

Chapter 30

Romania



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Abstract This chapter discusses social, economic, and demographic realities in Romania and the public policy challenges they present. In common with many other European countries, Romania is experiencing socio-demographic changes including an increase in the number and proportion of older people in the population, increasing life expectancy, decreasing birth and fertility rates and increasing labour migration. All these phenomena have an impact on the labour market which is already under stress due to macroeconomic factors. Education, health and administration are the largest sectors of public employment. The transition to retirement in the public sector is not accompanied by support programmes such as training, shorter or more flexible working hours or intergenerational transfer of skills, all of which could stimulate older adults who wish to remain in paid work. An extension of working life after retirement is possible and salaries can be combined with pensions. Romania faces an increasing deficit in the pension system.

Keywords Extending working life · Romania · Pension systems · Gender · Labour market

Introduction

The regulation of work, wages and retirement in Romania is organised by the Ministry of Work and Social Justice. Trade unions, professional associations and retirement associations are either partners in the dialogue or they influence the government policies. Academic research and studies focus on policies set by the European Union Strategy for 2020 (European Commission 2010) or The United Nations 2030 Agenda for Sustainable Development (United Nations 2015).

In common with many other European countries, Romania has a growing proportion of people aged 65 or over in the population (Gîrleanu-Şoitu 2006). Between 2007–2017, the proportion of the Romanian population aged 65 and above in the

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total population increased by 3.1%: from 14.7% to 17.8% (Eurostat 2018a). The fertility rate is decreasing, and dependency ratios are increasing. The total fertility rate has fallen in Romania from 3.7 children/woman of child-bearing age in 1967 to just 1.2 in 2011. From 2014 to 2017 there has been a consistent fertility rate of 1.6 (National Institute of Statistics 2012; 2017a).

Policies related to extended working life aim to address these transformations. The main direction of public policy has been addressing low employment rates. Incentives have been provided to employ older people, the legal retirement age has been raised and restrictions have been placed on early retirement.

Gender and the Labour Market in Romania

In 2018 the employment rate of persons aged 15–64 years in Romania was 74.9% for men and 57.3% for women. Among the total working age population, there are no large differences in employment rates between urban (66.6%) and rural areas (65.3%) for (NIS 2018b). Labour force participation rates for women have increased and are now closer to international rates (Eurostat 2018b). In recent years, employment rates have also increased for people aged 55–64 years: from 44.4% in 2017 (34.9% for women and 55.3% for men) to 47.9% in 2018. A similar trend is observed among Romanians aged 65 years or above: an increase from 8.8% (2017) to 9.2% (2018). The unemployment rate for those aged 55 years and above (2017) is relatively low: 3.1% of older men and 1.8% of older women are considered unemployed. Unemployment rates for Romanian women of all ages in 2018 were lower than for men: 3.3% compared to 4.7% for men (NIS 2018b).

According to EUROSTAT (March 2018), the unadjusted gender pay gap (difference between average gross hourly earnings of male and female employees as percentages of male gross earnings) in 2016 were very low in Romania (5.2%), three times smaller than the EU average and almost five times smaller than the pay gap in Estonia (25.3%). Part of the explanation for the low gender pay gap in Romania is the introduction of equal pay legislation from the end of the twentieth century.

Mothers in Romania are entitled to maternity leave and, since 1990, to paid leave in order to care for a child up to two years old. Maternity leave in Romania is 126 days and is composed of pregnancy leave (prenatal leave) up to 63 days before birth, and baby care leave (post-natal leave) up to 63 days after the birth (only the first 42 days after the birth are compulsory).

Both parents are entitled to paid maternity or paternity leave, based on their social insurance contributions. They must fulfil the following conditions: be Romanian citizens or from an EU member state; have their domicile in Romania; have paid at least one month's contributions or have an assimilated contributory period within the last 12 months prior to the month of the parental leave. Beneficiaries of paid leave and maternity/paternity leave are mothers or fathers of the new-born child. Parental leave payment is calculated as 85% of the average of the beneficiary's monthly income for the past 6 months. Parental leave for a child under two years old (three years

old in the case of a disabled child) and the related indemnification are regulated by legislation introduced in 2016 (Law no. 66 2016). The following persons are eligible for parental leave: natural parents of the child; adoptive parents; foster parents; the child's guardian.

