



Република България  
ИКОНОМИЧЕСКИ  
И СОЦИАЛЕН СЪВЕТ

# **OPINION**

**of**

**THE ECONOMIC AND SOCIAL COUNCIL**

**on**

**SOCIAL INSURANCE AND SOCIAL PROTECTION**

**(Own-initiative opinion)**

Pursuant to Article 15(3) of the Law for the Economic and Social Council the Presidents Board made a decision to elaborate an own-initiative opinion on

## **SOCIAL INSURANCE AND SOCIAL PROTECTION**

For the elaboration of the draft opinion an **Interim Commission** was established; here follow the members of the commission: Chairman - Professor Neno Pavlov; members: Plamen Zahariev, Dimitar Manolov, Dr. Evgeni Dushkov, Valentina Zartova and Professor Nansen Behar.

At a meeting held on 27 March 2010 the Interim Commission adopted the draft opinion and submitted it with the Council President to be discussed and adopted by the plenary session.

At a meeting held on 29 March 2010 the plenary session adopted this opinion.

Thus the Economic and Social Council (ESC) plays its traditionally constructive role in the civil dialogue and the consultations with the executive and legislature on the economic and social policy of this country.

By the adopted opinion the ESC supports also the intention as expressed in a Decision of the Council of Ministers of 10 March 2010 to work in closer cooperation with the ESC during the elaboration of the position of the Republic of Bulgaria on the future EU-2020 Strategy.

# I. SOCIAL INSURANCE

## PENSION INSURANCE

### 1. Main Conclusions and Findings

- 1.1. In spite of the considerable rise in nominal pensions, they are still below the necessary amount and level. According to the Eurostat data for the year 2008 the poverty rate among the age groups above 65 years is 34% and among those above 75 - 40%. The gross replacement rate in 2009 is equal to 45.1%, and the purchasing power of the average pension reaches 92.1% of the level registered in the year 1991. This calls for new policies and appropriate regulatory changes with a view to the fulfilment of the obligations concerning the pension protection modernising, which ensue from the EU-2020 Strategy.
- 1.2. The numerous amendments in the pension legislation and the legislation related to it in the last years have not secured sufficiently the development of the Bulgarian pension model and because of that the public debate and consultations should continue.
- 1.3. The ratio between the working persons and pensioners is deteriorating; the number of the dependents of post-working age correlated to 100 persons in an active working life are expected to increase from 25 persons to 56 persons in the year 2050. As a result of this the demographic burden on the solidarity pillar will keep increasing and the adequacy of pensions will keep deteriorating, in parallel to the policy on establishing more stringent requirements for admission to the pension payments.
- 1.4. The impact of the demographic processes on the viability and financial stability of the public pension scheme in the medium and long terms is increasing/the transfer from the state budget allocated to cover the deficit in 2010 amounts to BGN 2.06 billion/.
- 1.5. The annual regulatory changes performed under the Act on the Budget of the Social Security Fund aimed at improving the competitiveness and fostering the development of economy and other activities have not compensated the necessary financial balance of the pension insurance and have not improved the contribution collectibility.
- 1.6. In 2009 the State joined the system as a third insurer transferring to the Pension Fund 12% of the taxable insurable income of each secured person. This leads to deepening **the fund's** financial dependence on the state budget.
- 1.7. In spite of maintaining some of the more-favourable regimes for certain categories of persons, the pension model in this country is based on fairer rules and principles for dovetailing the social security contributions with the amount of pension.
- 1.8. There is being restrained, however at a lower pace than planned, the so-called „transfer” of privileged groups into the second pillar (except for the military and the police), where they shall exercise the right of early retirement.

