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THE PENSION REFORM IN BULGARIA – FIRST ASSESSMENTS AND RESULTS¹

A Code for Mandatory Social Security came into power from the beginning of the year 2000. In practice it sets the start of the pension reform in Bulgaria. It is outside the aims and tasks of this article to show the long way of development of the Strategy for Reform of Social Security and of its legislative framework. However the months that passed from the beginning of the reform give the possibility for analysis and assessment of its first results. This is the main aim of this article – to present the assessments of two of the cornerstone sides involved in the pension reform – the population and the experts in this area.

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1. Population Assessing the Pension Reform in Bulgaria (First Reactions)

In June 2000 in the framework of a project financed by UNDESA, a representative sociological survey was conducted.² It did, besides other tasks, aimed to clarify what are the evaluation and the attitude of the population as a whole and of its different groups towards the pension reform in the first months since its start.

The main objective of the comparative analysis performed here is to define the main similarities and differences in the knowledge and attitude towards the pension reform of different groups of the population in comparison with the knowledge and attitude of society as a whole. In connection with this similarities and differences between the factors are pursued, factors which it is anticipated are determining the estimates of the reform. Here such factors as socio-economic status and socio-demographic characteristics of the respondent's groups are

¹ The present article reflects the results from the individual research project "Financial Stabilisation of the Pension System in a Period of Restructuring" financed by the Research Support Scheme – 1999 of the Open Society Foundation.

² The author had the possibility to participate in the development of the questionnaire and in the data analysis. This let him use the results and interpret them for the use of the above mentioned project.

envisaged. When performing the analysis, the aim was not to go into detailed comparisons but to outline the most important characteristics, which define the common and the different in the appraisal and opinion and notion towards the pension reform.

The analysis, estimates and conclusions are based on (a) results from the sample sociological survey, which included the interviewing of the basic sample of 1,175 respondents and (b) the responses, obtained when interviewing the reinforcing supplementary sample of 485 representatives of five chosen groups (unemployed - 98 persons, poor - 100, disabled - 98, members of large families 99 and Romas - 90 persons). This choice was made because of the need to view in detail the assessment of the pension reform of groups for which it is supposed that are affected in a negative respect by the changes - mainly because of the strengthening of the relation "social security contribution - access to pension benefits".

The comparative analysis of the responses concerning knowledge and attitude of the persons from the two surveyed groups towards the pension reform leads to the following aggregate characteristics.

Before all, the data analysis showed the surprising fact that a considerable part of the present retired persons do not know or have not an answer to the question under the conditions of what kind of category of labour had they retired - between 14% (in the basic sample) and 30 - 40 % for the poor and the large family members. *These facts can be interpreted as an indication of insufficient social security culture* and weak interest in respect of the principles and mechanisms, which make the pension system function and which as a final result reflect on the amount of the pension one gets. (Incidentally, in this respect the knowledge is complete, which is entirely natural).

The knowledge of the existence of supplementary pension security can be estimated as good to very good for the respondents from all the groups, which were interviewed (around 2/3 in the basic sample and between 40 and 60% for the groups of risk). Here the differences are not so substantial and (logically and naturally) lowest is the knowledge on this subject for the poor and Romas (around 30% of them are aware of this possibility). This common level of public awareness can easily be explained by the fact that the legislative framework of the supplementary voluntary social security (the so called third pillar) came into power around one year ago, that is before the adoption of the Code for mandatory social security and also with the fact that the products of the pension companies for additional pensions are out on the Bulgarian market for a number of years. This does not necessary mean that the scope of this voluntary social security is large at least for now - the share of the persons (both from the basic sample and the groups of risk) who answered that they are insured at a private pension fund is negligible (1-2%). As of the time of the survey the interest towards the supplementary pension insurance might be defined as moderate among the respondents from the basic sample and the long term unemployed (for these two

groups willingness to participate in the voluntary pension social security have expressed 15-17% of the interviewed) and as very low (4-7%) among the other risk groups, which having in mind their income status, is easily explained.

The responses or likewise the lack of responses on the part of the interviewed persons about the advantages and shortcomings of the pension formula (over 50% nonresponse for all groups) shows on one side the insufficient knowledge, but on the other – indicates indirectly the complexity of the implemented formula, which remains hard to understand for most people. This can explain to some extent the prevailing estimates of the respondents that the new formula is more unfavorable than the previous one. The fact that these estimates were made before the pensioners were to get their new pensions (month of July) recalculated according to this formula, is not without implication. A reality which once more indicates the importance of synchronisation when introducing changes – in favour or not for the population.

When clarifying the attitude of the interviewed groups and persons in respect of the reform of pension social security, basic information is obtained from the answers to the questions “What is your attitude toward the pension reform?” and “Do you think that the started pension reform is unnecessary and the previous system for pension social security could have retained its characteristics?” (see Fig. 1 and 2).

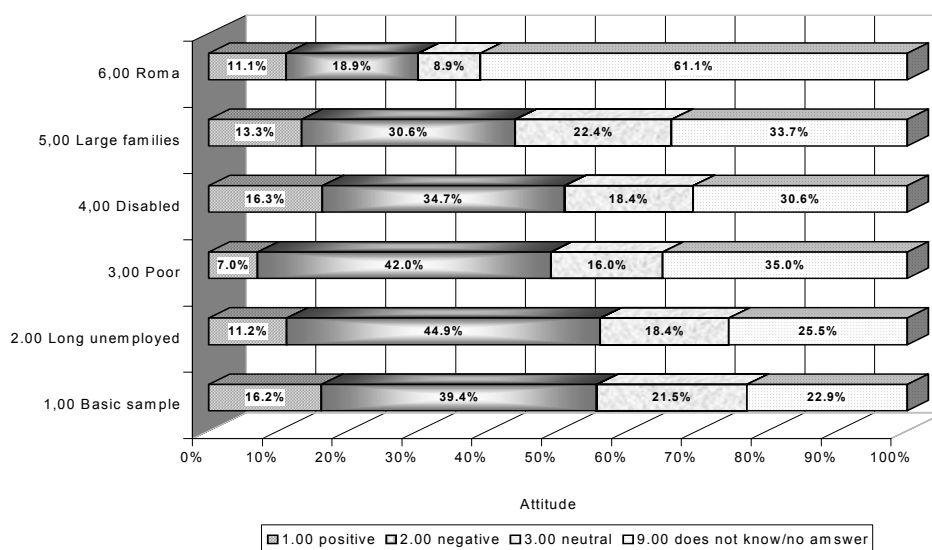


Figure 1. Respondents' Distribution According to their Attitude towards the Pension Reform

