, pensions, social security.

Public pension systems are facing with various difficulties in recent years internationally due in large part to public debt caused by excessive social spending [1]. Pension reform is one of the biggest challenges facing governments around the world today, especially regarding traditional pension system based on solidarity between generations [2, page 5]. This type of system makes it increasingly difficult situation in which the number of retirees increases and the number of employed persons decreases and face difficulties in supplying the population with decent pensions.

The Republic of Moldova is no exception. Social Insurance Budget deficit at national level gradually increases each year. Among the causes that put pressure on this issue can be listed: the demographic crisis, labour migration, paying wages in envelopes, etc.

The pension system in Moldova has reached a time that requires fast changes to ensure its sustainability [3, p. 11]. Reforming the pension system is imperative, socio-economic and demographic context are deeply damaging, and any adjournment of cardinal changes translates into additional costs for

Moldova. Keeping the status quo puts viability of the pension system and thus even growth potential. At the same time, ensuring payment of pensions from foreign sources pension system, reduce financing other sectors and reduce the chances of successful implementation of other reforms, thus endangering the achievement of other development priorities [4, p. 3].

Thus, in Moldova, current and future sustainability of the pension system is one of the primary problems. They require a deep analysis of all the factors that generate imbalances in the system and initiate effective reforms meant to adjust properly economic cost sharing between different generations in the same generation.

Pension system in the Republic of Moldova is redistributive and based on the principle of solidarity between generations, according to which collected contributions are used immediately for payment of pensions (Pay-As-You-Go) [2, p.5]. The governing principle of redistributive pension systems make an active group in the labour market is steadily declining balance a population group withdrawn from the labour market is steadily increasing [8, p. 64].

At the same time, social insurance system is quite complex, as a result of multiple categories of beneficiaries. The size of the insurance tariff is differentiated by categories of payers: employers, employees and what operating on their own (individual entrepreneurs, patent holders, lawyers, notaries, etc.), and its size is adopted annually by Parliament. On the other hand, differ for different categories of payers and the tax base of which is paid insurance contributions [5].

Laws regulating pension system in Moldova are found in the following acts: [6].

1. Law on state social insurance pensions no.156-XIV of 14.10.98;
2. Law on public social insurance system No. 489-XIV of 08.07.99;
3. Laws annual state social insurance budget.

**Table 1.**

**Rates of state social insurance contributions mandatory for 2015**

<b>Categories of payers and insurance</b>	<b>Contribution rate</b>	<b>The payment deadline</b>
Employer to: persons employed by individual employment contract, contract projects, international institutions and organizations, officials elected or appointed to the executive authorities, judges, prosecutors, ombudsmen	23% in payroll and other payments	Monthly, until the 25th of the month following the reporting month
Employer for persons employed by individual employment contract or other contracts for execution of works or services operating in special working conditions, according to Annex 6 of this law	33% in payroll and Other payments	Monthly, until the 25th of the month following the Reporting month
Employer for persons employed in the execution of works or services that meet the conditions specified in Article 24 paragraph. (21) of Law no.1164-XIII of 24 April 1997	23% 2 average salaries in the economy projected for 2015	Monthly, until the 25th of the month following the reporting month
Employers in agriculture	22% in payroll and other payments	

**SCIENTIFIC SYMPOSIUM OF YOUNG RESEARCHERS**

The employer means	16% in payroll and other payments	Monthly, until the 25th of the month following the reporting month
From state budget	6% to payroll and other payments	
Individual entrepreneurs; lawyers, notaries, bailiffs and mediators who obtained the right to operate, regardless of the legal form of organization, the sole founder of entrepreneur patent holders	MDL 6372 per year for individual insurance	<b>Monthly, every 1/12 of the annual amount by the 25th of the month following the reporting month</b>
Entrepreneur patent holders, and persons who fall into the categories of payers referred to pct.1.1-1.5	MDL 6372 per year for one person, but not less than 1/12 of this Amount monthly.	At the time of application or patent extension

*Source: State Social Insurance Budget Act 2015. (9)*

For the period 2015-2017 provided for the maintenance of these allowances until 2017.

Making a foray into the history of the pension system in Republic of Moldova since 1999 showed an increase of revenue and expenditure budget of state social insurance by about 17% per year (the last 4 years - 10%) and 18% per year. This increase is mainly due to factors of population aging and the annual indexation of pensions [7].

Data from the National Social Insurance House (CNAS), certifying that from 1 January 2015 the average pension in Moldova amounted to 1,087 lei, by 67 lei more than in 2014 due to rises in pension indexation 6.45 %, which took place on 1 April 2014 the reduced pension does not cover currently no minimum required for survival.

The total expenditures of the State Social Insurance Budget (BASS) for 2014 amounted to about MDL 12 billion, about 11% of GDP. The budget deficit registered by the State Social Insurance of Moldova (BASS) in the previous year was about 1.1 billion or 1% of GDP. In 2015, it was estimated a deficit of about 1.4 billion MDL, which also would be fully covered by the state budget. Thus, it appears that loses features BASS independent budget based on self-financing and sustainable [7].

The redistribution of funds is exposed to several risks, both economic and demographic. These include: global economic and financial crisis, population aging, slowing income growth compulsory contributions (about 7.5% per year on average), says the report compiled by the Association of Actuaries from Moldova (AAM) [7].

The demographic parameters of Moldova deteriorate considerably sustainability of the pension system. Thus, in recent years, the social security system of Moldova faces an increase in the number of new retirees settled. During the period 2007-2010, the number of retirement-age grew an average of 1,700 people per year, while in the period 2011-2014, the number of pensioners increased by an average of 11,700 people per year. Another demographically negatively impact the pension system is the aging population. The ratio of population over 60 years and the total population was 15.2% in 2014, while according to international practice a population is considered "aging" when the share of elderly exceeds 12% [2, p .8]. According to forecasts for 2020 this percentage will reach 18.2% and 2050 at about 32%.

In **conclusion**, the current public pension system needs reform in Moldova. A pension system equitable and sustainable, providing a decent living after retirement, it is essential for social cohesion [10]. Current pension system reform should involve the implementation of a cumulative pension system under which social security contributions will be invested rather than spent immediately to pay benefits to current pensioners.

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