



Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

O P I N I O N

on

**EXPANDING OPPORTUNITIES FOR PARTICIPATION
INTO THE SOCIAL SECURITY SYSTEM OF PERSONS BORN
BEFORE**

1 JANUARY 1960

(on its own initiative)

Sofia, 6 July 2007

The activity plan of the Economic and Social Council (ESC) for 2007 envisages drawing up an opinion on **“Expanding opportunities for participation into the social security system for persons born before 1 January 1960”**.

The President of the ESC assigned the drawing up of the Opinion to the Standing Commission on “Budget, Finance, Insurance and Social Security”.

Prof. Lalko Dulevski was appointed Rapporteur.

The Commission developed and adopted a draft of the opinion.

During its Plenary Session on 6 July 2007, the Economic and Social Council adopted the Opinion.

I. INTRODUCTION

Taking into consideration the interests of the civil society, the ESC reiterates the issue of the necessity of reaching civil and political consensus on fundamental issues of the pension reform in Bulgaria. By its opinion on the issues of the pension reform the Council presented its consolidated position both on the main challenges of the reform and in regard to the definite proposals for future solutions. In a number of opinions related to demographic issues and challenges, incomes policy and other, the Council expressed its concern regarding the forming consequences of the demographic development and income policy and their reflection on the insured persons and income of the elders.

Presenting its positions, the ESC is led solely by the common civil interest as well as by common European values and principles, which form the European social model.

In this regard, the Council insists that the development of the Bulgarian pension model should follow adequately main requirements and principals presented not only by the European Commission but also in a number of main documents of the European institutions:

- guarantying an adequate income when retiring and access to pension;
- long-term financial stability and sustainability of public and private pension schemes which should guarantee the security and trust in the public solidary pension system and in the additional individual capital schemes;
- the pension system should stimulate the prolongation of the professional life and active ageing of population;
- transparence and sufficient information for the insured individuals;
- development of the pension reform on the basis of a maximum public consensus;
- solidarity and justice between generations.

II. MAIN FINDINGS OF THE ESC

Considering these fundamental principles of the pension reform development, as early as two years ago the ESC members expressed their concern with the violation of the principle of justice and equality between insured persons in relation to the introduction of universal pension funds in the country.

In compliance with the provision of the Code for social security, the right for additional mandatory pension insurance (universal pension funds) is given only to persons born before 1 January 1960. At the same time, each employed receiving income has the statutory

obligation for pension insurance and at the same rate. In practice, it turns out that all these people have the same obligation but different statutory rights to use all opportunities offered by the new pension system in Bulgaria.

The current and main argument for introduced limitation is that persons born before 31 December 1959 do not have enough time before retirement to accumulate the needed funds in the universal fund and receive an adequate, by its amount, second pension from this fund.

Taking into account the principle of justice, the actuary and financial accounts done, the Council does not accept these arguments due to the following reasons:

First. An adequate rate of pensions according to the new pension system within the country is formed by future pension income from the three pillars and in such evaluations it is necessary to consider the cumulative pension income and not only the accounts for pension income from the second pillar. The Council is absolutely convinced that the participation of persons born before 1 January 1960 into the second pillar shall assure higher cumulative pension income rather than the opportunity these persons to take part only in the first and third pillar, according to the current Code for social security.

Second. In practice, all insured persons have the statutory obligation to pay equal at rate social contributions and at the same time for a part of them there are statutory limitations to use all opportunities which are provided from the new system of the country. Moreover, the basis of the limitation was introduced on the basis of the age indicator. They concern those generations that carried the most difficult consequences from the transition of the country and which do not stand the chance of using the expected positive effects of the pension reform taking into account their long-term aspect. The justice between separate generations has been violated mostly for those demographic contingents which are most deprived from the reforms.

Third. The ESC has highlighted many times that a main factor for the success of the pension reform in the country is the level of trust and support from the civil society. According to the Council, the exclusion of a definite demographic group of individuals from the opportunity of using all advantages of the Bulgarian pension model is a prerequisite for causing a sense of injustice that reflects on the level of their support for this so important reform.

Furthermore, it concerns a basic contingent of the population and labour force of the country a greater part of which is at their most productive stages of the professional life in the beginning of 2002.

Fourth. The Council does not accept the thesis that the introduced age limitations for access to universal funds are typical or characteristic for the three-pillar model of the pension system during the transition period. The practice in other countries with introduced universal funds

proves that by law there are no limitations and there exist opportunities for different choice of the insured elder persons. Thus, the legislator gives a chance to each individual over a definite age to make their choice regarding the optimum for using different opportunities of the pension system. According to the ESC, it is the personal choice of the insured that should be the basis of the decision and not the decision for participation or not participation in the universal funds to be regulated imperatively in the legislative framework.

