CURRENT PENSION SYSTEMS IN THE EU AND THE REPUBLIC OF MOLDOVA. OPTIONS FOR THE PENSION SYSTEM REFORM IN THE REPUBLIC OF MOLDOVA

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1. General considerations on pensions

The pension system is part of the socio-economic model of a country, and as such, important for the type of society people want to live in. The European social welfare state is based, among other things, on strong social protection systems and on the objective of an inclusive society. Building up a strong social protection system implies that all members of society should have the chance and the duty to contribute to the socio-economic development of the country and that in times of hardship people should be able to count on the social protection system in order to maintain their standard of living and to have access to good healthcare.

If Moldova wants to be part of the European social welfare state, it should also accept the logical consequences of it: that means an active and redistributory role for the state, and a solid economic and labour market foundation of the system. A social welfare state cannot be built on an economic graveyard: a prosperous economy also needs customers with purchasing power, be it through employment or through social benefits.

If the objective of the pension system is to guarantee the pensioners a decent standard of living and not just a minimum income, the government should realize that full employment and progressive taxation of income are necessary conditions which have to be met.

In times of global competition and profound societal and labour-market changes, social protection systems have to be adapted, to be made more efficient, transparent and socially just.

In order to achieve these objectives of social inclusion, it is also necessary to succeed in economic inclusion, which is to succeed in mobilizing and integrating all the productive factors of society into the formal economy. The informal economy, undeclared work, envelope salaries among others are all phenomena which undermine the social welfare state and are in the end also detrimental to the economic development of a country as they overburden the formal economy, the companies that respect tax and social rules, and the workers who declare their income correctly.

2. European Trade Union Position on Pensions

- Full social protection coverage should be guaranteed for all workers.
- Absolute priority for the statutory public pensions. They are the best guarantee for social welfare and most cost-effective.
- Occupational pensions are welcomed in so far as they do not infringe on the statutory schemes, but complement them.
- Pension rights should be portable.
- Pension systems should allow for flexible and progressive retirement.
- Pension reforms should not only focus on (the increases of) the pensionable age, but also on the length of contributory periods. Taking into account contributory periods allows to offer fairness to people who started their careers early (e.g. unskilled workers who have a lower life expectancy and worse health) and to heavy professions (e.g. miners, pilots, nurses). (See the *White Paper "An Agenda for Adequate, Safe and Sustainable Pensions"* of the European Commission, 2012).
- In order to convince workers to stay longer in the labour market, substantial tax and pension incentives can be effective (e.g. pension bonus and tax bonus for older workers).
- Workers should be kept employable by investing in lifelong training.
- Health and safety policies, combined with a flexible work organisation (autonomy

at work) as well as measures to reconcile work and family life (e.g. care leave, parental leave) can keep workers longer in employment.

- Safeguarding the financial viability of the pension systems in the long run is a basic concern of the trade unions. Economic growth and employment growth are fundamental for the financial equilibrium of the pension systems, whatever be their design.

3. European Pension Landscape

Europe is ageing: by 2030 the EC expects an increase of the elderly population (65-79 year) by 37,4%. Life expectancy at 65 is 19,4 y: 17,5 y for M and 21 y for F. It will increase by 2050 by 3 years (male) and 3,5 years (female). These demographic trends will result in more pensioners who will live longer. This creates tremendous pressure on the pension systems and makes reforms unavoidable.

EU governments have followed a two-track approach: reform of the pension systems and policies to push up the employment rate went hand- in hand.

Two major types of pension systems exist in Europe: universal systems (Beveridge type) offering a flat rate basic pension based on residence in the country (Denmark, Sweden, the Netherlands) or on the (supposed) payment of social contributions (UK and Ireland) and systems based on employment (Bismarck type: e.g. Belgium, Germany, Spain, Italy, France, Greece). Most countries with a universal system have added a compulsory or voluntary system based on employment and contribution records. Most countries with a Bismarck system provide also a minimum pension. Nearly all countries have one or another form of guaranteed minimum income (in general means-tested and tax financed).