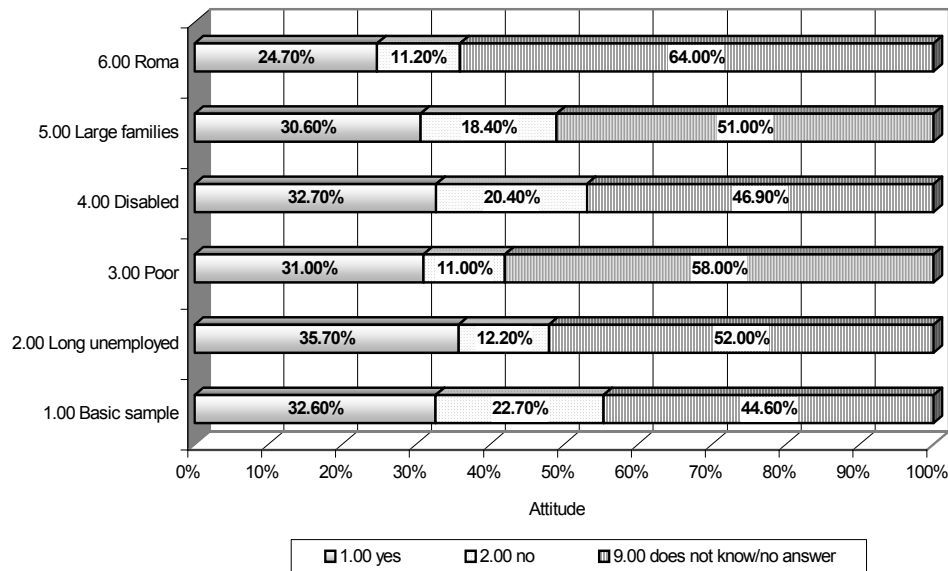


Figure 2. Respondents' Distribution According to their Estimation Whether the Pension Reform is Necessary

Data reflect the dominating negative attitude and assessments in respect of the beginning reform and the need for it. A more positive attitude was demonstrated by the respondents from the basic sample (about 1/6), while for the risk groups this share is between 7% and 16% (for disabled). Negative attitude is dominant among the answers given by the basic sample (almost 40%) and for the different risk groups it is between 45% (for unemployed) and 20% (for the Romas). In both main groups the share of the persons with neutral attitude and without opinion is considerable. Probably mainly among them, the potential supporters of the pension reform should be recruited in the future.

The analysed results depict a not very favourable public disposition in respect to the beginning changes of the pension system. However they should not only be connected with the reform itself, but also with the disappointment from the development and the state of the pension system for the last ten years as well as with the overall development of the social and economic transformations in the country. The insufficient campaign for popularizing of the reform, the postponed payment of the new (recalculated) pensions, the difficulties of the health care reform, etc. are part of the concrete and overall reasons which determine the negative public attitude at the beginning of the pension reform.

Additional light on the similarities and differences in the attitude towards the reform is shed by the answers to the questions, reflecting the respondents' opinion on such important components of the restructuring and the financial stabilisation of the reform system as: the increase of the retirement age; the equalisation of the retirement age for men and women; the redistribution of the social security charge between the insured persons and employers; introducing a bottom and upper limit for the social security income; increasing the social security income basis on which premiums are paid and changing of the formula for pension computing. The data analysis shows the following:

First, negative evaluations dominate the answers to all these questions and this on the part of all categories interviewed persons. Especially severe are the reactions to the increase of retirement age and the equalisation of retirement age for men and women and the idea to make these ages completely equal is estimated as entirely unjust, i.e. unacceptable. The negative estimates of the mentioned measures are found in 70 – 90% of the answers.

Second, similarly negative, but not to such mass extent, is the opinion on the other changes which are envisaged in the rest of the questions mentioned above. Here the negative responses are true for at least 20% of the respondents (for example the Romas who do not accept the decision premiums to be paid not only on salaries, but also on any other incomes from economic activity). These answers reach a maximum of 50% (for example among the members of large families, who reject the need for a gradual transition to an equal distribution of the social security premium between employers and workers).

Third, namely on the second group of questions (concerning the distribution of the social security premium between employers and workers, the introduction of bottom and upper limit of the social security income, increasing the social security basis of the incomes on which premiums are calculated and the formula for pension calculation) certain differences in the estimates of the respondents from the basic sample and from the risk groups are observed. Thus the persons from the basic sample respond with greater understanding to the redistribution of the social security burden and its role for the financial stabilisation of the pension system. The percentage of the positive answers is 16 while for example for the long term unemployed it is 10% and for the poor it is 6%. Similar, though with smaller differences is the situation in respect of the attitude and estimate of the enlargement of the social security basis. It is notable that negative estimates prevail positive even when answering the question of introducing a bottom and upper limit for the social security income and its influence on the further overall development of the pension system. Around 1/5 of the basic sample and from the unemployed reject this decision, while for the poor, the disabled and the Romas this share is around 10%.

Fourth, a certain contradiction is noticed in the estimates and the opinions of the persons interviewed. On the one side, they express a rejection of the

new measures for limiting the social security rights, but on the other, they admit that probably these measures will influence the financial stabilisation of the pension system. Thus for example, only 15% of the persons interviewed in the basic sample accept as positive the redistribution of the social security burden, but over 19% are those who admit that this will strengthen financially the pension social security. Also 43% of the basic sample are against this measure, but 34% think that it will not affect the financial status of this social security. Similar is the picture of the responses given to this question by the risk groups.

Fifth, on the other hand, the estimates of the two groups in respect to the anticipated influence of the increased individual social security burden on the enlargement of black labour market are similar (between 40 and 50% for the different groups). These results are a good example for a consensus in the expectations and estimates of the respondents.

