

■ BULGARIA

The new pension paradigm: will it work for all?



The pension system is undergoing major reforms in response to the new financial, economic, demographic, political and social realities brought about by the transition from a socialist to a market economy. While the new three pillar pension scheme has corrected some of the shortcomings of the former system, it does not guarantee an adequate standard of living for the elderly, and has also been found to place women at a disadvantage.

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Bulgarian-European Partnership Association (BEPA)
in cooperation with the Confederation of Independent Trade Unions in Bulgaria (KNSB)

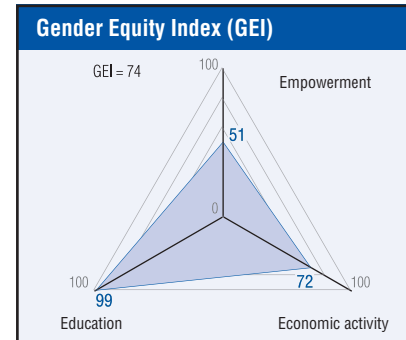
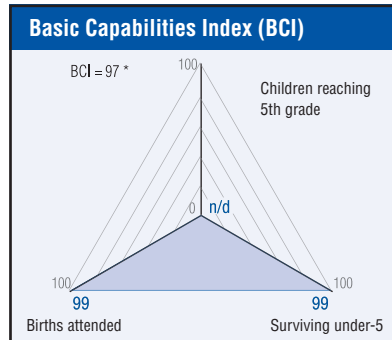
Bulgaria has ratified the major international instruments on human rights, which also address the right to social security. While the social security system corresponds to the goal of full universal coverage, the current pension system still generates inequalities and poverty, and cannot reach compatibility with the main International Labour Organization (ILO) standards on social security, such as a 40% income replacement rate for pensions. It is not accidental that the government had not ratified any of the ILO conventions in the field since the Second World War. The ILO Workers with Family Responsibilities Convention (C156) of 1981, recently ratified in 2006, has yet to be implemented in national legislation and practice.

Reform of the pension system has been underway since 2000, but the human rights impact of the relatively recent measures adopted can only be assessed in the medium and long term. The reforms were undertaken in response to the new financial, economic, demographic, political and social realities that confronted the country in the transition period, which brought about an urgent need for profound changes, adaptation and modernization of both the legislation and the architecture and functioning of the pension system.

The move to a three-pillar system

Bulgaria's social security scheme was formerly based on the defined benefit approach with universal coverage, including employees from the private and public sectors, self-employed workers, and members of cooperatives and professional associations. The National Social Security Institute provided wide protection for the contingencies of retirement, disability, death, employment injury, unemployment, maternity and illness. It also used to provide different types of social assistance that are now disbursed by the national Social Assistance Agency, such as family and electricity allowances.

Several significant efforts were made to solve the problems of social security in the context of the transition to a market economy, without success. The new social insurance legislation adopted in 2000 was targeted at healing the most pronounced and cost-consuming weaknesses of the incumbent legislation,



which were also the source of the main problems in the pension system. These included:

- A chronic financial deficit, and stemming from this, the threat of an eventual financial collapse.
- The low collection rate of contribution payments and wide-scale circumvention and avoidance of social insurance obligations.
- Overly liberal provisions for access to a pension, particularly in the case of workers opting for early retirement rights.
- A high social burden on the working generation.
- Low pension rates relative to current costs of living.
- Growing distrust and a negative attitude towards social insurance as a whole and the pension system in particular.

The new legislation adopted to address these and other problems in the pension system brought about fundamental changes aimed at attaining a balance that will guarantee the achievement of the social goals of the pension system as well as the financial stability and viability of the system.

Under the financial direction of the international financial institutions (enforced through the conditioning of loans) and following the policies implemented in Central and Eastern Europe and Latin America, a whole new pension system architecture was set up, based on three pillars. The new architecture combines government and private involvement as well as both compulsory and voluntary elements.

* One of the BCI components was imputed based on data from countries of a similar level.

The first pillar is universal and mandatory and encompasses all groups of employed persons regardless of the type of employment and level of income earned. It is a typical pay as you go (PAYG) public social insurance pension scheme, based on defined contributions. The second pillar, also mandatory, is a supplementary, fully funded pension insurance scheme with individual accounts, while the third pillar is a voluntary supplementary fully funded pension insurance scheme. The second and third pillars are privately managed, following the advice of the World Bank.