The EC Communication on a concerted strategy for modernising social protection of 1999 was the start of a long term Europe-wide reform process in the area of pensions. Common objectives were defined in 2001 by the Laeken European Council: pension systems in Europe should be sustainable, adequate and adaptable.

In several countries the statutory pension age was increased, mainly for women (to 65 years, like for men). Several countries foresee a general further increase to 67 years.

Governments try to discourage early retirement by increasing the early retirement age or by increasing the number of insurance years needed.

The effective average exit age from the labor market in the EU was 62,1 y in 2010. In the OECD area it was 64,2 y for M and 63,1 y for F (2012).

Between 2004 and 2014 the duration of the working life increased from 33,3 y to 35,3 y in the EU.

The employment rate of older workers (55-64 y) in the EU was 49% on average in 2012 (56,3% for M and 41,7% for F) (active ageing).

Reforms aim also at strengthening the benefit-contribution link by switching to lifetime average earnings (equivalence principle).

Public pension schemes take more and more care of non-standard careers by granting pension credits or minimum rights for temporary contracts, part-time work, very low paid jobs as fell as for some types of breaks in the working careers such as unemployment, child or elderly care (important for women).

Many countries have switched to price or close to price indexation of benefits, with sometimes increases of the guaranteed minimum pension beyond the statutory price index adjustments.

Some countries have introduced a life-cycle approach by automatic or ad-hoc adjustment mechanisms to increases in life expectancy.

Several countries see a role for funded occupational (private) pension provisions (pension funds or groups insurances), often as a complement to the public pensions (Germany, Austria, Italy, Belgium, UK, the Netherlands, Denmark). The reason for this increased interest in funded schemes is the ongoing decrease of the replacement rates of the public pensions.

The aggregate gross replacement rate of the public pensions in the EU was 56% of the gross average earnings in 2014 (M 58% and F 55%). This rate compares average pensions during age 65 to 74 with gross earnings during age 50 – 59. In Croatia, Cyprus and Ireland the rate was as low as 38 – 40% and in France it was 69%.

Total social protection receipts (income) in the EU in 2012 was 29,4% of GDP. Employers pay 35,3% of the total cost, workers- 20,1%, and the general government- 40,5%, 4,1% comes from other sources.

Social protection expenditure in the EU in 2012 was 28,6% of GDP.

Public pensions' contribution rate in the EU was 22,6% of the gross wage (on average in 2012). Employers pay 14,6% and workers 8,0% on average.

Public pensions' expenditure was 12,8% of GDP (on average in 2012)

4. Basic characters of a strong pension system

A strong pension system should operate on the basis of a balance between the principles of insurance and solidarity (redistribution inside and between generations). Such a pension system should be sustainable and provide adequate benefits. Building up a strong system requires large popular and political support and high trust in government and in pension institutions (no corruption). Fairness of charges and of benefits, efficient management and full transparency of rules and benefits are prerequisits to gain that support.

5. Socio-economic situation in Moldova

The demographic picture of Moldova is not positive. Moldova, a country with 3.55 m inhabitants, suffers from a low birth rate (1.3), high emigration (more than 300.000 persons left the country between 2000 and 2013), low life expectancy at birth (71.6 y) and rapid population ageing. The demographic ratio of population 20-64 y/ population 65+ will decrease from 7 in 2015 to 3 by 2050.

The inflation rate is high: 7,2% on average in the period 2007-2016.

The employment rate in Moldova is low: 37,6% in January 2016 and 43,6% in July 2016. On average- 40,5% (in the EU - 64%). Youth unemployment (registered) account for 11%. Out of the total of 1.2 m employed, only 780.000 are formally employed (65%). Informal employment is very high: 35% (420.000 workers, in particular in agriculture, construction, trade and horeca). The number of pensioners is 680.000, of which 514.000 old age pensioners.

Salaries are only partly declared- up to 40 to 50% (estimated by the Expert Grup). The official average salary (2016) is 4.863,9 MDL/ month (5.152 MDL in the real economic sector, 5.771 MDL in the public administration and defence and 4.177,6 MDL in the budgetary sector).