Sixth, another example is the estimates, which support the gradual abolishment of the ceiling of the maximal pensions, which predominate in the answers of the people from all groups (between 30 and 50%). Parallel with this, here again shows the low level of knowledge - the share of the persons who have expressed opinion on the problem is between 25% in the basic sample and nearly 50% (for the Romas).

Compared to this attitude towards the pension reform (viewed of course in the context of the overall dispositions and estimates of society), the expectations of most of the interviewed persons (around and over 60%) for the manifestation of the positive results mostly "the increase of the pensions to a level, which will correspond to the personal participation and to allow for a decent life, are expected in 10, 15 or more years. Thus, in respect of the expectations, *no significant differences are observed between the basic sample and the risk groups.*

The more detailed analysis of the responses, given by *the different groups of respondents from the basic sample, reflecting their attitude towards the pension reform, shows the following important parameters of the population's attitude towards the reform.*

First, the positive as well as the negative social attitude towards the changes in the pension social security system is formed predominantly by hired workers and unemployed. Their share prevails among the respondents with positive disposition towards the reform (25% hired workers and almost 20% of unemployed) and among those with negative disposition (accordingly 27.9% and 28.4%). Similar is the structure among the people who have neutral disposition.

Second, among all surveyed groups (hired workers, self-employed, freelance, unemployed, working without pay in family firms, associates and managers) the negative attitude is prevailing. For example, around and a little over 40% of hired workers, self-employed, unemployed and free

lance persons do not support changes. This negative dispositions are even strongly expressed for the family workers and (especially! - almost double the share in comparison with the self-employed) for the members of production cooperatives.

Third, the opposition on the part of the poor is also strong. Over 1/3 from them are against the reform and more than half of them are neutral or have not expressed an opinion.

Fourth, similar is the distribution of the answers of the retired: those negatively disposed are double the number of the elderly people who support the reform. Also one should note that around 50% of the retired are neutral or not oriented. (see Fig. 3). *The large share of the neutral opinion and/or the lack of opinion can be interpreted (and not only in connection with concrete analysed problem) as a consequence of the lack of knowledge and the low interest in respect of this process.*

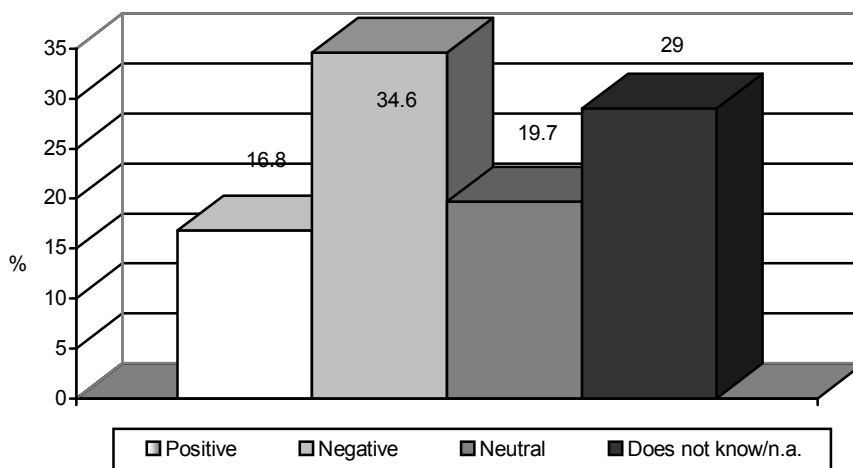


Figure 3. Distribution of Retired Persons According to their Attitude towards the Reform

This attitude looks contradictory when compared to the prevailing expectations that the reform will increase the pensions - more than 44% have expressed such an expectation, while 33% are skeptical. Similar positive expectations have the larger part of the hired workers and the unemployed (respectively 75% and 46%) while 40% of the self-employed do not expect an increase of the pensions as a result of the current reform. Additional light on these factors, which form such an attitude in respect of the overall reform, is shed by the analysis of the opinions about other reform components (besides the amount of the pension as one of its “end products”).

For example, the reaction against the increase of the age of retirement is widespread. The graphics shown below presents the share of the negative responses by groups of interviewed persons.



Figure 4. Share of Negative Answers in Respect of the Decision to Increase Retirement Age

On one side, the attitude of the persons in labour age (hired workers, self-employed, unemployed, managers) seems understandable when there emerges a perspective to work longer, thus increasing the risk of losing their job. This way the responses reflect the widespread understanding of the pension system as an eventual “umbrella” against unemployment, without considering, (or more correctly - by acknowledging) the fact, that retirement leads to a decrease of income. On the other side, the negative estimates of the retired persons impress not that much with their large share but mainly with the fact that they show the total misunderstanding on the part of this group of the direct effects of this measure (increasing retirement age) on the financial potential to fulfil its expectation for higher pensions.

The power of the individual interest from the positive changes (in the case - with retirement age) shows in the estimates of this same measure given by the persons who are insured for all cases: their share in the positive responses is highest - 45%. Along with this, persons with negative estimates prevail in this group - nearly 80%.

This individual interest is manifested in the overall attitude of this same group of persons (those insured for all cases) towards the pension reform. Their share is again the dominating one among the respondents who have expressed support for the reform (nearly 32%). However again among those (supposedly being the persons with the highest interest) the negative estimates of the beginning reform are prevailing (again around 1/3). This shows that these people do not see their own interests defended in the way they expect.

The analysis of the responses to the other important question, which shows the attitude (for or against) to the reform determines the basic parameters of the picture drawn above.

First, again the answers of the hired workers and the unemployed form the measurements of the surveyed relation. These two groups are with the greatest share among the persons who answered that the reform is unnecessary (26% of the hired workers and 30% - unemployed), as well as among the persons who said that this reform is necessary so as to substitute the former pension system (accordingly 31% and 17%).

Second, obvious is a considerable support for the reform on the part of the hired workers. Over 31% of them think that the old pension system could not retain its characteristics and it was necessary to change it radically. The same opinion was expressed by nearly 27% of the persons who are insured for all social security cases. However, parallel with this, the indifference is strongly expressed for groups of interviewed persons. The share of the persons who have not answered this question is between 20% (for the freelance occupations) and 42% (for hired workers) and 52% (for unemployed).

