THE CENTENARY EVOLUTION OF SOCIAL SECURITY IN ROMANIA

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Abstract

In Romania, securing social security rights has been and is a permanent concern. In the Year of the Centenary of the Great Union, Romania has proposed in its agenda the amendment of the legislation in the field of social insurances, in order to reduce the inequities existing among persons who have different pension rights, although they have equal contributions.

We can be proud of the fact that Romania is one of the first countries in the world where social security rights have been enacted and where the necessary institutional and legal framework has been created.

The first law on the organization of the Social Security System in Romania is considered the Workers’ Insurance Act of 1912 and is related to the name of Nențescu.

This article presents the evolution of social security in Romania. With the adoption of international social security documents, Romania has gradually joined them, going through new stages in the evolution of social security.

In another aspect, I present in this article the current situation of the social security system in European context, as well as the evolution perspectives.

Key words social security, social insurances, pensions, centenary

JEL Classification: J21, J26, J61

Introduction

In the centenary of the Great Union, we can proudly think that in the field of social security, Romania has an old tradition, being one of the first countries in the world to be concerned about this important area. Prior to the emergence of the social security concept, respectively in 1935, Romania had already legislated important social security rights. Thus, the first law on the organization of the Social Insurance System in Romania is considered the Labor Insurance Act of 1912. The 1918 year provided the framework for the unification of social security legislation.

Over the course of the 100 years since the Great Union, social insurances legislation and of the social security branches have changed regularly to provide new benefits and to update and increase existing benefits.
In 1912, the population of Romania registered about 7.7 million people, which generated the first law in the field of social security. Thus, the first law on compulsory insurance applicable to all employees belonging to corporations is related to the name of Nenițescu (1912). This law first instituted old-age and invalidity pensions, survivors’ pensions, and also the granting of assistance in the event of accidents, sickness, maternity.

Demographic and economic changes have been the causes and prerequisites for changes in the social security system.

**Literature review**

Vacarel (1999), Bercea (1999) defined the concept of legal and economic insurance.

Bistrițeanu (2006) has made a large contribution in the field of general and social insurance research. He pointed out that the incipient forms of insurance were the hopsa (rudimentary form of animal insurance in the event of accidents), the guilds as organizations in Transylvania for granting aid from the Guild’s Lada, the box of mercy in Moldavia and Muntenia, fraternal crates in Transylvania and Banat, mining crates. The crates were mutual aid houses that functioned until 1919. In Brasov, in 1744, the fire house was established. Gradually, the goods’ insurance moved to peoples’ insurances. Thus, in social insurance the beginnings are related to the protection of workers.

The concern for the study of the 85 generations is illustrated by Carp (2012), which made a component population projection until 2040, starting from the interest in studying and shaping the balance of the social security system in Romania.

Anghelache, Carp (2016) addressed the issue of voluntary contributions to the social security system. Carp (2012) proposed the voluntary contributions benefit-matching model and the contribution test.

Manole, Anghelache (2016), and others have carried out a comprehensive analysis of the private pension system in Romania, which was legislated starting with 2004.

2. Research methodology, data and hypotheses

- **The social security systems’ appearance up to 1918**

Since ancient times, people have been concerned about securing their own income and protecting their families.

In Europe’s 19th century, industrialization and rural exodus in Europe led to the emergence of a new class, which had the sole source of subsistence the income resulted from wages. Workers, faced with the risk of losing this income, with the risk of unemployment and the risk of illness,
were increasingly in need of an income guarantee, of individual and social security.

The first country with enacted social security rights was Germany, where three fundamental laws were promoted: 1983 (for sickness insurance); in 1984 (for accidents at work) and in 1989 (invalidity insurance and old-age insurance). These laws were brought together in a Code, forming the Social Security Code (1911). It also included the invalidity and old-age insurance scheme for civil servants and the life insurance (1911). Germany also included unemployment insurance in the social protection system (1929).