The lack of compliance with the social and tax rules (informal employment, partial declaration of income, tax and social contribution fraud) is due to several reasons amongst which:

- the low level of trust in government, in the pension, and banking system (a recent survey of the Expert Grup found out that 75% of the population do not trust the pension system);
- the complexity of the pension formula;
- the lack of equivalence in the system (low rate of return on paid contributions);
- the unfairness in the system (privileged pensions for some categories). The above mentioned survey of the Expert Grup found out that 69% of the population believes that the system is not fair;
- the lack of transparency of the pension system and its financing.

Taxes on income and social contributions are "perceived" as "high" by workers and employers. In reality, due to the under-declaration of earnings and employment, the real level of taxes and social contributions on salaries is much lower than the official rates (more or less half).

The fact that the yield of direct income taxes is low explains why indirect taxes (e.g. VAT) are rather high.

Formal workers and employers are somehow the "victim" of this high level of informality since they have to pay twice for their own rights: once directly through their income tax and once more indirectly through the relatively high consumption taxes.

This is how the informal economy undermines the formal economy and why the informal economy should be pushed back.

6. Basic characteristics of the current pension system in Moldova

Moldova's pension system is essentially based on Bismarck principles. It is composed of a mandatory earnings-related public pension with also a minimum pension and a social pension (social assistance). This 1st pillar pension is of the PAYG-type. There is no 2nd pillar (funded) pension. Third pillar pensions exist, but are of no importance.

Within the 1st pillar pension, different rules apply for different categories of workers:

- Employees of private and publicly-owned companies and civil servants: state social contribution rates (this contribution covers all social risks like pension, unemployment, except health care) : 23% (employer) + 6% (employee)
- Employees in agriculture : 16% (employer) + 6% (employee) + 6% (state)
- Employees in special conditions (civil aviation) : 33% (employer) + 6% (employee)
- Self-employed (entrepreneurs, notaries, lawyers) : flat rate contribution 7.032 MDL/year
- Farmers : flat rate contribution 1752 MDL/year
- Moldovan workers abroad : flat rate contribution 7.032 MDL/year
- Others (voluntary insurance) : flat rate contribution 7.032 MDL/year

The first three categories are entitled to all types of state social insurance benefits; the four last categories only to the minimum old age pension and the death grant.

Contributions are based on the salary with a ceiling of 5 times the national average wage.

The pension calculation is different according to the concerned period (before or after 1st January 1999). The formula is complex: essentially based on the length of the contribution period and the average monthly declared income. Validation (updating) rules for previous contributions are problematic. Indexation of pensions follows the Swiss formula.

As to the sustainability of the social insurance system in Moldova and the pension system in particular, all parameters indicate that the system is not sustainable in its current design. The system runs into a deficit (10% of the total expenditure), which is covered by the state subsidy. Total pension expenditure is 7,5% of GDP (12,8 in EU).

The non-sustainability of the current pension system is mainly due to the very low economic support ratio (1,1 contributors per pensioner in 2015; 1 to 1 by 2020). Also the low and further decreasing participation rate of the employed (all categories included) in the social insurance system (only 70,3% in 2015) is a reason for concern. 30% of the employed do not build up pension rights. From the 250 thousand farmers, only 50 thousand pay contributions.

The low economic support ratio for the pensions has to do with the low employment rate (40,5%) and the high level of informal employment but also with the fact that the general retirement conditions are rather generous:

- Standard retirement age: 62 for M, 57 for F
- Required contribution period: 33 y for M (35 by 1 July 2020) and 30 y for F
- Minimum contribution period: 15 y (partial pension).

In order to stimulate workers to stay longer active in the labor market, pension bonuses of 2% of the average income per additional year of activity (and contribution) above the required contribution period for a full pension (30 y for F and 33 y for M) are granted. The same applies for workers who continue formal employment after having reached the standard retirement age (57 y for F and 62 y for M).

Beside the standard (statutory) retirement age there are special provisions for earlier retirement for specific categories of workers.