Third, similar is the attitude of the retired persons - 30% of them are for the changes and 21% are against while half of them have remained indifferent. The opinions of the beneficiaries of the social aid are more polarised. The share of those who support the reform for them is lower (14%) correspondingly to the larger share of the persons who have not expressed any opinion. However again, the way it was with the former analysis, most of the retired persons (43%) and the poor (35%) expect an increase of their pensions as a result of the reform. In other words, these expectations have not been determining for the overall attitude of the respondents towards the reform.

For the “elements” of these aggregate estimates of the knowledge of the population and its attitude towards the reform as a whole, one can judge by the estimates given for the concrete elements of the pension system’s changes. Again the large share of the persons from the different groups who did not express any opinion on the stated question is manifested. This is due to indifference, lack of knowledge or unwillingness to answer. Here especially distinct are the answers to the question concerning the limitations of the social security income between 2 and 10 minimal salaries, which has a direct relation to the possibility for developing supplementary pension social security. These responses show the insufficient understanding on the part of the population of the interrelations between the different components of the three-pillar pension system.

The answers to one of the stated open questions show the estimates of the respondents to the most important (according to them) changes of the pension system. The persons who have given three answers determine as the most important the introduction of the supplementary pension social security (22%), the method of computing the pensions (21%) and the point system (19%). The persons who have given two or one answer determine the following priorities - the

point system and the increase of the retirement age. This distribution of the priorities probably comes from the publicity these changes received, as well as from the fact that the supplementary pension social security exists already for 1 year and the population is to a great degree informed about it. This shows the importance of the campaigns for publicizing and explaining the changes as well as the role of the time factor for accepting these changes.

This situation formed by the answers of the respondents from the basic sample supports the conclusions made above by the comparative analysis:

- (a) *For now the reform has not got a wide public support;*
- (b) *The share of the persons who demonstrate indifference and/or lack of knowledge are large;*
- (c) *Relatively more positive is the attitude of the hired workers, of the retired persons and of the persons who are insured for all social security cases, that is, persons who seem to be connected and dependent to a greater degree to the state and development of this component of the system for social protection.*
- (d) *The better publicity of certain changes of the pension social security (probably) has helped for their better understanding (consequently support) on the part of the population for these changes.*

2. The Assessment of the Experts

During the month of February 2000 in the framework of this individual project a special survey was conducted. It aimed at identifying the view of 20 experts in respect of the philosophy and essence of the pension reform and its problems and perspectives.

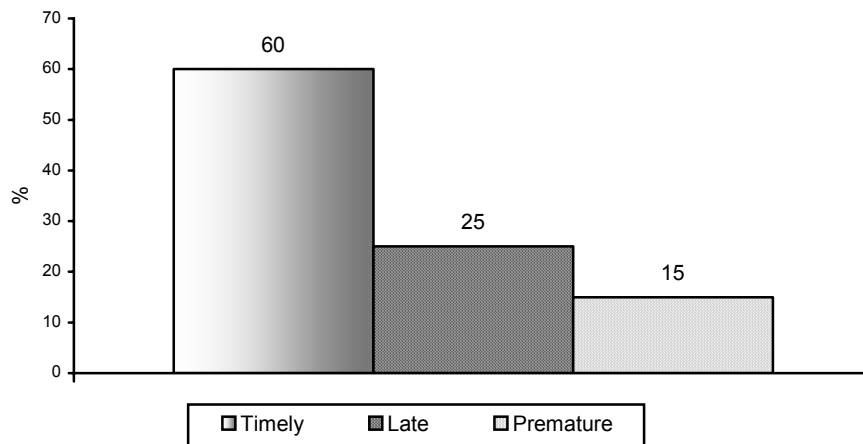


Figure 5. Experts' Estimate on the Timeliness of the Pension Reform

On the question whether the reform is late, well-timed or premature, the prevailing part (60%) of the experts thinks that it is late (see Fig. 5).

The main arguments, which they state, are connected with:

- the presence for quite a long time of indicators for the coming of a pension crisis;
- financial destabilisation of the pension social security, which forced the implementation of harder restrictive measures;
- their estimate of the aged legislative framework of the former pension system and the low standard of living of the retired persons;
- the accumulation of unreal promises, which as part of the existing social contract is difficult to be canceled directly.

The arguments of the experts who estimate the beginning reform as timely are:

- because of lack of appropriate political, economic and social conditions, a few years ago it was unfeasible;
- for the state of part of the factors, which determine the state of the pension system (fertility, emigration, unemployment) there simply did not exist time for postponement;
- it introduces the three component model of pension social security, which combines diversity with security, transparency with flexibility, social security contribution with social security rights and renders more choice for individual social security behaviour.

The last 15% think that the reform is premature because it introduces higher requirements in respect of age, working experience, which will be hard to fulfil during the following years – mainly because of the high unemployment and the expansion of the black labour market.

Having this structure of the responses, the answer of 90% of the interviewed persons that there is no alternative to the reform of the pension system, is logical. The opinion of the experts is definite and completely different from the population's opinion on this same question (see Fig. 2).

The opinion of the predominant part of the interviewed experts in respect of the three column structure of the new pension system is positive (see Fig. 6). However one can notice that part of the experts do not connect always the lack of alternative for the reform with the chosen structure of the pension system. This is the reason why the share of those who approve its design is smaller than the share of those who answered that the reform has no alternative.

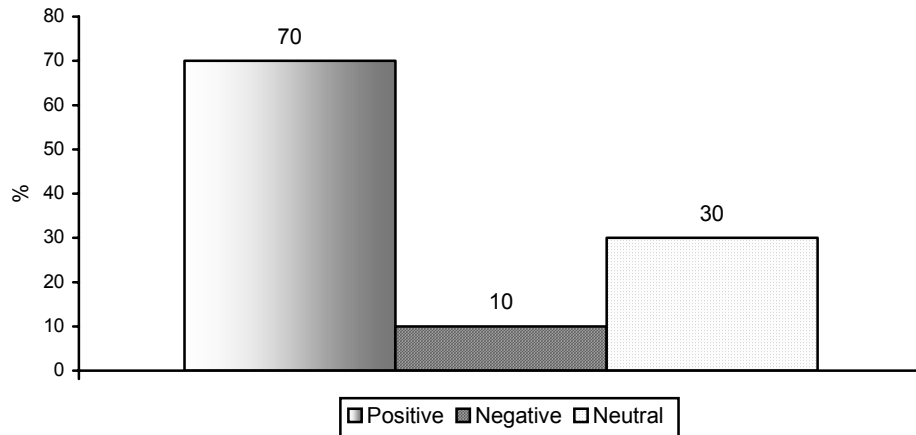


Figure 6. Experts' Attitude towards the Design of the Pension System

Again the predominant part of the experts (75%) has expressed positive attitude in respect of the decision for increasing retirement age. Only 15% have given a negative response and 10% - remained neutral. Again completely the opposite is the difference between the opinion of the experts and the population regarding this question (see Fig. 4). In addition – part of the specialists think that retirement age can be increased even more. Clearly expressed is the support of the experts for the step chosen for the increase of the retirement age for men and women. Nevertheless some think that it was possible to introduce a more moderate step (i.e. – smaller increase for a longer period).