At the same time, countries in Europe and beyond established the foundations of their social security systems. Thus, Australia, New Zealand, Sweden, Denmark and England have enacted social security rights.

In the Year of the Centenary of the Great Union, besides the achievements in other areas, Romania may be proud of the fact that, before being Great Romania, there was the concern for the protection of workers and their families.

In the second part of the 19th century associations of assistance in the workers’ centers were established, established for the purpose of helping the persons in need. Thus, in 1872, the “General Workers’ Association of Romania” was established. Institutionalization of social insurance has emerged as a necessity, and its materialization has been manifested by the adoption of laws guaranteeing these rights by the state.

Insurance legislation has first regulated the rights of civil servants. In 1895, the Mines Act of 21 April provided for the establishment of a Aid House and a Pension House. The funds were made up of workers’ contributions and employers’ contributions. The contributing members were workers who were over 16 years of age and did not participate in strikes or actions against the patron. These were the two conditions for receiving pensions and aid.

On the 5th of March 1902, the Law for the Organization of Crafts (Missir Law) was adopted and applied to craftsmen. Corporations were obliged to set up insurance houses or to insure their members against the risks of accidents, sicknesses, deaths.

Funds were provided through equal contributions from workers and employers (50%).

The Missir Law “completed the initial legislative initiative to institutionalize social insurance in a new professional category” [1] and is relevant for the introduction of the sickness social insurance.

In 1907, by Law No. XIX, the compulsory insurance of the workers in Transylvania was established.

The “Nenițescu” Law [2] of 1912 is the first Romanian law on compulsory insurance applicable to all employees who were part of corporations.
This law instituted for the first time the old-age and invalidity pension, the survivors’ pensions, but also the granting of aid in case of accidents, sickness, maternity. Although it is the first Romanian law on social insurance, one can notice the modernity of the principles on which the funds were constituted and the benefits were granted. Thus, in the case of work accidents, the funds were collected only from the contribution of the employers who were responsible for the safety of work. The employee was rewarded by receiving 2/3 of the salary and by being provided medical assistance. Survivors’ pensions were granted at a rate of 20-60% of the deceased’s salary. The old-age pension entitlement is granted to employees after reaching the age of 65 and who have a minimum contribution period of 1200 weeks.

The fundamental historical changes that took place in Romania in 1918 made the issue of legislative unification in the social security organization too.

- The social security’s evolution after 1918

In 1920, the Ministry of Labor and Social Protection was established and, starting with the first leadership of Grigore Trancu-Iaşi, the foundations of the specific organization were established.

In the period between the 2 wars, the foundations of the first private pension systems were laid: the first private social security system in Romania was that of lawyers, followed by the Romanian Orthodox Church and the pension system of the members of the creation unions (writers, musicians, plastic artists).

Unification [3] of social security legislation operating in old Transylvania, Moldova and the former United Kingdom of Romania took place through the “Ioaniţescu” Law in 1933. By this law the pension rights were insured in case of old age, invalidity caused by sickness or work accidents. These include survivors’ pensions, sickness benefits, maternity allowances and work accidents’ allowances. Against the risk of unemployment, no aid was provided. The law was criticized for not including agricultural workers among insured persons, but especially for the very high level of contributions that were set at 6% of the salary. The social security system was run by both the state and the patrons. The two fundamental principles promoted by the “Ioaniţescu” Law were the principle of contribution and solidarity. The system was guaranteed by the state, and in case of need the state subsidized the social insurance funds.

Another stage [4] of the evolution of social insurances in Romania is the adoption of the 1938 Law, which preserved the principles of the “Ioaniţescu” Law.

The change of the political regime and the establishment of the communist regime in 1945 would also bring changes in the social insurance
The establishment of the General Pension Fund and the establishment of the method of calculation and the regime for administration of public service pensions was regulated [5] by Law 446 / 10.07.1943.