So for example, for employees in civil aviation the retirement conditions for a full pension are more favorable :

- For crew members and board attendances -at the age of 45 with a contribution period of at least 25 y for men and 20 y for women in that profession
- For air traffic controllers- at the age of 55 y for men and 50 y for women with a contribution period in the respective positions of at least 12 y and 6 months for men and 10 y for women and a general contribution period for at least 25 y for men and 20 y for women
- For engineers and technicians- at the age of 55 y for men and 50 y for women if they have realized a contribution period in the respective positions of at least 20 y for men and 15 y for women and a general contribution period of at least 25 y for men and 20 y for women.

Since 2011, prosecutors (M and F) can retire at age 50y + 6 m. Their retirement age goes up by 6 m/y to reach the standard age by 2034.

The retirement age for employees engaged in hazardous or arduous work (e.g. miners) is 54 y for men and 49 y for women. The special contribution period realized in harmful and heavy work, necessary for obtaining the right to retirement pension is 10 y for men and 7 y and 6 months for women. The total general contribution period for women is 30 y and for men- 33 y.

Until 2011, civil servants could retire 5 y before the standard retirement age. Since July 2016 their retirement age is 60 M and 55 F. By 2020 their retirement age will reach the standard age.

There is no general provision for early retirement before the standard retirement age.

Periods of military service and child care under age 3 are normally included in the calculation of the contribution period on the basis of the minimum salary in the country at the moment of retirement. However, at the request of the insured person, periods of unpaid leave may be excluded from the calculation of the average monthly salary. In that case, they are also excluded from the calculation of the contribution period.

As to the adequacy of the pension system one has to conclude that the level of the old-age pensions for the ordinary workers is very low. In 2015 the replacement rate of the public old-age pensions accounted to only 25,8% (in the EU the aggregate replacement ratio was 56% in 2014). The replacement rate is expected to go further down if the policies are not changed – to 23% in 2020 and only 14% by 2040.

On the 1st July 2016 the average retirement pension was 1.307,25 MDL (to be compared with the average wage in 2016 of 4.863,9 MDL).

Workers with a complete contribution period are entitled to a guaranteed minimum pension.

From the 1st of April 2016 the indexed minimum pension amount is 948,84 MDL for beneficiaries for retirement pension and 844,71 MDL for agricultural workers.

The minimum monthly pension is granted to entitled persons if the calculated pension amount does not reach this amount. The difference between the minimum pension amount and the amount of the calculated pension is paid from the state budget.

Special pension rules apply for "privileged pensions". Members of Parliament and cabinet members with minimum 2 years activity in that function are entitled to a retirement pension of 75% of the salary of an active MP or Minister.

Civil servants are also entitled to a pension of 75% of the average income during the last 5 years of activity in the public service.

The amount of the pension of the employees in Civil Aviation is 35% of average monthly income in the last 5 years in functions mentioned above. The insured benefit for each full year of contribution in addition to the required conditions for a full pension is 2% of the average monthly income, but the total amount of the pension may not exceed 75% of average monthly income.

The insured income realized in the period before 1st of January 1999 shall be updated by multiplying the individual coefficient determined for the respective period to the average monthly salary in the country for the previous year of establishing the pension. The individual coefficient of the pensioner is the ratio between the amount of the salary for any 60 consecutive months in the last 15 years of work before the entry into force of the Law on Pensions and the amount of the average salary for the same period and takes into account its size not exceeding 5.0.

The insured income realized after 1st of January 1999 is taken into account in its real value.

As to the management of the social insurance system, it is important to note that the Board of the National House of Social Insurance is composed of 4 government representatives, including the Chairman of the Board, 3 trade union representatives, 3 representatives of employers' organizations and 2 representatives of the organizations of disabled people.

7. Proposals for Pension System Reform

In the previous chapter we have demonstrated that the Moldavian pension system is neither sustainable, nor adequate for the big majority of workers, and that the system lacks popular support. Without urgent reforms the situation will further deteriorate and poverty in old age will further increase. The government should recognize the weaknesses in the system and start, in close cooperation with the social partners and as far as possible also with the opposition parties, a comprehensive and progressive reform process which might look unpopular in the short term, but which could, on the basis of correct communication, restore the support of the population for the pension system in the medium term.

