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The Private Pension System in Romania

Sorin Enache[1], Elena Enache[2], Cristian Morozan[3]

Abstract: The aging of the European population has become a growing concern for the governments of the EU member states, especially when it comes to pensions, as the number of citizens receiving pensions is growing faster than the active population. This situation involves major pressure on public finances and pension funds. This paper aims to highlight the situation of pension funds in our country, in a European context, the measures that have been taken and what can be done to make private pension systems even more attractive. The paper is based on recent studies conducted by specialized institutions on internationally pension systems and in our country. This research aims to highlight the common elements, but also the differences between the ways of approaching this problem in different countries, compared to what is happening domestically. It is also insisted that several directions of action are required to ensure the sustainability of the pension system in Romania, by increasing the birth rate, encouraging savings, granting facilities to contributors etc.

Keywords: aging of population; government; contributors; public debt; investment

JEL Classification: H75; J32

1. National and European Context

The reality that we have been facing for several years now and that we refuse to perceive in its true dimension is that the population is aging, the fertility rate is decreasing, and the active population, the one on the labor market, is decreasing significantly.

Population aging is a global phenomenon, with the exception of some underdeveloped countries, especially in Africa. But the aging of the European population has become a growing concern for the governments of the community states, especially when it comes to pensions.

The number of citizens receiving pensions is growing faster than the active population. This situation is putting major pressure on public finances and pension funds. It is predicted that the dependency rate of elderly people (people aged 65 and over in relation to those aged 15-64) will increase to 50.1% in 2060, compared to 27.8% in 2014 (Van Meerten & Van Zanden, p. 66).

[1] PhD. Lecturer, Danubius International University of Galati, Romania, Address: 3 Galati Blvd., 800654 Galati, Romania, Corresponding author: enache_sorin_2005@yahoo.com
[2] PhD. Professor, Constantin Brancoveanu University from Pitesti, Romania, Address: 2a Bascovului Street, Pitesti, Romania, e-mail: e_enache2005@yahoo.com
[3] PhD. Associate Professor, Constantin Brancoveanu University from Pitesti, Address: 2a Bascovului Street, Pitesti, Romania, e-mail: cgmro@yahoo.com.

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The process of population ageing is taking place at different speeds in different parts of the world, but it affects almost every country. The impact of demographic changes on the age structure and size of populations is overwhelming. According to forecasts from statistical data, the average age of the population is expected to increase by eight years by 2050 in Japan, from 41 years in 2000 to 49 years in 2050. In Italy, the average age is expected to reach 53 years in 2050, and the proportion of people over 65 is expected to be more than 35%. In addition to the ageing process, countries will also experience a decline in their population. The European Union as a whole will lose 10% of its population by 2050. Italy, a country that now has almost 57 million inhabitants, will have a population of just 41 million in 2050. Germany's population, which is now 82 million, is expected to fall to 70 million by 2050 (Bonoli & Shinkawa, 2005, p. 1).

In many countries, the pension system is still public. These systems pay "defined benefits" based on a formula designed to take into account the earnings of the worker, the years of work, and they are financed through Pay-As-You-Go contributions. The contributions of today's workers are used to pay the pensions of those who are no longer active. This model, although it has worked for a long time and is the most common, puts a heavy burden on the system and society.

Among the problems generated are:

- as the population ages, contributors' money values are increasing; unemployment is also increasing;

- in companies with low productivity, the level of evasion is increasing;

- the number of employees who retire early is increasing, thus decreasing the number of experienced human resources;

- the financing of public resources is increasing at the expense of allocating financial resources for infrastructure development, education and health;

- an insufficient redistribution of funds is created for low-income workers;

- an imbalance in the system is created and a debt and burden for the younger and future generations is created (Dobrescu & Șeitan, 2005, p. 13).

Researchers from CFA Society Romania presented an extremely useful and relevant indicator: ***the implicit public debt with state pensions***, which means the state's obligations with the pension rights accumulated to date. It is actually the promise to provide benefits in the future to those who work today. is an implicit obligation of the Government. Thus, in 2015, this debt was 182%, in 2018 – 306%, and in 2021 – 378%. In dynamics, the implicit debt increased by 2.5 times, and GDP increased only by 0.66 times (CFA Society, Romania, 2025).