- 1.9. The low effective age of retirement for the privileged groups is the reason why they keep taking advantage of the old more favourable conditions for acquiring an entitlement to pension.
- 1.10. The facilitated admission to invalidity pension is a reason for significant abuse and sharp increase in number of the invalid pensions granted and the amount paid.
- 1.11. There are still being disturbed the internal links in the relation „entitlement” - in cases of the objectively occurring risk (old age and particularly invalidity) and „refusal” - in case of formal and ill-intentioned „tailoring” to the legal requirements due to the insufficient control over the risk assessment and over the invalidity pensions.
- 1.12. A defect in the system is the availability of some components in the formula for calculating the amount of pensions, which do not take into account to a sufficient extent the social security contribution to promoting participation for a longer time in social security and employment, respectively for deferring retirement.
- 1.13. The significance of the complementary funds from the second pillar of the pension insurance for enhancing the social protection of the future pensioners, for the development of the capital markets and for increasing the capacity for investment in the Bulgarian economy is increasing.
- 1.14. The interdependence between the prestations from the two mandatory pension pillars is of particular importance for the pension adequacy.
- 1.15. Depriving the persons born before 1 January 1960 of the possibility to participate in the second pillar of the pension system evokes a feeling of injustice and inequality, which affects their support to the pension reform further implementation.
- 1.16. There exists a continuing trend of decrease in social contributions, here follow some figures: 32% - 2000, 29% - 2001, 23% - 2006, 22% - October 2007, 18% - 2009 /when the State joined the system formally as an insurer/ and 16% -2010. Unlike the other Member States, in Bulgaria the increasing deficits in the pension fund, which are covered by subsidies from the state budget, have the effect of a deflecting security factor since a considerable part of the pension amounts is financed at the expense of taxes collected from the whole population and the businesses.
- 1.17. Worsening of the parameters of the institutional environment for the solidarity form of pension insurance.
- 1.18. There are grave financial threats facing the expenditure-covering pension system due to the drop in economic activity and in the GDP growth rate, the reduction in employment, the slower increase in incomes, including the wage freezing policy in the budget sphere, the accumulation of overdue liabilities to employees and to the social security funds, outstanding payables of the budget to the companies and the increasing intercorporate indebtedness.
- 1.19. The economic crisis poses a threat to the social /pension/ insurance also in terms of expenditure through increase in the unemployment benefits payments, applying lawful forms for early retirement and increasing the pressure to extend its scope, limiting the cases of deferred retirement, etc.

- 1.20. The inadequate policies and the economic recession have increased the risk of failure to fulfill the objectives of the pension reform - 2000 and have deepened the distrust to the solidarity and capital forms of social insurance. The capacity of the pension system to be a stabiliser of the economy and public finances, to support the implementation of the European policy of „active” ageing has been strongly reduced.

## **2. Main Recommendations**

- 2.1. The concrete policies as defined by the legislation in the field of the pension reform are more or less similar to those implemented in all European countries, which are on the way of starting reforms or are in the process of implementing reforms. These policies imply financial autonomy and strict financial order, higher requirements for admission to the pension system, limiting early retirement, improvement of the relation between the individual contribution and the pension amount, improvement of the control with regard to observation of the legislation and adopted standards.
- 2.2. Further financial consolidation and long-term sustainable development of the pension system aimed at its better compliance with the values, principles and requirements of the European social model through maintaining optimum increase in pension cost, consistent with the incomes and the GDP growth rate.
- 2.3. Performance of system actuarial assumptions on the durable impact of the current changes in the amount of the contributions for the Pension Fund of the social security fund, on the financial viability of the pension system in the medium and long term.
- 2.4. Establishing more stringent criteria and tax incentives for longer participation in the labour market and in the financing of the social security system.
- 2.5. Ensuring equality between the State (in its role of employer and insurer) and the other employers /insurers/ in terms of deadlines and the sums payable for social contributions by virtue of the law.
- 2.6. Attaining transparency and justice in the personal participation of the civil servants in the payment of social contributions supported by relevant offsets of their incomes.
- 2.7. Establishing differentiated minimum insurable earnings per main professions for the self-employed and enhancing the control over the earnings really received by them.
- 2.8. Improving the performance of the Demographic Reserve Fund /Silver Fund/ to meet some of the financial challenges facing the demographic foundations of the pension system.
- 2.9. Optimising the institutional environment of the solidarity form of the pension insurance through improvement of the quality of services and suspension of the manipulations with the medical report on the working capacity; contribution collectability; decrease of administrative burden; improvement of the administrative capacity and the insurers and insured’ access to information, consolidation of the tripartism in the management of the National Social Security Institute, etc.