In practice all interviewed persons support as appropriate from the view point of financial stabilisation of the pension system, the decision to increase the period during, which the income is taken into consideration when calculating the pension. This will gradually include the whole working life of the person.

Similar is the attitude towards the measure – the problems with the labour categories to be solved by the means of the additional mandatory social security – 90% of the interviewed support this approach and are confident that this will support the financial stabilisation of the pension system. Together with this, 30% of the interviewed think that this problem could have been solved in another way, for example: (a) by creating a target reserve in the framework of the solidarity system (the first pillar); (b) by improving the conditions of labour by means of modernising production technology and the creation of contemporary work places; (c) abolishing categories at retiring. It is obvious that part of these solutions can not deal fully with this problem. Also the creation of a reserve can not render a solution to a permanently arising problem such as the privileges for early retirement.

Predominantly positive estimate (80%) is given also to the decision for redistributing of the social security burden between insurers and insured persons and only for 25% this will not help the financial stabilisation of the pension system. The argument for this skepticism lies mostly in the anticipation, that the insurers will not pay premiums on the real salaries they pay their workers and employees. The structure of the experts' answers on this question again differs from the opinion expressed by the population – 43% of them reject this measure.

Almost all of the experts (90%) are unanimous that the changes in the individual burden should be paralleled with changes of the tax legislation. The direction and the content of these changes are connected with the overall decrease of the tax and social security burden³, the combination of this reduction (including both entrepreneurs and population) with the expansion of the tax basis, improvement tax collection and premiums. 10% of the experts understanding the changes of tax legislation as tax increase, reject completely this idea grounding it with the excessive tax burden which exist even now.

Some 80% of the interviewed persons connect the negative consequences from the increased individual tax burden with the expansion of the black labour market because of the following arguments: the social security burden is heavy and a lot of employers employ workers without a contract so as to evade taxes. The workers themselves think more about today and not about tomorrow and are not inclined to save and to postpone today's consumption for the time they will retire. These together with the low social security culture leads to a mass strive to conceal incomes and not pay installments. On this question, opinions of experts and population coincide as a whole.

The main motive of the experts who do not expect considerable expansion of the black labour market because of the increase of the social security burden is the fact that "employers will continue, the way they did till now, to employ workers at the minimal salary and pay them in cash a lot more.

The attitude of the experts towards such stabilisation measures such as introducing separate installments for the different insurance risks, introduction of lower and upper limits of the basis of the social security incomes, as well as the decision for expansion of the social security income, as a whole is positive (see Fig. 7).

³ The Government proposed and Parliament approved to change the population income taxation scale as of the beginning of 2001. It relieves all taxpayers, but priority is given to those with low and middle income. The decrease of the tax burden is with 2 percentage points. A decrease of the pension instalment for all insured persons with 3 percentage points is envisaged. Having in mind the relation of its distribution between employers and employed (80:20) the decrease is 2.4 points for employers and 0.6 – for employed. This way the total individual tax and insurance burden is reduced by 2.6 points. The reduced incomes from insurance instalments in the pension fund will be compensated with a target transfer from the state budget. The sense of this tax policy change, which was negotiated with the IMF, is to stimulate entrepreneurs by reducing taxation.

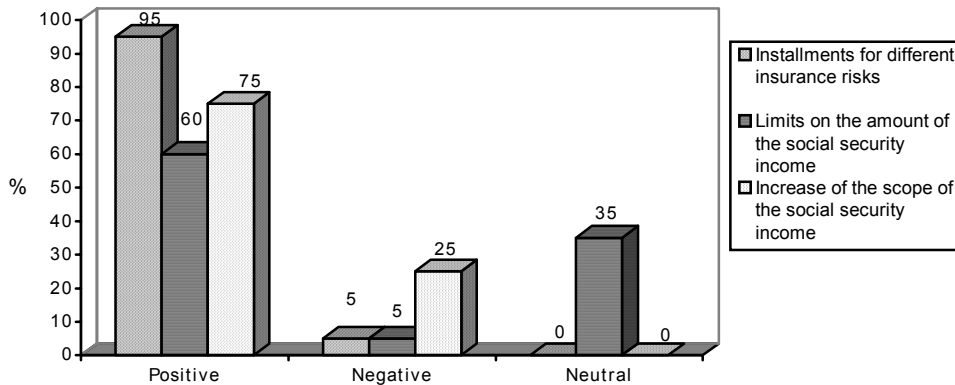


Figure 7. Experts' Attitude towards Measures Aimed at Financial Stabilisation of the Pension Reform

Parallel with the support, which 80% of the interviewed express for the retirement formula as "fair and accounting to a sufficient degree the insurance apportion of the person", the experts point out some of its basic faults, connected with:

- The expected low average rate of replacement (around 40%);
- The low profit from one year of service for the amount of the pension – only 1%;
- The not fair enough in respect of the insured person fact that the average monthly social security income from the previous year is taken ;
- The computing of the individual coefficient;
- The need to maintain an information data base, which is too expensive and difficult to administrate.

During the month of June 2000 additionally 15 experts were interviewed.⁴ The in-depth interviews with them were realised in the framework of one more general project (financed by UNDESA), that investigated the social consequences from the pension reform. The responses obtained rendered information, which supplemented the above results.

A key moment when interviewing was the need to clarify the expert's opinion whether he considers the put forward pension reform variant for appropriate and also, which are the positive and negative characteristics of the chosen pension reform model.