This "implicit debt" is problematic because:

- it does not appear explicitly in the official public debt, but affects long-term fiscal sustainability;

- it requires urgent reforms, such as raising the retirement age, changing pension calculation formulas or stimulating private saving;

- it is influenced by demographic, economic and political factors.

It was concluded that a person who retires with a full contribution period will receive a pension that will cover the contributions paid only after 9-10 years, i.e. at the age of 74. After approximately 15 more years of payments, i.e. at the age of 90, a positive return (5%) will result.

The reforms needed to reduce implicit public debt include:

- raising the retirement age;

- optimizing the pension calculation formula;

- encouraging saving through private pensions;

- promoting a sustainable economy and increasing the contributor base.

Efficient management of implicit public debt is essential for the long-term viability of the Romanian pension system.

Pension system reform can be seen in any country as a social revolution, especially since the benefits of implementing a private system are often difficult to assess because they depend on the worker's contribution period, the benefits obtained based on the investment of funds, the size of the contribution, and the increase in earnings during working life (Dobrescu & Șeitan, 2005, p. 19).

The main reason why the pension system is in continuous reform is that „the benefits obtained from public Pay-As-You-Go systems will experience a continuous decrease all over the world" (Dobrescu & Seitan, 2005, p. 12).

Calculations by CFA Society Romania specialists show that a young person who would now get a job and work for 35 years would receive a public old-age pension of 40% of the last salary income, and by 2070 it would drop to 28%. By accessing Pillar II, they could reach a replacement rate of 50-55%.

The viability of Pay-As-You-Go systems was seen with distrust and the governments of most states tried to identify other ways to ensure security for citizens who have reached the third age. Alternative ways were also thought of because "the increase in contribution rates to public pension systems and the normal retirement age cannot be achieved beyond a certain limit that is bearable for taxpayers" (Ban, 2007, p. 33).

The most used method by governments has been the progressive replacement of Pay-As-You-Go systems with private pension systems. In this way, citizens' pensions are secured by investing in the capital markets the funds accumulated from the contributions of those who are members of a private pension plan. In some developed countries, such as the UK or the USA, this type of system consisting of private pension plans has been adopted much more intensively than in other developed countries.

Some countries in Eastern Europe or South America are ahead in the process of gradually replacing public pension systems with private systems. This situation is due to the imbalances that Latin American and Eastern European countries had in relation to the public pension insurance budget. They could not be covered in the macroeconomic context of these countries and governments were forced to implement a reform of the public pension system much earlier than other countries with a developed economy (Ban, 2007, p. 33).

Developing countries in Latin America, Eastern Europe and Central Asia have reformed their pension systems and introduced either a substitution model or a mixed or parallel model based on individual employee accounts. The first country in these areas to implement pension privatization was Chile in 1981. This model was followed by Peru in 1993, Argentina and Colombia in 1994, and Mexico in 1997. Nicaragua, Costa Rica and Ecuador initiated reforms after 2000. A similar model was followed in the countries of Eastern Europe and Central Asia. They followed the global neoliberal trend and introduced private individual pension accounts, Hungary in 1998, Poland in 1999, Latvia and Kazakhstan in 2001, Bulgaria and Croatia in 2002, Lithuania in 2004 and Slovakia a year later (Bonizzi & Guevara, 2019).