Law No. 10 of 1949 established a single pension scheme [6] for civil servants and workers. In terms of funds, this law is important because all public and private funds have been included in the state budget. Social insurances have become the main pillar of social protection, and social security spending is allocated a percentage share to fund the social security fund.

The award criterion for the old-age pension was the average salary in the last 12 months of activity and was capped at a maximum amount. The percentage of the pension amount to be applied to the calculation base ranged from 50% to 80%. For disability pensions, percentages ranging from 33%-100% were applied, and for survivors’ pensions the percentage were 50%-100% of the pension of the deceased pensioner. The 100% percentage of the survivors’ pension is the most generous percentage granted to survivors throughout the history of social insurance in Romania and represents an integral transfer of pension rights to survivors. Pension rights can be compared to a property right and is passed on to successors.

The 1950’s are important with the adoption of the first Labor Code [7] in Romania, but also with the establishment of the Social Insurances’ Central House, subordinated to the Ministry of Labor and Social Affairs, the establishment of the Pension House of the College of Engineers, The Lawyers Insurances’ Central House, of other compartments with responsibilities on each domain.

For the first time in the history of social security, in 1954, the question of pension rights for employees working under severe [8] or injurious conditions was raised. Thus, for these categories of pensioners the right to retirement could be granted from the reduced age of up to 50 years, and the amount of the pension was higher by 10% for those who have worked in the first group and by 5% for those who have activity in the second group of work. The average salaries to which these increased percentages applied were also higher (capped at 900 lei for the first and second groups of work, compared to 700 lei as the maximum salary ceiling for work in normal conditions).

1959 brought significant news in the social insurance plan and Decree 292/30 July 1959 provided for a first recalculation [9] of pension rights. The main novelties stemming from Decree 299/1959 are: the extension of the application field by including in the compulsory system of social insurance of the domestic workers and agricultural workers, the introduction of fixed-rate social assistance for persons who ceased their activity and who did not have the right to retire or sources of subsistence, differentiation of pensions.
according to four groups of work (group I - very heavy work, group II heavy
or harmful work, group III for other workers and group IV for the rest of
insured persons). The gap between the amount of pensions set for the fourth
group of work was 15% lower than the sum of the pensions for the first group
of work. As in the previous legislation, a maximum pension ceiling of 1200
lei was provided. This normative act established the special merit pension
granted by the Council of Ministers Decision. The recalculation of pensions
under the regulations of this normative act had as a procedure the calculation
of the pensions previously established on the basis of the updated average
salary, the length of service and the classification in the four groups of work.

For the first time in the history of insurance there were conditions
for the restriction of pension rights or cancellation for the persons who had
offices in the so-called “bourgeois” apparatus, as well as those who held
political positions. This communist footprint on pension rights would also be
manifested by the low-level updating of officials’ pensions to those of workers.
The Communist doctrine also manifested itself in the social insurances starting
with the recalculation of pensions since 1959.

The year 1967 brought a new pension law, under which people who still
live today have acquired pension rights. Law no. 27/1966 was a generous pension
law [10] compared to the legislation of the European Communist countries.
The basis for the calculation of pensions was the average of the remunerations
updated according to the period chosen by the insured. The length of service
required was differentiated, 20 years for women and 25 years for men. The level
of the basic pension was filled by a supplementary pension, and its purpose was
to ensure a pension amount close to the salary. In some situations it was allowed
to cumulate the salary with the pension. According to this law, the work groups
were from I to III, a situation that remained until 2001.

Gradually, the issue of sources of financing the social security system
made it possible to reduce the percentages of pension calculations by 5%-10%
between 1968-1972 and the calculation base to be the actual wages rather than
the updated ones.

The 1977 year brought a new pension law that included more severe
retirement conditions. The necessary length of service has been increased from
20 years for women to 25 years and from 25 years for men to 30 years of age.
Law no. 3/1977 resisted for 24 years with a series of changes. In principle,
pension rights were based on the salary average [11] chosen by the insured
person for 5 consecutive years of the last 10 years of activity.