- 2.10. Improving and refining the relation „entitlement” - in cases of the objectively occurring risk and obtaining a founded „refusal” - in case of formal and ill-intentioned „tailoring” to the legal rules.
- 2.11. Increasing the adequacy of the pensions paid through improving the components of the pension formula so as to take into consideration the real pension contribution, more active promotion of the participation in the financing with higher insurable earnings, attaining a higher replacement rate and „shrinking” the grey economy in the social security system.
- 2.12. Establishing the principle for assessing the amount of the minimum retirement pension (based on pensionable service and age) in proportion to the minimum wage in this country, and the pensions, which are not related to the labour activity, should be assessed in proportion to the poverty line.
- 2.13. Unconditional abolition of the pension „ceiling” with the purpose of their „individualisation” and shifting solely to regulation of the „ceiling” of the insurable earnings.
- 2.14. Periodical performance of actuarial assumptions as a basis for assessing the minimum insurable earnings for the self-employed persons and the maximum insurable earnings for all the insured in order to attain the necessary adequacy of the pension amount.
- 2.15. Refining the mechanism for pension indexation during the crisis and post-crisis period, while disturbance of the relation and balance between the pension contribution and the prestation amount shall not be allowed, according to the financial capacity of the pension fund and the incomes policy.
- 2.16. Settling the problem related with the cases of overpaid contributions in the pension system on converting the working life accumulated for labour of first and second category.
- 2.17. Ceasing the practice as established after the pension reform start - cyclic review, reassessment and rework of the adopted and to a significant extent attained parameters of the reform.
- 2.18. Using the European experience for establishing a standing pension committee with the participation of professionals from the relevant institutions, administrations, non-governmental organisations and from the organisations of the employers and employees to perform continuous monitoring of the pension policies and the institutional development and management of the pension insurance.
- 2.19. Establishing, using the multi-fund system in the supplementary pension insurance, of a different type of investment portfolios and a possibility to take into consideration the personal interests, life cycles and the risk profiles of the insured.
- 2.20. Establishing additional tax relief for the personal contributions for supplementary voluntary pension insurance and for bonuses /contributions under contracts for life insurance, insurance for pension or rent/ totaling up to 10 per cent of the taxable insurable earnings for those born before 1 January 1960.
- 2.21. Additional incentives for accumulation of funds in the voluntary pension insurance /including through optimising the price of the service - decrease of the

investment charge and the deductions/ and raising the investment culture and financial awareness of the insured and pensioners.

## **HEALTHCARE AND HEALTH INSURANCE**

### **1. Main Conclusions and Findings**

- 1.1. The choice and the political approval of the appropriate for Bulgaria model of healthcare has been deferred for long, which is a precondition for aggravating problems and social tension. Even with greater financial resource the financial system will hardly operate sufficiently effectively unless the relevant structural reforms are duly implemented.
- 1.2. The problems with the financing of the Bulgarian healthcare should be settled along with those related to its rapid reforming and restructuring.
- 1.3. In the Bulgarian Healthcare Act the rights of the citizens are not regulated and they are defined on the basis of the National Framework Agreement, as a function of the funds collected in the budget of the National Health Insurance Fund, thus the possibility for the citizens to use the needed healthcare of high quality is limited by the regulation.
- 1.4. By the Health Insurance Act the share of the insured has been extended and in fact it covers the whole population of this country; hardly 2.5-2.7 million of them receive labour incomes on the basis of which social contributions are accrued and paid. For the rest of the population in fact there should be available healthcare financing from the budget through transfer of funds to the National Health Insurance Fund.
- 1.5. A significant part of the Bulgarian population is liable to health insurance, but guaranteed healthcare is not always available for them.
- 1.6. Actually the constitutional provision on free access to healthcare services is not implemented. Numerous economic, social and moral principles have been violated - the Bulgarian citizens make numerous payments for access to healthcare services of high quality; here follow the payments:
  - taxes, a part of which are a source for additional financing the healthcare system;
  - health insurance contributions;
  - user charges on visiting a doctor;
  - additional payments for a number of healthcare services, medical procedures, medicines and articles of consumption;
  - unregulated payments of considerable scope and amount;
  - mandatory „voluntary donations” and „sponsorship” to the medical institutions.
- 1.7. The practice shows that the existing regulation governing the relations among the main professional partners (the National Health Insurance Fund, Bulgarian Medical Association, Bulgarian Dental Association and partially the State) on assessing the healthcare costs constitute an important obstacle to healthcare functioning.
- 1.8. The national framework agreements, as products of these relations, suffer essential defects (duration, scope, assessing „prices” and systems of payment, a description of the different types of healthcare and medical activities and the ways of their performing, relations among the individual operators of healthcare activities and

their powers, type and way of monitoring, responsibilities and sanctions, reporting healthcare activities, etc.). Most frequently they are signed with a delay.