Thirteen from the experts interviewed think that the proposed variant of the pension reform is appropriate and only one supports the opinion that the chosen variant is a compromising one. This almost complete consensus is one of the

⁴ The list of the interviewed experts and their institutions are given in Annex 2 at the end of the article.

unexpected results from the survey, having in mind the fierce arguments before and after the start of the reform. However the result finds its explanation when one sum up what the experts had put forward as characteristics, which make the variant of the pension reform appropriate.

The analysis shows that most of the specialists express unanimous opinion on the following questions:

- Introducing the tri-pillar system (60% of the experts);
- Combination of expense covering and capital schemes for financing (60% of the experts);
- Creating of a capital covering system for financing the second and third pillar with individual accounts of the insured persons and capitalisation of these accounts where besides the installments, the profitability of the investment is reflected and this encourages the participation in the system (47%);
- Connecting the amount of the pension with the amount of the social security income and the length of participation in the social security process (66%).

The conclusion is that there is a consensus not in respect of the concrete variant of the reform but in respect of the principles on which a contemporary pension system should be built on. Only with a wide range of variants and approaches will it be possible to respond to these principles. But they might not correspond at all to the chosen at the moment variant of the reform.

From the results from the interviews cited till now it becomes evident that as of the moment of their conduct there exist entirely opposite views in respect of the concrete objectives and approaches of the reform. That what is positive for one part of the experts, is negative for the other. In other words, if each of the experts had to construct his own scheme and variant of the reform, it would be quite individual and different.

This impression is deepened when one reviews the responses to the question “Say what part of the chosen reform model will not survive and will require a correction?” The responses concentrate on the following:

1. The fixed social security installments on 2 minimal salaries up to 10 minimal salaries will be changed and more flexible models will be chosen. The lower limit is intolerable for certain groups of people – the social security burden is very high (33%).
2. The compensation pay back of time of service for the period the person was studying in a higher educational institution (7%).
3. The requirements for social pension – some of the possibilities for getting pension according to the CMSS might even disappear (7%).
4. Maybe it will become necessary to unify the possibilities of the pillars or the creation of a more liberal investment regime (7%).
5. A very high deficit in the first pillar is foreseen and the Code envisages the second pillar to be financed for the benefit of the first (29%).
6. The solution of the problems of early retirement (20%).

7. The minimal amount of the pension. According to the new formula it will turn out that people have a right to a higher pension but receipts will not be sufficient to ensure the real amount of the pensions as well as to guarantee the minimal amount of the pensions, which is fixed in the law (7%).

It becomes clear from these responses that the time that passed since the beginning of the reform permits the experts to see its potentially weak places and not so good solutions which probably soon will have to be corrected. Again it becomes clear from the responses that the understanding of the pension reform is diversified and contradictory.

This diversity and contradictions are in contrast with the opinions on the statement that a system for monitoring is missing, a system that should support adequate managerial decision taking. This is a basis to assert that the development of such a system appears to be more than necessary.

On the basis of the analysed results for the first estimates of the experts in respect of the contents and the progress of the pension reform, the following can be concluded:

- *As a whole the positive estimates in respect of the content of the reform and the design of the pension system prevail;*

- *Positivism among the experts prevails also in respect of the concrete measures for financial stabilisation of the pension system – increasing retirement age, equalising of this age for men and women, expanding the social security basis, strengthening the access conditions, etc.*

- *Parallel with this, completely opposite views on the concrete approaches of the reform are apparent. This which is positive for one part of the experts, for others is negative. If each of the experts was to develop his own scheme and variant of the reform, it would always be quite individual and different.*

- *The results from the interviews carried out half a year after the beginning of the pension reform show that the experts are already seeing some of its weak sides and imperfect solutions, which will probably have to be corrected.*

- *As a whole the experts' estimates are far more positive than the opinion of the population. It is obvious that a serious publicity campaign among the wide public is necessary so as to overcome people's negation.*

3. First Effects from the Pension Reform

Although just a few months have passed from the beginning of the reform, the available data⁵ allow us to do some preliminary analysis, findings and conclusions. In connection with this it is necessary to point out that independently of the fact that the CMSS is applicable from 1 January 2000, the current pension system in fact continues to carry some of the characteristics of

⁵ Data from the the National Social Security Institute (NSSI) are used in this part. The author thanks his colleagues from the Institute for the cooperation.

former decrees. They include not only the preservation of some of the old principles when determining the rights and obligations of the participants in the social security process, but also retain the rights for the persons who have already acquired them in respect of some types of benefits and relief and retaining their favourable amounts in the process of recalculation.

The object of the analysis here are the changes of some basic indicators reflecting the receipts and expenditures of the first pillar of the active system for social security during the third quarter of 2000 compared with the same period of the previous year (see Table 1).

Table 1

Basic Indicators for the Status of the Pension System (1999 and 2000)

Indicators	I quart.'99	II quart.'99	III quart.'99	I quart.'00	II quart.'00	III quart.'00
Receipts from Social Security Installments, mln. Levs	427,820	486,432	453,770	481,345	536,686	545,202
- %	100	100	100	100	100	100
Installments from employers, mln. Levs	382,356	433,005	408,095	386,762	411,913	417,244
- %	89.4	89.0	89.9	80.4	76.8	76.5
Personal installments, mln. Levs	21,526	25,172	17,073	50,033	81,969	85,864
- %	5.0	5.2	3.8	10.4	15.3	15.7
Installments from self-employed, mln. Levs	16,935	20,012	20,137	25,796	29,078	28,815
- %	4.0	4.1	4.4	5.4	5.4	5.3
Installments from Fund "Personal Qualification and Unemployment", mln. Levs	4,892	5,709	5,812	8,229	13,213	12,820
- %	1.1	1.2	1.3	1.7	2.5	2.4
Expenditures, mln. Levs	489,908	507,201	506,732	575,596	576,094	731,723
- %	100	100	100	100	100	100
For pensions, mln. Levs	461,404	462,635	465,174	537,485	538,000	694,566
- %	94.2	91.2	91.8	93.4	93.4	94.9
For compensation and aid, mln. Levs	37,504	44,566	41,558	38,111	38,094	37,157
- %	7.7	8.8	8.2	6.6	6.6	5.1

Source. NSSI.