2. Private Pension Market as of December 31, 2024

In summary (Financial Supervisory Authority, 2024, p. 3):

1. Total assets – 156.44 billion lei, up 19% compared to 2023.

2. Mandatory privately administered pension – Pillar II – 150.88 billion lei, 19% more than on 31.12.2023.

3. Voluntary privately administered pension – Pillar III – 5.55 billion lei, 17% more than in the previous year

4. Total assets represent 9.06% of GDP

5. Participants – 9.123 million, of which:

- Pillar II – 8.29 million

- Pillar III – 633 thousand

6. Investments were made mainly on the national market:

- fixed income instruments – 72%;

- shares – 23%.

a. Economic and geopolitical context

The year 2024 was characterized by volatility in financial markets as a result of:

- the European Parliament elections;

- the US elections in November and the victory of Donald Trump;

- the war in Ukraine and the prospects of unprecedented alliances in the history of humanity;

- the divergent monetary policies practiced by the US and the EU can influence financial markets;

- the reduction of interest rates on loans, although there is still a lot of inertia in the euro area;

- the price of oil fluctuated: in the first half of the year, it decreased, but as a result of the conflict in the Middle East (Gaza Strip) it appreciated significantly;

- the collapse of the coalition government in Germany;

- political instability in France; as a consequence, the value of shares in Europe has constantly decreased, compared to the trend of those on North American markets.

All these factors, in conjunction, create and maintain a state of uncertainty. This is why 72% of assets are placed in financial instruments with moderate returns. However, banks have relaxed lending conditions, on the one hand interest rates are stimulating, and on the other hand pension funds have demonstrated good resilience to shocks.

Europe has seen an increase in public debt, and concomitant with the rapid evolution of the American stock markets and crypto-assets, corrections to EU GDP were necessary, thus destabilizing the investment climate.

Moreover, accelerated digitalization (Van Meerten & Van Zanden, p. 6) brings both gains and major risks. Technology providers are becoming fewer and are hit by cyberattacks, and the benefits of AI can be offset by security issues.

The most volatile market is that of crypto-currencies, with spectacular increases, followed by inexplicable falls.

Macroeconomic outlook:

- economic growth in the EU – 1.5%;

- global economic growth – 3.2% (according to data provided by the IMF);

- inflation – 2.6% (2024) and 2.4% (2025);

- public debt – decreasing, to 81.7% of GDP, but the trend is upward due to increased arms spending.

b. In Romania

● GDP in 2024 registered an increase of 0.9% compared to 2023. For 2025, a GDP increase of 3% is forecast.

● For 2025 and 2026, economic growth is expected to be more than 2% as a result of consistent external demand, domestic consumption and local investments.

● Unemployment will register a significant decrease.

● Public debt will be higher in the coming years, reaching 60% of GDP.

● The consumer price index was 5.1% in December 2024 compared to December 2023. In the euro area, the annual inflation rate was 2.5%, below the level in December 2023.

● Interest

The yield on government bonds was gradually increasing (6.3-7.2%) (Financial Supervisory Authority, 2024, p. 10), which denotes on the one hand an increase in financing costs, and on the other hand that the Romanian economy is not a stable economy. A similar situation is in the case of Poland. The economies of Germany and France are much more stable (5-5.5%) (Financial Supervisory Authority, 2024, p. 10).

● Economic feeling – reflects the degree of confidence of the business environment and consumers in the economic prospects of the respective country. Romania and Poland have greater economic resilience compared to the European average.

c. Private pensions in Europe

EIOPA – The European Insurance and Occupational Pensions Authority shows in a report in October 2024 that the economy of the old continent is stable:

● The assets from occupational pensions that the authorized institutions hold is worth 2838 billion euros (Q2 2024) (Van Meerten & Van Zanden, p. 13).

● The degree of penetration of assets in GDP is an indicator that assesses the strength of private pensions in an economy. By far, the European leader is the Netherlands with an index of 153%, seconded by Sweden with 52% and Cyprus with 11%.

● If Germany invests 73% of assets locally, Spain invests only 14% in national instruments.

Although in Romania there is no institution that sells occupational pensions, but only private pensions, the investments are made in national financial instruments.

In the EEA – European Economic Area, investments are made in the following financial instruments (Financial Supervisory Authority, 2024, p. 16):

- government bonds – 22.83%;

- corporate bonds – 12%;

- shares – 18%;

- investment funds – 37.9%

- bank deposits and cash, land and buildings, mortgages have a very small share.

d. Private pensions in Romania as of 31.12.2024 – summary

- Private pension funds – 17;

- Administrators – 10;

- Depositories – 3;

- Auditors – 7;

- Participants – 9.12 million people;

- Total assets – 156.44 billion lei;

- The investment policy was still oriented towards local financial instruments, and within them 72% - fixed income instruments and 23% - shares.