Farmers’ pensions were also regulated in the same year [12]. The
criteria for granting farmers’ pensions have been useful time calculated on the
basis of the number of years in which the farmer has performed the norms, the
volume of norms and the minimum volume of norms. From these elements the number of useful years has been calculated. Farmers have benefitted from farmers’ pensions on the basis of a minimum of 60% for full seniority plus increments. For incomplete seniority (less than 30 years), a retirement pension was granted in proportion to the number of years that were useful for the number of years required.

Decree-Law No.70 of 8 February 1990 regulated the reduction of the retirement age for persons who have fallen under the first and second groups of work proportionally [13] with the period worked in these activities. As regards the third degree disability pension, the rate of establishment was increased from 30% to 60% of the first degree disability pension. This normative act is significant also by making it possible to recalculate the pensions for the persons who after retirement have worked for at least 5 years. The 1990-1995 period was marked by the granting of many benefits to the establishment of pension rights. These advantages consisted of: retirement on disability at any age, provided that at least half of the required length of service was provided in relation to age [14], early retirement pension [15] for those who benefited from the period of unemployment, and of the support allowance period and were 50 years of age for women and 55 for men, reparation payments [16] for persons who had made a significant contribution to the victory of the Revolution of December 1989 and to the followers of the fighters, the granting of rights for persons persecuted [17] for political reasons of dictatorship set in motion with effect from March 6, 1945, rights for survivors of CFR employees [18] and domestic spouses [19] of employees who have suffered accidents at work.

The post-communist period, through the legislation introduced, was characterized by the reduction of the real retirement age and the improvement of the retirement conditions.

The pension system in Romania in the period 1990-2000 was divided so that through Government decisions in 1993-1998 a process of integration into the public state system of non-performing pension systems was implemented: The system of writers, the system of composers, the system of craft cooperatives, the system of the Orthodox Church staff, the Armenian-Gregorian cult system, the ancient and Muslim rite, the system of the members of the Union of Fine Artists in Romania, the Mosaic Cult System in Romania, the system for the staff of the United Romanian Church with the Greek Catholic Church, the system of film makers.

• The contemporary period
The freedoms won by the Romanians in 1989 had a first materialization through the exodus of the Romanian population to external destinations.
Emigration experienced the largest phenomenon in Europe in 1990 in Romania. This phenomenon has triggered the phenomenon of aging population.

The public pension system, under the influx of reforms initiated in Europe and the world, strongly dependent on the employees-beneficiaries correlation, has been put in the face of a vital need to fundamentally change the way the benefits promised to policyholders and the practical reform of the public system Pensions. In 2001, Law No. 19/2000 was enacted, which would radically change the method of calculation based on which the amount of pensions was established. Starting with October 2004, the pensions established under the previous legislation were recalculated according to the introduced method of calculation in 2001. The standard retirement parameters prescribed by law were the standard retirement age and the full contribution period. In parallel with the Public Pension System there were functioning non-integrated, complementary pension systems: the lawyers’ pension system (regulated by OUG no.221 / 2000); the state military pension system (regulated by Law no. 164/2001); the state pensions system and other social security rights of the police officers (regulated by Law no. 179/2004).

The legislative framework for the regulation of the private pension scheme was initiated by Law no. 411/2004 and was improved by amendments to the law. “The purpose of the privately managed pension fund system is to provide a private, distinct pension, supplementary to the public pension, based on the collection and investment of part of the individual social security contribution in the interest of the participants.”

A Private Pension Scheme as defined by the law means “a system of terms, conditions and rules under which the administrator invests the assets of the pension fund for the purpose of acquiring a private pension by the participants.”