More than one third of mothers return to work before the end of the maximum parental leave period. This is partly due to the payment of the insertion incentive (140 euro per month, in addition to the salary), but also to labour flexibility policies (homework, personalised hours, fixed-term contracts, 84 supplementary hours per month). A return to work by mothers before the end of parental leave period takes place especially in big cities, where there is a demand for work in the services sector and in work related to new technologies. For employees with disabilities, employers must provide flexible working conditions (Șoitu 2014). Among EU and OECD countries, Romania, Norway and Germany are to be found in the middle range of the Employment Flexibility Index (Lithuanian Free Market Institute, 2017, p. 6), with a figure of 63.9%: Denmark was registered with the highest level of employment flexibility, (96.9%) and France the lowest (39.4%).

Employees and Retired People

Approximately 28% of the total population participate in the labour force as active employees and 26% are retired. Millions of Romanians work abroad, especially in European Countries (The United Nations Migration Report 2017, estimates that 3.4 million—over 17% from total population—work abroad). Among pensioners, only 76.9% are older than the legal retirement age, with a majority of women (58.3%). The higher proportion of retired women can be explained by higher life expectancy—(almost seven years more than men) and a lower retirement age (60 years (and 10 months, in September 2018). The legal of age of retirement for women has increased from 57 years and it will rise to 63 years by 2030). The retirement age for men is 65 years since 2015 (it increased from 62 years between 2001 and 2015). A significant proportion of Romanian pensioners have retired before the official retirement age with or without full contributions. They receive reduced levels of pensions until they reach the legal age of retirement. More men than women receive invalidity pensions: 56% compared to only 44% of women. The overwhelming majority of persons who receive survivor's pensions are women. Among all pensioners, 0.5% are at risk of poverty and receive income support—worth approximately 60€ per month (National Institute of Statistics 2018a).

The calculation of pensions is based on individual monthly contributions over the working life linked to the reference value of the pension point (1,100 Ron, approximately €250 in July–December 2018). The value of this point is set to increase in the future: from 26.5% in 2018, to 45% of the value of the average gross wage. The average value of pensions for women are 7–12% less than those of men for all categories of pensions. The gender pension gap is due to several reasons: the lowest paid jobs are performed by women and few are in better paid positions in top

management; women have a shorter contribution period to the pension system; and women have an earlier retirement age. Romania has the lowest level of precarious jobs (0.2%) among other European states (Eurostat 2018c), but, as in other cultural contexts, precarious jobs have been performed mainly by women. This low level of precarious jobs is a consequence of the unavailability of a large sector of the labour force due to two decades of emigration.

Pensioners are not the poorest categories of the Romanian population; the poverty rate in Romania is higher for children and young adults, particularly single parent families with several children. The average value of pensions for those who had worked in the public sector and who fulfilled the required of 35 years of service and age represents 60.5% of the value of the gross national minimum wage (1,180 Lei, approximately €257 in September 2018). This is higher than the net paying of workers employed with the minimum wage. This can be explained by the increase in pensions between 2005 and 2011. A decrease in wages of 25% occurred during the economic crisis but the level of pensions continued to increase. There were also several waves of pension recalculations in order to address inequalities that influenced the amount of the pension received and which were related to the year that the previous retirement legislation had come into force. Some of these disparities were due to changes in the insurance system: until 1999 the employer paid a quota to a salary fund, and this fund did not include social security contributions by the employee. From April 2001 a social security contribution composed of the employee's contribution and the employer's contribution was introduced—a total of 27% from the salary. From 2018 it is the employee who is responsible for most of the pension contributions (approximately 27%) (Law No. 227 2015).

Existing Research on Older Workers and Extended Working Life

There has not been much academic research on work, retirement and/or extended working life in Romania. There are some reports which have found that the economic situation of pensioners in Romania is relatively good comparing with other age and occupational groups. (Şoitu 2015; National Institute of Statistics 2018b). Among individuals aged over 65 years, 19.1% are at risk of poverty compared to 18.9% among individuals aged between 50 and 64 years (37.2% of the age group of 0–17 years). According to recent research (NIS 2017b: 17) pensioners are the occupational category with the lowest risk of poverty from Romania: 15.9% compared to 50.2% among unemployed individuals.