- The assets of Pillar II funds represent 96.5%;

- High degree of concentration;

- Depositories - there are three banks that collect the assets: BRD – GSG – 82%, Raiffeisen Bank – 13.6% and BCR – 4.4%.

d.1. Privately managed pension funds – Pillar II

a) The total value of assets as of 31.12.2024 was 150.88 billion lei (Financial Supervisory Authority, 2024, p. 22).

- FPAP NN – 34%;

- FPAP AZT "Viitorul Tău" – 21%;

- FPAP Metropolitan Life – 14%;

- FPAP Vital – 10%;

- FPAP "Aripi' – 9%.

The privately managed pension fund market is highly concentrated, with the top three funds accounting for 69% of the market share.

b) Participants

Total = 8.29 million people, 1.68% more than at the end of 2023. By age group, most members are over 35 years old (67%), and young people, who are mandatory members, are 33%, and they are randomly distributed in a proportion of 97%. By gender, men are 52%, and women 48%.

c) Contributions

In 2024, gross contributions to private pension funds were transferred in the amount of 17.9 billion lei, 40% more than in 2023.

The average contribution was approximately 384 lei, capital, Bucharest being the top of the list with 505 lei, and Vrancea with the lowest contribution was 329 lei.

By region, Bucharest and the Ilfov region have the highest monthly contributions (377 million lei), followed by Cluj with 70 million and Timiș with 54 million lei. At the bottom of the ranking are Ialomita, Giurgiu and Mehedinti.

According to Pareto's theory, which also applies in this case, 70% of the assets are owned by 25% of the participants.

d) Net assets at retirement

During 2024, personal asset payments worth 1.09 billion lei were made to 52,426 participants or beneficiaries (Financial Supervisory Authority, 2024, p. 27). Of the total amounts paid, 56.4% were made as a result of the opening of the right to pension, 16.6% due to the death of the participant, and 27% as a result of the occurrence of disability.

As a payment method, 81% of the participants requested full payment, and 19% installment payments.

e) Investments

According to the legislation in force, private pension funds place assets very cautiously, mainly in sovereign bonds (67%), especially in government securities.

The orientation of the shares is towards those listed on the stock exchange (23%), which demonstrate transparency in terms of financial results, for the development of the primary and secondary market (Financial Supervisory Authority, 2024, p. 28-29).

To these we add: corporate bonds – 4.51%, investment funds – 2.80%, bank deposits and current accounts – 1.93%.

f) Profitability

The rate of return of the main pension funds is as follows:

- "Aripi" – 6.81%;

- AZT "Viitorul Tău" – 6.02%;

- BCR – 5.89%;

- BRD – 5.51%;

- Metropolitan Life – 6.28%;

- NN – 6.30%.

g) Depositories - BRD holds 81% of the assets, followed by Raiffeisen Bank with 14%.

d.2. Voluntary pension funds – Pillar III

As of 31.12.2024, there were:

- Voluntary pension funds, registered in the Electronic Register of the Financial Supervisory Authority – 10;

- Private pension fund administrators – 8;

- Depositories – 2.

a) Asset value

The total value of assets was 5.55 billion lei (Financial Supervisory Authority, 2024, p. 37), 17% higher than in Dec. 2023.

In the case of voluntary funds, there is also a high degree of concentration, much more pronounced than in the case of Pillar II, in the sense that the first three funds hold 70% of the market share, and NN funds have collected more than half of the assets:

- FPF NN Optim – 43.7%;

- FPF BCR Plus – 15.2%;

- FPF NN Activ – 12.7%;

- FPF AZT Moderato – 9.2%;

- FPF "Pensia mea" – 5.2%.

b) Participants

At the end of 2024, there were 832,538 participants in the administrators' records, 17% more than in 2023. In the reference year alone, 134,343 people signed up, 40% more than in the previous year.