Since there is a deep conviction amongst the active population that the current system is very unfair, the government should start the operation with the message that one of the major objectives of the reform is to introduce more social justice and equal treatment in the system. "A fair, sustainable and adequate system for the 21st century" should be the central objective and message which the government should communicate to the Moldavan people.

A condition for a successful pension reform process is a progressive broadening of the employment and financial basis of the system (and thus of the economic support ratio).

Creating more formal employment is crucial. First and foremost it is important to succeed in transferring informal employment into formal employment and to push back envelope payment of salaries by strong incentives, stricter control mechanisms and repressive measures (sanctioning).

Also the overall employment rate (currently 40,5%) has to increase by supporting innovation and by promoting active labor market policies, e.g. in the social economy, the environmental sector, the professional training and retraining. A temporary reduction of social contributions and corporate tax rates can be announced for employers who increase formal employment and/or declare full salaries. Works carried out by formally registered employers and workers can be made partly tax-deductible.

Salary subsidies or reduction of social contribution rates for young workers can help to create more jobs for youngsters.

The recruitment of the first employee by starting self-employed can be stimulated by granting an important reduction of the social contribution rate for that worker during 3 years. This measure was very successful in Belgium.

The participation of older workers in the labor market can be increased by granting a reduction of social contribution rates for the employers (e.g. 22% for 55-59y and 20% for 60y and over) and tax- and pension bonuses for the workers.

The employability of older workers has to be increased e.g. by life-long learning and active health and safety policies.

Efforts have to be made to re-integrate disabled workers into a decent job, eventually after retraining.

A second condition for a successful operation is to look at the broader picture than just the social contributions for the financing of the statutory pensions. Alternative ways of financing the pensions have to be examined too, especially in the light of the population ageing.

A third condition for a successful reform process is full transparency of the operation and a professional communication to the public of the consequences of the reform from a long term perspective.

PROPOSED MEASURES

1st Pillar Statutory Mandatory PAYG Pension

Postponing retirement and take up by working longer and thus contributing and building entitlements longer is the key route to simultaneous improvements in the sustainability and adequacy of pensions.

Given the current generous age-conditions and the expected increase in the life-expectancy, it is important to increase the standard retirement age as well as the special retirement conditions for certain categories of workers. At the same time, we propose to equalize progressively the retirement age for M and F.

GENERAL REGIME

If the reform starts in 2017: for Male increase in standard retirement age (s.r.a.) of 62 years by 1 month per year to reach age 63 in 2028.

For Female increase of the s.r.a. of 57 years by 6 months per year to reach the age 63 also by 2028.

This increase should apply for all male workers below age 61 and for all female workers below 56 (on the 1st January 2017).

Parallel with this, the required number of years insurance (non-contributory periods included) has to increase too:

For M the required number of years will increase by 1st July 2020 to 35 y. We propose that the increase by 6 months /y continues until we reach 40y by the 1st July 2030.
For F we propose that from the 1st July 2017 the required number of years increases every year by 6 months until we reach 40y by the 1st July 2036.

The required number of years contribution for a partial pension remains 15y (vesting period).

In the general regime, early retirement can be granted, independent of age, to workers with a long career (e.g. 40 years of insurance, gainful employment minimum 35 years and the rest assimilated periods of non-contribution) or from a certain age (e.g. 60 years) under the condition of minimum 35 years gainful employment.

Pensioners should be authorized to work formally after reaching the official retirement age of their professional category. Pensions would then be recalculated annually.

Progressive and flexible retirement

Workers with 35 y of gainful employment or with age 60 would be allowed to take up a half pension and continue to work half time until the standard retirement age.

Flexible retirement conditions are already described above (under early retirement conditions).