- 1.9. The logics in the existing health insurance model is disturbed, the liabilities of the citizens are realised on the basis of the statutory health insurance relations and their rights are regulated in the National Framework Agreement at that depending on the accumulated funds.
- 1.10. It is an established practice for the interests of the medical doctors, dentists and pharmacists to be guaranteed by the National Framework Agreement with a priority over the interests and rights of the insured. No matter what type the management system is - two-tier or one-tier system - the problem is first and foremost an essential one and it should be settled on the basis of an acceptable for the public balance of the stakeholders' interests.
- 1.11. The infringed rights and interests of the insured and the conflict of interests are reflected in the National Framework Agreement, wherein the interests of the insured are not asserted. There is a paradox - the operators of medical care are the main bodies, whose interests are a basic factor for application of the instrument National Framework Agreement, regardless of the provisions of the Health Insurance Act.
- 1.12. Actually the principle and the statute of the National Health Insurance Fund as a public and autonomous institution, as laid down in the Health Insurance Act, has not been implemented.
- 1.13. The operation of the integrated information system of the National Health Insurance Fund, which was implemented in 2009, is still a pending problem /lack of electronic cards of the insured, lack of possibilities for provision of information on the payments under the European regulations, etc./.
- 1.14. The necessary link between the medical practitioners at the school health settings and the general practitioners (GP) is missing.
- 1.15. The capacity of the medical practitioners at the school health settings and at the childcare facilities is not effectively used to perform a reliable control over the hygiene and the healthy diets of children.

## **2. Main Recommendations**

- 2.1. Health insurance should be built on an insurance principle, in compliance with the visions and objectives of the healthcare system development for a longer term /15-20 years/, while the existing components and activities in the field of social assistance shall drop out.
- 2.2. There should be defined lawful guarantees for participation on an equal footing in the management of the National Health Insurance Fund of the representatives of the insurers (the representative organisations of the employers), of the representatives of the insured (the representative organisations of the employees) and of the representatives of the State, jointly with the municipalities.
- 2.3. Changes in the instrument National Framework Agreement are necessary, at least in the following components: counterparties; bodies signing the agreement, rights, obligations and liabilities of the parties, mechanisms for control over its implementation; sanctions aimed mainly at protection of the citizens' rights of access to healthcare of high quality and preclusion against decrease in scope of the medical care and health services.

- 2.4. The principle for liability of the insured for their own health as defined in the Health Insurance Act should be further developed in a system of standards by means of which the insured shall be encouraged to take care for their own health. There should be ensured better flexibility of the budget of the National Health Insurance Fund with in terms of the possibility for transferring funding from the more expensive types of medical care to prophylactics and promotion of health.
- 2.5. The public-private partnership in healthcare should be developed, while the public interest shall be guaranteed.
- 2.6. Urgent measures should be undertaken to complete the integrated information system and to implement the so called electronic cards for identifying the status of each Bulgarian citizen and user of health services.
- 2.7. Implementation of a system long-term national policy for confining the epidemic of chronic infectious diseases.
- 2.8. In the system of primary care there should be weakened the role of capitation on the account of increase in payment for the types of activities, including also new ones, as visits at home, care during the night, weekends, holidays, etc.
- 2.9. Payments in the specialised medical care should be differentiated and should be of different amounts according to the consultative nature of the activity and of the activities related to the monitoring and control of the disease progression.
- 2.10. In the system of the emergency medical care, in addition to the changes in the organisation and the location of the medical teams, changes should be made in the systems for payment and in the professional status of the medical doctors and the other medical staff.
- 2.11. Carrying out activities to promote health and prophylactics in the frames of the new state policy financed from the budget and based on an integrated approach to disease control. Suspension of surcharges for the medical services included in the guaranteed health packages.
- 2.12. The relation and interaction between the general practitioners and the medical practitioners in the consulting rooms in respect to the care for the health of the children should be regulated in a relevant bylaw.
- 2.13. Increasing the transparency of the procedures on regulating the prices of medicines, enhancement of the balance between the generic and innovative medicinal products in line with the best European practices.
- 2.14. Implementation of active policies on increasing the number, specialisation and career development of the specialists in healthcare as well as on improving their socio-economic status. Development of nursing care and the nurse visits to home.

## **II. SOCIAL PROTECTION**

### **PROTECTION OF CHILDREN AND THE FAMILY**

#### **1. Main Conclusions and Findings**

- 1.1. Deterioration of the Bulgarian nation's reproduction, which is in direct relation with the family, the responsible parenthood and the equal gender opportunity; deterioration of the labour force quality in Bulgaria and retention of economic development respectively.

- 1.2. Critical shrinkage of the fertile group, of the young cohorts, which are twice less than what is needed for a normal reproduction of the population.
- 1.3. Family formation and having children are deferred in favour of the career development.
- 1.4. The periods of maternity hamper the women's progress in their professional careers and deteriorate their social insurance statuses.
- 1.5. The extent of dehumanisation is increasing, it implies indifferent attitude to children, including waifs and strays and exploited children left to the care of a parent in dire need as well as violence against children in all its forms.
- 1.6. Family violence becomes stronger, the breeding functions of the family fade, the environment deteriorates and generates aggression, lack of intimacy and trust; irresponsibility, lack of positive example and alienation from the family.