Regarding the structure of participants by age group, we note that most members are in the over 45 age segment (57.4%), and the fewest, 6.9%, are between 15-29 years old. The distribution by gender is balanced, almost equal.

c) Contributions

In 2024, contributions worth 752 million lei were transferred, 25% more than in 2023.

Average contribution/participant = 185 lei, 10% higher than in 2023.

Concentration is the word that characterizes the assets managed: 10% of the participants own 51% of the assets.

d) Payment of net assets

Assets worth 149 million lei were transferred to 11,611 participants or beneficiaries. Of this amount, 89% were paid as a result of the opening of the right to pension, 6.1% - the death of the participant and 5.2% the disability of the contributor.

As a payment method, 7.8% chose a single payment, and 22% an installment payment.

e) Investments

Prudence is the watchword when it comes to the fruition of assets. Thus, investments in government securities represented 67%, shares 24.4%, and investments in corporate bonds were 3.9%.

89.2% of total assets were placed in the national currency, and 10.2% in euros.

f) Profitability

There was a decrease in the rates of return for all funds. For example, AZT Vivace decreased from 7.16% (Dec. 2023) to 5.59% (Dec. 2024). Similarly, NN Activ decreased from 7.27% to 5.84%.

g) Depositories

BRD – GSG has 95.4% of assets in custody, and BCR - 4.6%.

3. Pension System Reform. Conclusions

In light of the above, several directions of action are required. These are:

a) Increasing the birth rate

Social policies in Romania must be found at the intersection of the following vectors:

- demographic growth;

- tracking the real retirement age compared to the standard age;

- life expectancy.

b) Savings

As the public pension becomes a social protection tax or a subsistence pension, saving is a necessary and useful method.

Currently, in Romania, there is a mandatory savings method – Pillar II, which must increase in order for the contributor's pension to be higher.

In addition, Pillar III must be further developed, by increasing the tax-deductible amount.

The functionality of the occupational pension must become a serious concern.

Investments must be made in investment funds, stocks, bonds and rigorous control must be exercised over them.

As an example, private pensions are developed in the Netherlands, Sweden and Denmark.

c) Granting some facilities to contributors

- income obtained by those who continue their activity beyond the standard retirement age should no longer be taxed (CFA Society, Romania, 2025);

- establishment of a Pillar I based on individual accounts;

- withdrawal from Pillar II before retirement may be a solution, but there are fears that there could be massive withdrawals, as Romanians do not have a high financial culture.

d) A healthy elderly population

- allocating as much of the GDP as possible to the health system;

- healthier people mean less money spent on medicines.

e) Integration of women and young people (15-34 years old) into the labor market

Romania has the lowest rate of integration of young people and women into the labor market in Europe, respectively 21% - young people and 60% - women (CFA Society, Romania, 2025).

f) A gradual increase in the contribution on Pillar II

This increase should be made simultaneously with the decrease in the contribution on Pillar I, so as to create a higher yield for retirement income. In this way, the debt that will be left on the shoulders of future generations will be smaller and smaller, i.e. the implicit public debt will decrease.

g) Ways to save/invest the amounts accumulated in Pillar II

Looked at in dynamics, the most efficient investments are those made in shares because they are the only ones with positive returns in the long term (20-30 years). From this perspective, Romanian

legislation must be modified according to that of the OECD, in which investments in shares and alternative investments can reach up to 50%.

Also, an important element is the age of the participant:

- when young, it is preferable to invest mostly in shares and alternative investments;

- when mature, in a balanced ratio between shares and fixed-income instruments;

- close to retirement, the investment should be made mainly in fixed-income instruments,

Pension funds are the largest institutional investors, managing assets of over 150 billion lei (October 2024). They are the second most important asset after bank deposits.

Advantages of private pension funds:

- allow participants to have a decent living in retirement;

- investments made from private funds contribute to the development of the capital market, stimulate the economy, infrastructure;

- private funds are an effective tool for financial education.

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