A World Bank report (2014: 61) indicates that in Romania 'the average proportion of employed older people at risk of poverty has decreased considerably in the last five years and is close to the European average'. Yet in the case of self-employed working people—self-employed and household workers—the trend has been either as stagnation in income levels or an increase in poverty. This highlights the fact

that in Romania, the status of being employed does not represent a guarantee for a decent income over the life course nor an escape from poverty and social exclusion (Stoiciu 2015:10). The low quality of employment in Romania, especially for older people, may explain the high level of early retirement. Most older people are engaged in agriculture or are unpaid household workers, occupational categories where the economic status is even worse than that of pensioners. The recent increase in the employment rates of older people is not enough to produce an improvement in the socio-economic condition of older people, unless it is also accompanied by an increase in the quality of employment, by shifting the emphasis away from household work, or self-employment in agriculture towards paid jobs (Stoiciu 2015).

Pensions and Retirement

Current Romanian pension legislation establishes the same minimum (15 years) and maximum (35 years) period of contribution for social security for women and men (Law No.263 2010). There are enduring professional differences between the private and public sector, both with regard to the minimum number of years of contribution and the value of pensions.

Police and army employees may retire five to ten years earlier than employees in other sectors, and they have period of social security contribution which is lower, set at a maximum of 30 years and a minimum of 20 years. Magistrates can take early retirement after only 20 years of activity, equivalent to 85% of the final month's salary or the average of earnings from the last six months. Differences between the contributions and the real value of the pension are paid from the State budget. There is a public pension system for farmers with a retirement age of 63 for men and women with minimum contributions of 15 years and maximum of 30 years. This monthly contribution covers the risks of retirement, temporary invalidity due to a working accident, death grant as well as child allowance which is part of the public pensions system).

The first pillar is a public 'Pay as you go' pensions scheme, comprising compulsory social security contributions. The second pillar also consists of compulsory contributions (3.7%) but it is administered by the private sector. The third pillar consists of optional pensions administered by the private sector. In addition, there are also non-contributory rights (for former political prisoners and deported people). In summary, Romania has a public retirement system. Pensions are based on contributions and there are some retirees' additional rights (for some professional categories: former members of Romanian Parliament, magistrates, policemen's) as well as pensioners who benefit from 'social security allowance' or 'social assistance'.

In accordance with the Pensions Act (Law No. 263 from 2010 updated in 2018), an invalidity pension is granted to: people under the standard retirement age, who have lost some or all their working ability and have made sufficient contributions; to people who have lost all or at least half of their working abilities due to work accidents and professional illnesses; people with specified illnesses; and, people in

certain occupations (including the military) who are also entitled to an invalidity pension, even without having paid contributions. Invalidity pensioners also have the right, in addition to their retirement, to receive financial support for carer, typically a family member. A close relative caring for a parent can receive up to half of salary paid by the local authorities (Law No. 17 2000).

Working Policies After Retirement

During the economic crisis, employees from Romania were forced to retire when they reached retirement age and were forbidden to combine retirement with a wage. It is now possible to do so. Moreover, recent changes in the Pension Law 263 (2010) end certain inequalities in the public pension system, which had allowed different levels of pensions for people who had worked the same number of years, in the same profession and with similar contributions (Ministry of Labour and Social Justice 2018). In these cases, women could actually receive larger pensions than men, because women needed (according to earlier national laws) a smaller number of years for the complete contributory period. The new provisions added by the more recent law includes study periods for Master and PhD degrees as non-contributory periods assimilated complementing bachelor periods, military service, invalidity pension, medical leave, parental leave allowance, unemployment, deportation, imprisonment and political detention. The condition for the assimilation of these non-contributory periods is to have a minimum contributory period of 15 years.

In the 2018 legislation, all four categories of pensions are maintained: pensions for the standard retirement age, early retirement, pension for invalidity and a survivor's pension. However, there are some modifications. In the case of pensions for the standard retirement age, an individual must fulfil cumulatively, the conditions for minimum length of service and standard retirement age. People with over eight years above the complete contributory period can retire five years before reaching retirement age. In this case an individual can earn both the pension and a wage, and the assimilated non-contributory periods can be maximised. Another element of the new pension legislation is that women with a minimum contributory period of 15 years, who have given birth to three children raised until they were 16 years old, can benefit from a reduction of their retirement age of six years. Starting with the fourth child, an extra year is added for each child (Ministry of Labour and Social Justice 2018).

Ageing and the Labour Market

One issue that is discussed in academic and international policy research concerning Romania is the loss of actual and potential resources due to the relative scarcity of older workers in the labour market (Soitu and Johansen 2017; World Bank 2014).

