Private pension funds: a step forward for the reform of the Romanian pensions system

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THE REFORM OF THE ROMANIAN PENSIONS system is regarded as a large-scale process whereby important public and private resources are mobilised. Although some of the legal framework for the reform has been in place for several years, the private pensions system has actually become operational following some adjustments in 2007.

Until 2007, the Romanian pensions system was a state monopoly, each employee being compelled to contribute part of their income to the National House of Pensions and Other Social Insurance Rights (CNPAS). However, some said that the public pensions system managed by CNPAS was an inefficient one, due to the small number of contributors compared to the high number of beneficiaries, and the lack of a viable strategy for properly investing the collected funds. That is why it was decided to refresh the local pensions system, by stipulating that a percentage of the value of the mandatory contributions initially targeted to the state system should be transferred into private pension funds.

Following the reform, Romania now has a three-tier pensions system:

- Pillar I
  The public pensions system managed by CNPAS, which continues to operate in parallel with the private pension funds. All employees are compelled to contribute to Pillar I.

- Pillar II
  The mandatory private pension funds, where employees up to 35 years old must contribute, while employees aged 35 to 45 can subscribe without being compelled to.

- Pillar III
  The optional private pension funds. These are accessible to all persons that are not eligible for Pillars I and II (eg, not necessarily employees) and also to those that are eligible for the first two pillars.

The activities of the entities involved in the private pensions system (eg, pension funds, administrators, depositories, marketing agents) are strictly regulated to protect contributors' interests and are subject to the supervision of the Pensions' System Supervisory Commission (CSSPP). The pension fund investment policy is highly regulated and each fund should choose and publish its risk level (low, medium or high).

All the members of a private pension fund have equal rights and obligations. If a member chooses to change their workplace, residence or domicile to another country, they may choose either to continue to contribute to a Romanian pension fund or to switch their contribution to a fund located in their new country of residence.

Although the contribution to Pillar II is mandatory for employees under 35, eligible persons may choose to which particular fund to subscribe and direct their contribution (ie, in a similar way as for Pillar III). The members are allowed to further change their pension fund merely by subscribing to a new fund and sending a transfer application to the old one. However, where the option for such a change is exercised within the first two years following adhesion to the original fund, a penalty amounting to a maximum of 5% (the exact percentage of the fee is included in the fund's prospectus) of the value of the member's personal net assets in the fund will be payable.

Adhesion to private pension funds is a simple procedure, as it only involves the signing of a standard adhesion agreement before the marketing agent of the pension fund's administrator. The marketing agents are obliged to offer to interested individuals all the necessary information in relation to the private pensions system and the particulars of the respective fund. The pension funds' prospectuses must be publicly available and easily accessible (eg, they should all be posted on the websites of the administrators of the funds).

The mandatory contribution to Pillar II currently amounts to 2% of an employee's gross monthly income. This quota will increase by 0.5% per year, so that in 2016 it will reach 6% of gross monthly income. The contribution to the optional pension funds (Pillar III) may be up to 15% of an employee's gross monthly income and is borne by the employee. The contribution is withheld by the employer from the employee's salary and paid directly to the administrator of the pension fund, based on the individual adhesion deed signed by the employee.

By law, employers that intend to grant financial incentives to their employees may choose to bear at least part of the employees' contributions to optional pension funds. Such contributions are tax-deductible expenses for the employer, within a limit of €200 per year for each employee. Within the same limit, the contributions borne by the employee are also tax-deductible expenses for the respective employee.

INITIAL IMPACT OF THE REFORM

As regards the local impact of the launch of the private pensions system, it should be mentioned that the forecasts before the start of the initial four-month adhesion period for Pillar II were that around 3.7 million contributors would be gathered. However, the reality exceeded those expectations and reached some four million members, mainly due to an unexpectedly high number of employees aged 35 to 45 who voluntarily joined Pillar II.

Given these figures, Pillar II is undoubtedly the most important piece in the Romanian pensions reform process. According to Mr Mircea Oancea, the head of CSSPP, Pillar II is now the second-largest in Europe (after the Polish mandatory pensions system, worth some €39bn), in terms of participants, and is expected to attract around €300m in payments from subscribers this year.