Pension benefit levels under the 'first pillar' are calculated on the basis of a universal formula applied to all insured people, aimed at achieving a closer link between contributions and benefits. The formula takes into account both the income earned by the insured individual and the number of years of active employment.

Another change introduced by the legislation was an increase in the retirement age. The retirement age for women will be gradually raised from 55 to 60, while that of men will be raised from 60 to 63. In addition, the categories of workers eligible for early retirement were significantly reduced, decreasing the proportion of contributors entitled to this right from 20% to just 6%.

The concrete measures and policies set forth in the pension reform legislation – higher requirements for admission to the pension system, restricting early retirement, improving the connection between individual contributions and the size of pension compensation, improving control on adherence to the legislation, involving all employed persons – are typical of the measures and policies that have been followed in other countries that are

contemplating pension reforms or have already undertaken them.

Income replacement rates fail to meet international standards

The new pension formula is supposed to guarantee a minimum 40% income replacement rate. Data provided by the National Social Security Institute show that so far, the chosen formula has fallen somewhat short of meeting this task. The replacement rate, measured by the correlation of an average pension to the average work salary in the country, fluctuates between 35% and 40%. However, it should be stressed that two thirds of pensioners in the country receive a pension that is barely equivalent to or below the average pension. This is one of the main reasons that Bulgaria has not ratified ILO Convention 102, which sets out the minimum standards of social security (including a 40% income replacement rate for old age pensions), and the European Code of Social Security.

On the other hand, the rates of all pensions, including the maximum pension, do not provide any guarantee of an adequate standard of living. As a result, the most frequent criticisms of the pension system, both on the part of those 'inside' the system and of its future 'users', are primarily with regard to the pension rates. Although there are many more and different reasons for this situation, and not all of them can be attributed to the formula for determining pension amounts, it has already been established that the substitution rate of lost occupational income achieved through the formula is inadequate. That is why the new pension formula should be revised in order to achieve an improved income substitution rate. A move in this direction is extremely important and necessary both for raising confidence in the system and in the reforms and in order to ensure its development.

Pension system places women at a disadvantage

The more direct link between contributions and pension benefits under the new pension system places women at a distinct disadvantage. As shown by Table 1, the employment rate is significantly lower among women than among men. This can be partially explained by the fact that women are far more likely to take time off from work to care for children and other family members. They are also more likely to work only part-time, often for the same reasons. The lower pension contributions they make as a result of these factors and others are reflected in the lower income replacement rate in women's pensions.

For its part, the gender analysis carried out by the National Social Security Institute in cooperation with the Centre for Women's Studies and Policies points to four major sources of unequal treatment for women and men in the pension system:

Retirement age: Questions have been raised as to whether the lower retirement age for women is actually an advantage or is in fact a disguised disadvantage in the broader context of the labour market. Namely, with the new, more individualized pension benefit formula, in which each worker's own

TABLE 1. Basic indicators

	2000	2005	2010	2015	2020	2025
	Reported data		Forecast			
Employment rate (%) total	47.5	49.7	52.7	54.5	55.8	55.1
female	42.9	44.4	49.4	51.4	52.6	51.5
male	52.4	55.4	56.4	57.9	59.3	59.1
Insured income (as % of average insured income)						
women	89.1	89.5	89.1	89.6	89.8	89.9
men	111.0	112.2	111.9	111.9	111.6	111.2
Retirement age						
women	55.5	58.0	60.0	60.0	60.0	60.0
men	60.5	63.0	63.0	63.0	63.0	63.0
Life expectancy						
female (at birth)	75.59					77.49
female (at age 60)	19.67					20.95
male (at birth)	68.68					70.54
male (at age 63)	14.08					15.02
Replacement rate						
women (1st pillar/PAYG) (%)	31.6	31.0	34.0	31.1	30.3	28.8
women (2nd pillar) (%)					5.2	6.6
men (1st pillar/PAYG) (%)	51.4	54.7	51.8	46.1	42.2	38.6
men (2nd pillar) (%)						7.6

Source: Based on data from "Gender Dimension of the Pension Reform in Bulgaria".
[www.ilo.org/public/english/region/eurpro/budapest/download/socsec/gender_pension_bulgaria_eng.pdf](http://www ilo.org/public/english/region/eurpro/budapest/download/socsec/gender_pension_bulgaria_eng.pdf)

earnings are the direct basis for his/her own pension benefits, a shorter working life will simply mean lower pension benefits for women – and higher rates of female poverty in old age. In this context, is a lower retirement age an advantage for women or a subtle form of discrimination?