SPECIAL REGIMES

In Europe there is a tendency to integrate the special pension schemes into the mainstream (e.g. for pilots in Belgium) or at least to align more the conditions with the general rules. Also in Moldova progressive increases of the retirement age and required insurance years should be envisaged for special regimes of earlier retirement as well as for the privileged categories (MPs, ministers, judges, civil servants).

For MPs and cabinet members, a full pension should be granted after 5 mandates (5 times 4 years) and be available from 60 y onwards in 2017 (increasing by 6 months/year to 63 y by 2023). Less than 5 mandates would entitle to a partial proportional pension.

For civil servants the same age and required years conditions should apply as for workers under the general regime.

For civil aviation employees (pilots, board attendances, engineers and technicians) the retirement age should increase by 1 y /y to reach 55 y by 2026 and the contribution period should increase to 30y for M and F.

Air traffic controllers' retirement age should be 55 for M and F with at least 25 years in the specific job and 35 y insurance period.

For hazardous or arduous work the retirement age should progressively increase to 55 y for M and F with at least 20 years in that specific job and 35 y of insurance.

Pension formula of the 1st pillar PAYG pension

GENERAL REGIME

We propose the following formula:

Accrual rate x average (re-evaluated) salary over the whole career x number of years of insurance.

The total salary would be taken into account for the calculation of the contributions (like in Belgium).

The accrual rate may be fix for the whole career or progressive (increasing with age) in order to stimulate active ageing and longer work. We propose a progressive accrual rate:

- e.g. under 40 years of age : 0,9%
- between 40 and 49 years : 1,1%
- between 50 and 59 years : 1,3%
- from age 60 onwards : 1,5%

For a worker who would start working at age 21 and would continue until he/she reaches the age of 63, this would give a gross replacement rate of 41,6%, to which one would have to add the pension bonuses (see further). Note that the net replacement rate of the pension would be higher than 41,6% because of the (higher) taxes on wages.

The minimum pension should be maintained like it exists today, but increased by 2% above the index in 2017, 2018, 2019 and 2020 (in total + 8%). The same increase would be granted to the low old pensions (pensions below 2.000 MDL which started before 2010). The higher old pensions should get four annual increases of 1% extra. One could also think of a guaranteed minimum entitlement per year work as part timer or on a temporary contract (see Belgium).

A maximum 1st pillar pension could be introduced at the level of 5 x the average pension.

SPECIAL REGIMES

The pension calculation formula for special regimes like for civil servants, staff of civil aviation, and others should progressively come closer to the formula for workers in general. This can be done for example, by extending progressively the calculation base for the reference average salary: instead of the average of the last 5 years, lifetime earnings should be used. In 2017 the calculation base can be extended to 10y like it was done years ago in Belgium. Every 3 years the calculation base can be broadened by 5 more years.

Pension and tax bonus

Workers who stay long active on the labor market can be granted a pension and/or tax bonus.

The pension bonus can be modulated on the basis of length of service and or age:

- + 1% /year bonus for between 35 and 39 y work or from age 58 to 60 onwards
- + 2% /year bonus for work during 40 or more years or from age 61 onwards.

The tax bonus could take the form of an increased personal allowance:

- 12500 MDL/y for those working more than 35 years
- 15000 MDL/y for those working more than 40 years.

Indexation of statutory pensions (1st pillar)

Previous pension contributions should be validated (indexed) on the basis of the national wage index.
The pensions themselves should be indexed on the basis of the Swiss formula (50% index wages and 50% price index).

Taxation of 1st pillar pensions

Statutory pensions between the average pension (a.p.) and 2 x a.p. should be taxed at a rate of 5%; between 2 x 3 a.p. at a rate of 10% and above 3 x a.p. at 15%.

The financing of the 1st pillar pensions

The social contributions of the employers and of the dependent workers can remain unchanged if the government is successful in creating more jobs, pushing back the informal employment and eliminating by all means the praxis of envelop payment of salaries (e.g. by limiting the cash transactions and obliging salary payments via the banks).

It could be considered to base the social contributions for self-employed (including landowners) on the real income instead of on a fix amount (like it is done in Belgium). In that case their contribution rate would be 20% and 6% for the state and they would be entitled to a normal pension and all other social benefits (except unemployment benefit). If this is not possible I would recommend to increase progressively the flat amount by 5% per year up to the amount of 12.000 MDL.