Although in absolute figures the number of employed older people rose by more than 300,000 in the last ten years, it is still low. Romania is 10 percentage points below the European average for older people in the labour market, similar to countries in Southern Europe. Employment rates tend to decrease for Romanians aged 55 and above. In 2009, 40% of the people of this age category had switched to early retirement, leading to a population of younger pensioners, 7.5 years younger than the legal retirement age. People with low or no qualifications often lose their jobs from the age 50–55 years and the general tendency is for employment to decrease for this segment of population. In 1997 Romanians older than 50 years had a 52% employment rate, and in 2013—it was 41% (World Bank 2014).

After the economic crisis, employment rates improved for all age groups aged over 50 years: for the age group 55–60 years to 65.2% (76.5% for men and 54.3% for women); for the age group 60–64 years to 33.3% (44.8% for men and 23.4% for women), for the age group 65–69 years, 17.7% (20.8% for men and 15.3% for women), and for the age group 70–74 years, 14.4 (15.3% for men and 13.7% for women) (statistics for 2017 from INS 2018). A study by the National Council of the Elderly (2014) concluded that the overwhelming majority of employed pensioners who have continued their activity after retirement were working in the agricultural sector (97.0%) with a professional status of own-account worker or unremunerated family worker (98.5%). The main reason for working (90.5%) is the need to ensure enough income for the household (CPNV 2014).

Romania has a high concentration of employment (60%) in the primary sector (agriculture) and the secondary sector (industry, construction, mining), well above the European average (EU 27) of 30% (INS 2018). Working in the primary and secondary sector usually involves manual work and physical effort, which is difficult for many workers after a certain age and especially when combined with precarious health.

In the public system there is no gender pay gap. In the private system, employers can decide wages, so there can be gender gaps in earnings. Although the rate of labour market participation of women aged 15–64 years at 55% is considered acceptable, this figure is set to rise faster than men (75%) because of the growth in the labour market (INS 2018).

Debates and Perspectives

The Romanian labour market has some unique characteristics. The main public employment is in education, health and administration. A combination of pension and salary is possible in the education sector where employees can continue for a further three or five years above the legal retirement age, with the approval of the board of directors/ the senate of universities. In the health sector, doctors and nurses who want to continue to work above the age of 70 years can be employed in private clinics.

Extending working life is often desirable for people with a high level of education and who work in the higher occupational professions, such as academia and medicine. During the economic crisis (2010) it was not possible to earn both a salary and a pension; the solution at that time was an expectation to forego a retirement pension and to continue to receive a paid salary. In recent years this has been reversed. It is now possible to continue a salaried activity together with receiving the state pension. Self-employed people have greater individual freedom to choose their retirement age. Beyond such exceptions, the perspective of most active people is unfavourable to prolonging the period of activity in the labour market. Moreover, certain occupational categories in the public system—such as the military, magistrates, the police—claim their right to retirement a significant number of years earlier than other workers.

With the public sector, the passage to retirement is abrupt, without preretirement support like training, reducing working time, intergenerational learning programmes, or stimulating older people who want to remain in the labour market. Introducing pre-retirement support programmes could reduce the impact of retirement stress on the health of older people. There is a need for research into the relationship between health and occupational status in later life.

As policy now stands, Romania will have to cope with an increasing budgetary deficit in the pension system. An active and healthy, and useful life for older people, for and their families, and for the community can be better prepared (Şoitu and Johansen 2017). The main policy ideas and recommendations coming from Romanian media and academic debates related to extending working life focus on a number of issues. Some revolve around the workplace, including strategies and actions for improving the Romanian labour market and encouraging work past age the age of 63 years (the current retirement age for women) and 65 years (for men) while simultaneously being optional. In terms of the pension system itself, consideration needs to be given to the sustainability of future pension reforms, the urgent need of strategies to adapt the social insurance system in the face of demographic challenges, and to relieve the public pension system from paying special pensions. Furthermore, Romanian initiatives to improve health and wellbeing and to increase healthy life expectancy are needed, alongside more and better retirement training programmes.

There is currently no consensus between political parties on a common strategy, for the medium and long term, regarding the management of social policies. The change of government since the end of 2019 (liberals replaced social democrats) brings into question changes such as: slowing the increase of the value of the pension point; the impossibility of accumulating the pension with the salary; elimination of some special pensions; increasing contributions to the second pillar of pensions. The changes, if any, will not be immediate. The Ministry of Labour plans to invite civil society to dialogue for the realization of the National Employment Strategy post-2020.

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