## **2. Main Recommendations**

- 2.1. The policy of Bulgaria in respect to the family, responsible parenthood and children should be a national priority in the decades to come. To this end political will for priority of the problems of the family, parenthood and children is necessary.
- 2.2. The state policy regarding children and family should be directed to social investment in the new generations, their parents and families. This is the objective of the establishment of the Investment in Youth Fund.
- 2.3. Establishing an environment for the families to bring up the desired number of children providing for them the acceptable for the public material, emotional and educational living conditions.
- 2.4. Guaranteeing the support for children, providing access of each child to the creche and kindergarten; new social services for raising children; implementation of all-day education of the pupils in the educational institutions; encouraging the talented children.
- 2.5. Application of a system of incentive for economic development and employment in the regions threatened by a demographic collapse as an opportunity to support the family in its cares for the children.
- 2.6. Promoting the implementation of corporate family policies, implying the following: flexible working time, telework, support for the children, services for parents and families.
- 2.7. Refining the criteria for placement of children to be raised at specialised social institutions, the parents of these children being alive.
- 2.8. Extension of the childcare facilities network and maintaining a good infrastructure of institutions for child raising and for supporting people in the individual phases of their lives, taking into consideration the specific difficulties of whole groups of people - young families, families with children with disabilities, etc.
- 2.9. Effective preventive measures to combat the obesity, smoking, alcoholism and mental disorders.
- 2.10. Preparation of the children and teenagers for family and parental partnership, for taking the relevant personal duties and responsibilities.
- 2.11. Implementation of policies to combat the drawing children into any forms of too hard labour.
- 2.12. Protection of the family through the following measures:
  - tax relief for young spouses (aged up to 35) if they have children;

- establishing a state fund to cover a part of the interest burdens for young families with at least one child;
- preferential loans for students and young families.

## **COMBATING POVERTY**

### **1. Main Conclusions and Findings**

- 1.1. The poor Bulgarians are a relatively constant share (about 1.1-1.2 million people).
- 1.2. There are big differences between Bulgaria and the EU Member States in terms of the poverty lines. When measured in purchasing power parity, these differences become considerably smaller.
- 1.3. The highest poverty line is with those unemployed.
- 1.4. There still exist huge and essential ethnic inequalities, characterised mostly by hereditary poverty.
- 1.5. There are substantial differences between the profile of poverty in the towns and villages.
- 1.6. The financial and economic crisis has generated other additional poverty factors, too.
- 1.7. We face the problem „working poor”.
- 1.8. The „working poor” are not only a high-risk group, but they have already formed a firmly established model of life.
- 1.9. Deterioration of the quality of the basic social services provided by the education and healthcare, which leads to increase in poverty.
- 1.10. The increasing gap between prices and incomes facilitates the transition to social exclusion and poverty.
- 1.11. The non-transparent formation and the inadequate regulation of the monopolistic prices of the services of general interest aggravate poverty.

### **2. Main Recommendations**

- 2.1. Combating poverty in the long term through anti-poverty policies of the government, reforming the public sector and accelerating the economic growth.
- 2.2. Ensuring equal and effective access to services of general social interest - education, healthcare, public utilities, etc. - aimed at access to labour market and restraint of poverty reproduction.
- 2.3. Restraint of hereditary poverty through policies on reducing the parents' poverty.
- 2.4. Countering the „poverty” risk and the „working poor” syndrome through creating jobs of high quality, which shall ensure sustainable employment and career development.
- 2.5. Establishing minimum social standards to guarantee a minimum income.
- 2.6. The minimum wage with the dimensions of its economic and social functions should be formed on the basis of an operating mechanism, which takes into consideration the dynamics of the poverty line and the average wage.
- 2.7. A possible useful approach is bargaining branch minimum standards on payment.

- 2.8. Optimising the system of social transfers and social assistance after an adjustment of the income test in order to enhance the effectiveness of the anti-poverty policies and restraint of the „profession” socially disadvantaged.
- 2.9. Improving the quality of administration, control and optimisation of the various social programmes to address the beneficiaries who are really in need.
- 2.10. Developing a mechanism for real identification of the risk groups in Bulgaria.
- 2.11. Implementing effective monitoring of the indicators and policies for social inclusion.

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**PRESIDENT OF THE ECONOMIC AND SOCIAL COUNCIL**