In order to cope with the expected increase in the pension bill and to avoid further budget deficits it might be a good moment to introduce some earmarked taxes or tax-reforms as follows:

- the introduction of a third income tax rate of 25% for income above 60.000 MDL/y.
- the introduction of an additional VAT rate of 25% for luxury products and services
- increase in the capital tax on dividends from 6% to 15% and on interest payments (10%) from 2020 onwards
- the corporate income tax could also be slightly raised from 12% to 13%. The list of possible tax deductions could be critically examined.

Other measures which could help:

- Taxing the higher pensions (see above)
- The financing of the children allowances and of sick pay by taxes instead of by social contributions
- A reduction in the multitude of exemptions and facilities concerning the payment of social contributions for different categories of the population.

2nd pillar private mandatory occupational pension

Besides the 1st pillar statutory pension, Moldova needs to build up urgently a 2nd pillar private pension for all workers in order to guarantee them the maintenance of their standard of living.

This 2nd pillar pension is needed because the replacement rate of the 1st pillar pension is too low to maintain the standard of living and will further decrease.

The 2nd pillar pension should be mandatory for all workers from the private and public enterprises and for employees in the agricultural sector younger than 61 y on the 1st January 2017.

The private pension could be voluntary for farmers (land owners) and self-employed (and even for informal workers).

This pension should be cumulative and preferably based on sectoral or company collective agreements with individual accounts. It could be organized in a pension fund or in a groups insurance.

This 2nd pillar pension system could start on 1/1/2017 with a contribution rate of 2% (1% by the employee and 1% by the employer) to be imputed on the agreed salary increase in the collective agreement. Each following year the contribution rates for employers and employees should increase by 0,5% up to a rate of 3% for both employers and employees in 2021.

The vesting period should be 1 year.

The first pay-out of the private pension should start on 2/1/2018 for those workers who retire from then onwards.

The contribution for this complementary pension should be fully tax-deductible for workers and employers. One could even think of allowing workers to buy (carry-back) their contributions for 5 years (2012-2016) in order to speed up the growth of their pension rights. This carry-back contribution should be 50% tax-deductible.

The 2nd pillar pension could be taken up at the statutory retirement age either as a lump sum (in capital) or in annuities.

This pension should be taxed at the moment of the take-up at a rate of 15%.

In case of death of the insured worker, the capital or the annuities would be paid to the inheritors.

A minimum guaranteed return could be foreseen: e.g. minimum the price inflation rate.

A state and bank guarantee on the nominal value of the paid contributions (to eliminate the effects of a bankruptcy) could help to win popular support for this 2nd pillar pension.

The trade union together with the employer organization should compose the Supervisory Board of the fund and recruit and control the management.

Some Figures

- After 5 years of operation, the 2nd pillar pension capital would reach 10 billion MDL.
- A worker on average earnings who retires in 2020 would have a cumulative capital of 5.454 MDL. The worker would have to invest only 2.236 MDL to obtain this result.
- Idem for a worker retiring in 2025 :
  - his cumulative capital would be 23.028 MDL
  - workers investment would be only 9.442 MDL
- A worker retiring in 2030 :
  - his cumulative capital would be : 41.200 MDL
  - workers investment would be only 16.892 MDL.

ANNEXES

1. LIFE EXPECTANCY AT BIRTH (WHO 2015)

MOLDOVA	M 67.9	F 76.2
Lithuania	M 68.1	F 79.1
Latvia	M 69.6	F 79.2
Georgia	M 70.3	F 78.3
Bulgaria	M 71.1	F 78.0
Romania	M 71.4	F 78.8
Hungary	M 72.3	F 79.1
Estonia	M 72.7	F 82.0
Serbia	M 72.9	F 78.4
Slovakia	M 72.9	F 80.2
Macedonia	M 73.5	F 77.8
Poland	M 73.6	F 81.3
Montenegro	M 74.1	F 78.1
Croatia	M 74.7	F 81.2
Bosnia Herzegovina	M 75.0	F 79.7
Czech Republic	M 75.9	F 81.7
Slovenia	M 77.9	F 83.7
Belgium	M 78.6	F 83.5
Germany	M 78.7	F 83.4
Switzerland	M 81.3	F 85.3