The Romanian social insurances system has been transformed from a single-pillar system into a three-pillar system. The first pillar has remained the Public Pension System, mandatory for all persons who are insured. Pillar II was set up as a privately managed pension scheme and was designed as a system of individual accounts, mandatory for people under the age of 35. Individuals aged between 35 and 45 could join Pillar II.

The condition of adherence to the privately managed Pension System is that the person is insured in the Public Pension System, as the collection of contributions, one of the Fund’s main financial resources, is made through the Public Pension System.

Pillar III was conceived as a system based on individual accounts and voluntary membership and was regulated in 2006, and adherence to this system is an individual option.
Unlike Pillar II, for the participants in the Pillar III pension, the right to voluntary pension opens at the request of the participant at the age of 60 if he has made 90 monthly contributions and the personal asset is at least equal to the amount required to obtain the pension minimum faculties provided for by the rules adopted by the Commission. Contributions are collected in individual accounts by voluntarily depositing a share of the gross salary.

The first contributions to voluntary pension funds (Pillar III) were collected in May 2007. The date of September 17, 2007 marked the start of the period of admission to privately managed pension funds (Pillar II), but the first contributions were collected in May 2008. Due to the period of economic recession that Romania went through in recent years, privately managed pension funds have started quite slowly. The percentage share collected from the mandatory individual contribution was 2.5% in 2010, and the 6% originally planned for collection will be reached in 2016.

In Romanian legislation, in 2010, there were substantial changes aimed at creating a unitary pension system.

The year 2015 brought new changes to social security.

- **The international framework for labor and social security regulation**

  Since the establishment of the International Labor Organization (1919), social security is viewed from another perspective. Social issues and work-related issues are international concerns.

  At the level of the International Labor Organization, conventions for the establishment of social security standards have been adopted.

  The first conventions on social security are:

  - Convention No. 12/1919 on the Protection of Maternity
  - Conventions No. 12/1921, 17/1925, 18/1925 deal with occupational sickness and accidents at work
  - Conventions no. 35-40 / 1933 on insurances regarding old-age, invalidity and also life insurances
  - Convention No 44/1934 on Unemployment

  The international community has enshrined the right to social security as a fundamental human right. The Universal Declaration of Human Rights (1948) is the first legal instrument of the UN.

  The most important legal instruments are the legal instruments of the Council of Europe, of the European Union and of the International Labor Organization.

  Also, with the adoption of the 1952 Treaty of Rome, the founding of the Community and the European Union was laid. Through the acquis
In 1952, the International Labor Organization, through Convention No. 102, set a minimum of standards based on social security principles. It is the only globally recognized tool for nine social security domains and branches: sickness benefits; maternity; invalidity benefits; old-age benefits; survivors’ pensions; accidents at work and occupational sickness; death grants; allowances and unemployment benefits; family allowances.

In 1956, the New York Convention of 20/06/1956, which was adopted by the Member States of the United Nations, and which invited non-member States to accede to that Convention, was concluded. The purpose of the Convention is “to facilitate a person, ultimately called a creditor, who is found in the territory of one of the Contracting Parties, to obtain the maintenance allowance to which she claims to be entitled from a person ultimately called a debtor, who is under the jurisdiction of another Contracting Party. “The New York Convention stresses the need to “solve the humanitarian problem of people in need whose legal supporter is abroad”.

Convention No. 118 of 1962 promoted the principle of equal treatment. Article 5 provides for the maintenance of the rights acquired. The European Community’s interest in harmonizing social protection and guaranteeing it by the Member States has led the European Council to draw up the European Social Security Code (16 April 1964, Strasbourg) which encourages the development of European social security systems at high standards compared to the minimum standards contained in the International Labor Organization Convention No. 102.

An important moment in the evolution of the legislative framework was the International Covenant on Economic, Social and Cultural Rights (1966).

Convention No.157 maintained social security rights in all nine branches (1982).

Regulations have been adopted at EU level as the main legal instruments for the coordination of social security systems, which concern the rights of migrants whose right to move and work in another Member State was regulated in 1968.