Changes in the Income Part

Receipts from social security installments mark an increase with around 20% from 453.8 mln. levs for the third quarter of 1999 to 545.2 mln. Levs for the same quarter of the year 2000.⁶

During the observed period there exist an increase of the receipts from all basic sources – respectively from all physical persons and firms and companies which are making social security installments:

- The income from employer's installments increases from 408.1 mln. levs to 417.2 mln. levs or with 2%. This increase is not significant, but it is a sought effect from the decrease of the employer's social security burden. Despite the low temp of increase, this source of income remains leading. Nevertheless the tendency towards a reduction of the relative share of this source is well outlined – from almost 90% in 1999 to 76% in 2000. The way, as it was already said, during the following years the social security burden of employers will continue to decrease so as to reach in 2007 a relationship of 50:50 – when the installment will be equally divided between the insured person and his employer.

- The income from personal installments of the workers and employees is increasing from 17.1 mln. levs to 85.8 mln. levs or with 400%. The income from this source is five times higher because from 1.01.2000 the social security burden was distributed between workers and employers in a relationship of 20:80 and the individual installment increased from 1% to 7%. These changes lead to the increase of the share of the individual installments from 5% to more than 15% and to their becoming the second important source.

- The incomes from social security installments from self-employed persons (selfsecuring) increase from 20.1 mln. levs to 28.8 mln. levs or with 43%. Their share in the structure of the incomes increases slightly from 4.4% to 5.3%. The increase of these receipts comes from the greater amount of the social security installments, which was introduced as of 1.01.2000 for this group of persons and increased from 22% to 32% when insuring only for pension and from 32% to 35% when insuring for all social security cases (excluding labour accident and professional sickness).

The social security installments from the fund "Professional Qualification and Unemployment" increase from 5.8 mln. levs to 12.8 mln. levs or with 120%, which leads to the nearly double increase of their share in the source structure. Although the amount of the security installment remained unchanged (4%), the income from

⁶ A clarification is necessary here. From 1.01.2000 on the differentiated social security instalments for first and second category labour (which are respectively 12% and 7%) are directed for supplementary social security. This means that the receipts of the professional social security funds which are 6.1 mln. levs are to be held in mind when comparing the receipts from social security instalments for the analysed quarters. Thus the total income from instalments comes up to 551.3 mln. levs or with 21.5% more than the previous year. The comparatively small difference (of 1.5%) is due to the changes in the Regulation for Categorising Labour at Retirement, which limited the number of the persons who ended up into first and second labour category.

this source has doubled because of the increase of the number of the persons with the right for unemployment benefits.

The analysis of these first results shows that after the start of the reform of the pension security, its incomes are increasing and on the other side – the structure of the sources starts to change considerably.

Changes on the Expenditures Part

First, expenditures depend on the number of beneficiaries and the amount of their pensions.

Data show that during the third quarter of 1999 the number of retired persons is 2,378,362 while for the same quarter of the year 2000 it is 2,373,037 or with 5,323 less. The main reason for this decrease is the gradual introduction of a higher retirement age and together with this – the requirement for a certain sum of points from social security service length and age.

The number of the pensions during the observed period has decreased from 2,424,459 to 2,420,663 or with 3,796. This number is influenced both by the changed conditions for acquiring the right for a pension, and the possibility for a person to get more than one pension. The new legislation kept this possibility and even widened it in respect of social pensions for disability. In this case obviously the effect of the overall restriction of the conditions for access is stronger than the more liberal conditions preserved in some cases.

The nominal amount of the pensions was also increased after the start of the changes of the social security system. The minimal social pension increased from 37 levs to 40 levs (an increase of 8%), and the maximal pension rose from 111 levs to 160 levs (an increase of 44%). In this last case the increased upper limit of the maximal pension (changed by the Code for Mandatory Social Security 'CMSS' from 3 to 4 social pensions) had its share of influence. The average amount of the pension from 68.18 levs at the end of the third quarter of 1999 is already 82.82 levs a year later. Although encouraging, this improvement can not compensate the extremely low amount of the pensions, which calculated in respect of the USD rate come to around 40 dollars. This means that a retired person can have a little over a dollar a day for satisfying his needs. The main factor for the nominal increase of the pensions is the changed formula for their calculation and the recalculation of the old pensions, which ended in the middle of the year.

During the month of July 2000, the National Social Security Institute (NSSI) paid the new amounts of the pensions according to the CMSS formula. The average increase of the pensions of 1,290,246 persons is 13.11 levs. Up to 5 levs increase got 455,798 persons, from 5 to 10 levs – 229,926 persons, from 10 to 20 levs – 308,300 persons, from 20 to 30 levs received 145,147 persons and an increase of more than 30 levs received 149,064 retired persons. With the limited maximal amount were left 134,848 persons. The pensions, which when recalculated had to be decreased, kept their present more favourable levels.

The table below shows the number of persons who were covered by the changes, the average amount of the increase as well as additional payments to the pensions for the period January – June 2000.

Table 2

Basic Results from the Changes of the Pension System During the First Half of the Year 2000

Indicators	Results from the Changes from 01.01.2000	Results from the Pension Recalculations
1. Number of retired persons	2,384,872	2,372,932
2. Number of retired persons with increase:	1,086,765	1,290,246
a) in % to the total number	45.6%	54.4%
3. Number of retired persons without change:	1,298,107	1,082,686
a) in % to the total number	54.4%	45.6%
4. Number of retired persons without change for the two stages		364,497 (15.4%)
5. Average increase for all retired persons:		
a) in Levs	3.60	7.13
b) in %	5.1%	9.6%
6. Average increase in levs only for retired persons for whom there is an increase	7.41	13.11
7. Additional payments for pensions for the period january-june 2000 inclusive, Levs		102,833,653

Source. NSSI.

The relation between the average pension of one retired person to the average monthly social security income for the country shows an improvement of 2.4 percentage points: from 35.47% for the third quarter of 1999, this proportion is 37.88% twelve months later.

This can be looked at as a positive indicator for decreasing the difference between the incomes from economic activity during the active life period and from pension, in short towards an increase of the rate of replacement.