- Life expectancy at age 65 in OECD area :

1950: 13 years on average
2010: 20 years on average

- The difference in life expectancy at age 65 between the highest and the lowest socio-economic group is :

3.8 y in France
2.6 y in UK
2.7 y in USA

2. Standard Retirement Age (EU, OECD, 2015)

	CURRENT		LYFUTURE
MOLDOVA	*M62*	*F57*	--------
Lithuania	M 63/2m	F 61/4m	65 by 2026 (M+F)
Latvia	M 62/6m	F 62/6m	65 by 2025 (M+F)
Georgia	M 65	F 60	--------
Bulgaria	M 64/4m	F61/4m	65 by 2017 (M)
			63 by 2020 (F)
Romania	M 65	F 60	65 by 2030 (M+F)
Hungary	M 62/6m	F62/6m	67 by 2028 (M+F)
			68 by 2046 (M+F)
Estonia	M 63	F 62/6m	65 by 2026 (M)
			63 by 2016 (F)
			65 by 2026 (F)
Serbia	M 65	F 60	---------
Slovakia	M 62	F 62	---------
Macedonia	M 64	F 62	---------
Poland	M 65/7m	F 60/7m	67 by 2020 (M)
			67 by 2040 (F)
Montenegro	---	---	67 by 2025 (M)
			67 by 2041 (F)
Croatia	M 65	F 61/3m	67 by 2038 (M+F)
Bosnia Herzegovina	M 65	F 65	---------
Czech Republic	M 62/10m	F61/4m	67 by 2041 (M+F)
Slovenia	M 64/4m	F 64/4m	65 (M+F)
Belgium	M 65	F 65	67 by 2030 (M+F)
Germany	M 65/4m	F 65/4m	67 by 2029 (M+F)
			65 if 45y insurance
Netherlands	M 65	F 65	67 by 2025 (M+F)
EU average	M 64/8m	F 63/5 m	----------

3. Gross theoretical replacement rates (%) for workers on average earnings (M+F) with a full career (OECD countries 2015 / West Balkan countries 2009-2011)

MOLDOVA	25.8
Germany	37.5
Slovenia	38.4 (M) – 40.4 (F)
Croatia	38.8
Poland	43.1
Belgium	46.6
Czech Republic	49.0
Serbia	49.8
Estonia	50.5
Hungary	58.7
Slovakia	62.1
Macedonia	70.9

4. Economic support ratios: number of contributors relative to 100 pensioners (EC 2006) (EU Countries : figures for 2016 / West Balkan countries: figures for 2010).

MOLDOVA	110
Lithuania	113
Bosnia Herzegovina	120
Croatia	121
Hungary	129
Germany	133
Serbia	140
Slovenia	144
Belgium	151
Macedonia	165
EU average	166
Czech Rep.	170
Montenegro	170
Slovakia	189
Latvia	220
Poland	228

5. Financing structure of social protection in the EU and in Moldova (in %).

	EU	Moldova	
	2000	**2011**	**2015**
Social contributions	60.8	56.2	90.0
by employer	38.6	36.1	71.6
by employee	22.2	20.1	18.4
General government	35.5	40.2	10.0
general revenue	32.0	33.0	
earmarked	3.5	7.1	
Other	3.7	3.7	
TOTAL	100 =	100 =	100
	27.8 % GDP	29.7% GDP	

About the author

Martin Hutsebaut is currently freelance consultant. From 1974 until 2008 he has worked for the European Trade Union Confederation (ETUC) and the European Trade Union Institute (ETUI). He has lectured between 1981 and 1993 at the Free University of Brussels (VUB), State University of Ghent (UG), at the KU Leuven, at the UCL and at the University of Antwerp.

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