The year 1971 is significant in the history of the Social Security System through the appearance of the Council of the European Union regulations. The directions for the Coordination of Social Security components included drafting regulations for the protection of social security rights of persons changing their domicile from one Member State to another (Regulation 1408/1971).
Regulation 1408/1971 provided for the coordination of national social insurances legislation to protect the social security rights of migrant workers. The enforcement procedures of Regulation 1408/1971 are laid down in Regulation 574/72 / EEC.

This regulation was replaced in 2004 by the entry into force of Regulation No.883 / 2004.

Romania’s adherence to these international conventions as well as the finalization of bilateral agreements demonstrate Romania’s preoccupation with securing the social security rights of migrant workers and their families.

**Romania in 2018 and perspectives of evolution**

The current law is Law no. 263/2010 which applies from 01.01.2011. Since 2008, besides the social insurance program, the program of individual accounts for persons who have met the conditions for joining the program was carried out.

From the point of view of funding sources, we emphasize that the main source of funding is the insured’s contribution (25% of income, 21.25% of the income to social security and 3.75% to individual accounts, as the case may be).

The employer participates to a small extent in the creation of the social insurance fund, respectively 4% or 8%, in case the insured’s work place is placed under particular conditions or under special conditions of work.

Contributions are limited to the application of the percentage rate on the amount of 5 gross average salaries (20810 lei) used to substantiate the social insurance budget (4162 lei).

In case the pension for a beneficiary is less than 640 lei, the amount of the pension is completed up to this minimum guaranteed amount.

Invalidity pensions are granted under the conditions established by law. It is noted that the amount of the pension is diminished for those who did not complete the full contribution periods.

Pre-retirement pensions are the most beneficial benefits for policyholders, and there is no reduction to the old-age pension.

The social protection against sickness and maternity risk, regulated by the law of 1930, is now regulated by Oug no.158 / 2015 and by Law no.95 / 2006 on the reform in the field of health. The 10% health contribution is charged to the insured.

Social protection against unemployment is regulated starting with 1991 and is currently ensured by Law no.76 / 2002.

Support for families in financial difficulty has been regulated since 1950. Under the current legislation (Law No.61 / 1993 on granting child
allowances, Emergency Ordinance 111/2010 on parental leave and indemnity for child raising, Social assistance law No 292/2011 etc) ensures the social protection of families under specific conditions.

Within the European social security framework, there is a question of choosing the right social security programs also in a wider social protection framework. Romania is one of the first countries to have legislated the social insurance regime. The data in Table 1 shows that between the age of the social security system and the amount of benefits there is a close connection.

The benefits are in direct correlation with the collected financial resources. In Romania, in 2018 we witnessed the inclusion of contributions to the insured, which is an important decision. This situation is only happening in Croatia. At the opposite end, in Russia and Ukraine, employers are responsible for paying the contributions.
The first social security regulation law

Table no. 2

A profound analysis can be made from the data in Table no. 3. The lowest percentages of social security contributions are found in Sweden (17.91%), Germany (18.6%), countries with remarkable length and stability of social security systems.

Contributions to the social security system

Table no. 3

In Austria and the Netherlands, the total percentage of contributions allocated to other branches of social protection demonstrates that the protection of families, persons at risk of illness or maternity is at a high level.
Conclusion

Romania is a country with old traditions in the regulation of social security.

Over the course of 100 years of existence, there have been remarkable improvements in the social protection of our country.

In the Center’s year, Romania transferred social security contributions to policyholders, placing all risks at their expense.

Sharing risks between employers and employees is a normal situation. The field of social security should not be seen only in terms of social contributions and pensions, but by the cumulative benefits granted to citizens who face social risks.

Although Romania has an old tradition in the field of social security, it is placed at an average level in terms of allocations for other branches of social security, and is currently facing changes to the framework law on social security in perspective in the coming years.

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