Some Additional Factors

The state of unemployment and employment has a strong negative influence on the financial condition of the social security system. The number of the registered unemployed persons has increased with 33% (from 520,120 to 690,082 persons) for the observed period. The number of persons from the registered unemployed who have a right on benefits also shows an increase – from 144,751 to 185,082, which is an increase of 28%. The increased payments from the fund

Professional Qualification and Unemployment (PQU) – the one that pays unemployment benefits to those who have got rights for this – can not compensate the loss of the pension fund because of the fact that people instead of working and getting salary are getting unemployment benefits.

The number of the persons hired by employers also influences directly the financial status of the social security system. Again a negative tendency of decrease is present in respect of this indicator for the period observed. From 1,930,881 this number has fallen to 1,732,735 persons for the third quarter of the year 2000. This reduction means the payment of social security instalment for 10% less persons.

Finally during the analysed period the expenditures for social security payments and their structure change in the following manner (see table 1): In absolute volume the expenditures increase with 44% (from 506.7 mln. levs to 731.7 mln. levs). The share of the pension expenditures increased for the sake of the expenditures for benefits and aid. Their absolute amount falls from 41.5 mln. levs to 37.1 mln. levs, which on one hand is due to the lesser number of employed persons and on the other – to the newly introduced requirement for the employer to pay the necessary benefits for the first three days in case of temporary labour disability of the insured person.

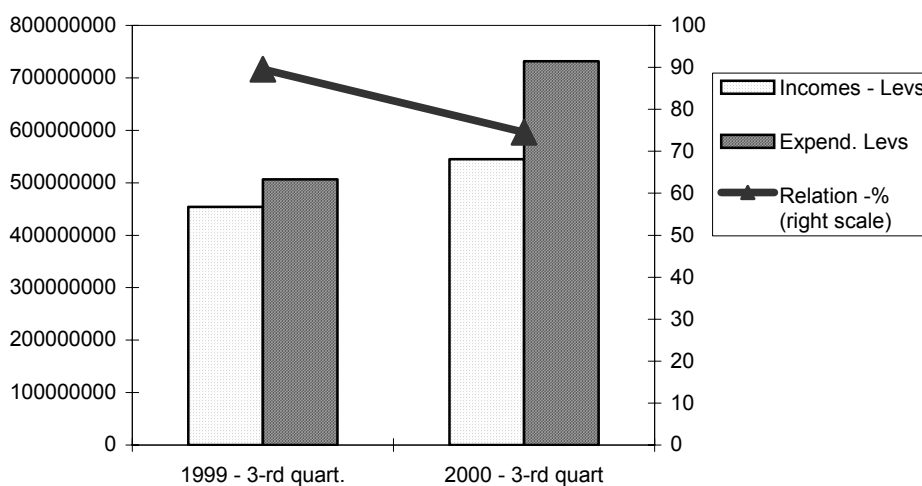


Figure 8. Incomes and Expenditures of the Pension System - Levels and Relation

During the period observed as a result of these processes, the relationship between incomes from social security instalments and expenditures for social security payments deteriorated – from 89.5% in 1999 to 74.5% in 2000. And exactly this relationship is one of the most indicative for the financial status of the pension social security and characterises its fund organisation.

The deterioration is due to the slower increase of the incomes (20%) in comparison with the expenditures (44%). One of the important factors, which formed this deficit is the change connected with the implementation of the mandatory pension social security. Equal in amount instalments were introduced into the first pillar, and the incomes from the higher instalments for the persons of first and second category of labour were directed towards the professional pension funds. The deficit of finances as a result of these changes is covered for now by direct state subsidies, which is also part of the reform strategy.

The conclusion is that regardless of the positive initial results connected with the increase of the incomes, the improvement of their structure and the increase of the pensions, the financial status of the pension system remains unstable. The last real calculations show that in the next few years the problem of the financial deficit will stay and will deepen. In a mid term perspective and after the reform is completed in all its components and (most importantly) stable employment and economic increase are achieved, one can expect a gradual financial stabilisation of the pension system.

Meanwhile in Bulgaria no possibilities for debt financing are being discussed. Its tools can be used for: (a) accumulating a reserve; (b) reduction of the current deficit of the funds. Without setting it as an aim and having no possibility for discussing technical details, we can point the following instruments as most appropriate for the case:

- Bonds with general guarantees (specialised bond loan), which are secured by the state and the debt is paid by all taxpayers. The instrument is adequate for accumulating resources for the first pillar of the pension system.

- Bonds, secured with the earnings of the respective social security fund where the emitted debt is paid by the insured persons (from the existing instalment or by a temporary increase of the amount of the instalments). In principle this instrument is adequate for financing regimes and prestations, based on the principal of professional solidarity.

- Emission of short term bonds (promissory note) which can be secured with a specialised subsidy or with incomes from taxes (by the state), with income from security instalments and other incomes (from social security funds).

The state has the possibility besides the engagement of internal sources for financing the pension system, to ensure finances also from external sources such as for example specialised loans from international financial institutions – mainly the World bank, which finances projects secured by the state.

A reserve can be created also by capitalising part of the instalments in the total mandatory regime of an expenditure type (such a measure for example is part of the Japanese reform of the pension social security). The creation of a reserve in this way in principle deforms the relation “apportion-pension”. It reduces the possibility for the current payments, which is the reason

why they have to be maintained at lower levels. However this can be viewed as an implementation of the principle of solidarity between generations when for example today's retired persons support the financial stabilisation of the system. Of course a serious limit for the choice of such a variant is the low amount of the pensions.

Additional incomes for current financing of the activity of the social security funds can be ensured by:

- Contracted instalment of the entrepreneur – a one time sum transferred into the account of the fund when a service enterprise (private or public) is built and/or opened in buildings, lots or other NSSI property;
- Incomes from the privatisation and rents of buildings. Lots and other NSSI property;
- Payment of charges for the public infrastructure – for example charges for connecting to the sewage or electrical system.

The advantages in this case are that the finances are available immediately. The drawbacks come from the additional financial burden of the contributors. A major drawback of the debt financing as a whole is the high expenditures for its maintenance.⁷

⁷ See Lindeman, D. M. Rutkovski. O. Sluchynsky. The Evolution of Pension Systems in Eastern Europe and Central Asia: Opportunities, Constrains, Dilemmas and Emerging Practices. The World Bank, 2000, pp.16-17.