According to the personal register of the National Social Security Institute, in the first trimester of 2007 the total number of employed persons born before 1 January 1960 is about 770 thousand people and the number of self insured persons (not including agricultural producers) is about 56 thousand people. In recent 5-6 years, there are almost 300 thousand people who dropped out from the contingent of insured persons born before 1 January 1960. These individuals lost forever the possibility to use even at minimum the new advantages of the pension system. Therefore, taking into consideration the common interest of the civil society, the ESC insists that the government and National Assembly should undertake urgent and adequate measures aimed at restoring partial justice with regard the employed and insured persons born before 1 January 1960.

III. MAIN PROPOSALS OF THE ESC

The Council welcomes and supports further wide range dialogue and the activity for coming up with solutions by the national representatives, the government and civil organizations with regard to restoration of justice for a part of the insured persons.

In regard to this issue, the ESC, after carrying wide range consultations with experts and different stakeholders, considered various versions for restoration of the partial justice which take into consideration real possibilities and issues of the pension system and public finance. The Council noted the following:

The non-participation in the universal funds causes losses of funds for a future pension income for insured persons born before 1 January 196. The estimation carried for those losses is based on the following arguments and considerations:

a/ taking into account the definite advantages for people born before 1 January 1960 compared to the rest of the insured persons as a result of the higher individual coefficient for the period 2002-2007;

b/ taking into account the definite losses of funds for a future pension income for individuals born before 1 January 1960 as a result of the impossibility to use the part of the pension contribution for an universal fund in the individual capital scheme;

c/ the ESC considers that the estimations for lost benefits should be carried out only on the basis of the direct comparison of both alternatives. Even for 5-6 years, the estimations

prove that in the allocation of potential contributions for universal funds in the individual capital scheme the accumulated funds by the end of 2007 provide higher pension income compared to the alternative that these funds guarantee higher individual coefficient in the first pillar thus creating a pension income from the pillar. According to the estimations for the period 01.01.2002 – 31.12.2007, each insured individual born before 1 January 1960 will experience a lost benefit by December 2007, amounted to approximately 90 % of their monthly individual insured income. When carried out these estimations, there were taken into consideration the definite amount of contributions for universal funds, the minimal, average and maximum level of the insured income, reached average revenue from investing finance resources in universal funds and the average management and investment fee of the insurance companies for the period 01.01.2002 – 31.12.2007.

There are various options possible for compensation of lost benefits and restoration of the partial justice. When forming its proposal, the ESC is led by:

- The necessity of keeping and preserving the stability of the fund for mandatory pension insurance (I pillar) which should guarantee the achievement of sufficient solidarity in accounting the individual contribution of each insured person.
- Achievement of a partial justice between generations and notably between people born before and after 1 January 1960.

In this regard, considering that every decision from now on could restore justice only partially for persons born before 1 January 1960 and the vital general necessity for undertaking specific steps from the very beginning of 2008, the ESC proposes:

1. From 1 January 2008 until 31 December 2010, for people born before 1 January 1960, the Act for income taxes of natural persons there should be regulated additional tax relief for personal contributions for additional voluntary pension insurance and premiums/ contributions for life insurance (insurance for pension or rent) in a total amount of 10% of the insured income of relative persons.

This additional tax relief should ensure the restoration of a partial justice for lost benefits of people born before 1 January 1960 as a result of the impossibility for participation in the second pillar (universal funds) during the period of 1 January 2002 – 31 December 2007.

2. From 1 January 2008 for all insured and employed people born before 1 January 1960, the Act for income taxes of natural persons should regulate second additional tax relief for personal contributions for additional voluntary pension insurance and premiums/ contributions for life insurance (insurance for pension or rent) in a total amount of 10% of the insured income of relative persons.

From 1 January 2008 the second tax relief shall compensate lost benefits, every month or

annually, borne by insured and employed persons born before 1 January 1960 as a result of their non-participation into the second pillar (universal fund).

3. The Council insists that the additional tax relieves should be regulated on the basis of the insured income which at the level of the maximum insured income coincides with the labour income.

At the same time, the ESC does not accept the fact that the basis for estimating additional tax relieves should be the labour income without any limitation of the amount since in case of income over the regulated maximum insured income the relative individual does not experience any loss caused by the pension system.

4. The Council supports the development in the additional pension insurances of various investment initiatives from the perspective of the interest of the insured persons.

Stressing once again its full support for ensuring sustainability and stability of public finance and pension funds in the country, as well as the necessity for restoration of the partial justice of definite contingents of insured persons, the Economic and Social Council is convinced that the proposals made shall achieve several results of general importance:

- restoration of justice for all insured individuals participating into the new pension system of the country.

- achievement of optimal financial decision option which should not reflect on the stability and sustainability of public finance and pension funds;

- creation of additional instrument for decreasing the share of the grey economy in the country.

- provision of additional incentives for prolongation of the active professional life of persons born before 1 January 1960 after completing the age for retirement.

- extra stimulation of development of the additional pension insurance and increase of the investment culture and information among the insured persons.

In conclusion, the Economic and Social Council insists that the public discussion should continue with regard to further development of the model and opportunities for additional pension insurance from the perspective of the interests of the insured persons.