Individual savings versus social insurance: The individual savings accounts that constitute the second pillar of the new pension system magnify women's general disadvantage in the labour market, since they have no solidarity or social welfare elements that help to compensate for the gender wage gap. Thus, women's lower average wages are reflected directly in lower pension benefits.

Life expectancy: The second pillar legislation and regulations are silent on a key issue for all women, whether rich or poor: how life expectancy will be used in determining future private pension benefits. Internationally, private pension systems tend to pay lower benefits to women based on their longer average life expectancy, but there is no public system in the world that discriminates in this way. The new second pillar is a hybrid – publicly mandated and funded, but privately managed. Should public principles prevail in its design, or should these questions be left to private pension managers? In the event of the second scenario, what other groups will face discrimination because of longer average life expectancy? Non-smokers, who outlive smokers on average? Members of ethnic majorities, who on average outlive minorities? Those who are free from predispositions to genetic diseases? In this sense, gender discrimination would create a dangerous precedent.

Child care and pension rights: Men who take time off from work to care for their young children are treated less generously by the pension system

than women who do the same. This form of discrimination penalizes men who share in child rearing activities and has been eliminated in most countries across Central Europe.

Some concluding remarks

The realization of pension reform is encumbered by the long absence of specially designed compensating measures and employment programmes, as well as by its 'overlapping' with reforms undertaken in other important areas: privatization and restructuring of the economy, health care, etc.

The application of a new pension formula, of a mechanism for an annual updating of pensions, and of new kinds of benefits and occasional additional payments to pensioners – at Christmas, for example – have improved the nominal amounts of pensions, but they still lag far behind an adequate level for the majority of pensioners.

The first phase of the supplementary compulsory pension insurance scheme has been declared successful, due to such features as public control, stable management and coordination with the public pension system. Representatives of trade unions and employers have received a relatively significant role in the implementation of the corresponding regulations and the execution and tracking of policies, including the guarantee of the rights of employed persons.

(Continued on page 240)

ARGENTINA

(continued from page 145)

We believe that the problems affecting social integration are problems related to rights – social and political – which are linked to the construction and reproduction of citizenship. In consequence, social insertion strategies must, on the one hand, adopt a format for the transfer of economic, social, political and cultural resources tending to strengthen the social networks of those who are currently excluded, in order to ensure their development and socioeconomic and political autonomy; and, on the other hand, ensure political and institutional characteristics in the government and in state actions which are accessible and open to social preferences and control. Essentially, it is a matter of creating conditions for a citizenship which is based on respect and the strengthening of individual and social rights. ■

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BULGARIA

(continued from page 159)

In the context of pan-European objectives and values, the foundation has been laid for achieving a more direct connection between strategy and policies in the pensions sphere and in National Employment Action Plans, with a view to raising the employment rate, restricting the inflow to early retirement schemes, increasing incentives for pro-longing active employment and setting pension systems on a stable financial footing.

The analysis of the Bulgarian experience so far provides grounds for the conclusion that there is room for a certain regulatory modification, particularly in light of the commitments ensuing for the country from European instruments in the area of pensions and social involvement. Above all, in order to guarantee a dignified life for the elderly, pensions (both today and in the future) should not be a generator of poverty, and they should match the new individual needs created by changing. Finally, and perhaps most important of all, pension systems must be financially healthy, autonomous, and sustainable in the long term. ■

BURMA

(continued from page 161)

In addition, the SPDC relocates villagers not to use the confiscated land itself, but to undermine the support base of armed opposition groups by severing their connections to recruits, information, supplies and finances. Known as the 'four cuts' policy, this military-based strategy has been implemented by forcibly relocating villagers from contested areas to SPDC-controlled areas, thereby isolating villagers from resistance forces and placing them more firmly under military control (Global IDP Project, 2005).

Recommendations

Burma is a multiethnic society with diverse cultures, religions and traditions. Ultimately, peaceful co-existence and the guarantee of social security for all persons can be ensured only if the people's right to self-determination is respected through an accountable, transparent and decentralized system of governance. Within the framework of federalism in which civil society exists in every constituent unit of the union, the country must embrace a structure of governance whereby people's rights and needs can be expressed and protected through institutionalized inputs to the decision-making processes at all levels of the administrative system. In essence, the notion of 'self-rule and shared rule' must be respected.

Essentially, the state must take primary responsibility for the social security of people depending on

available natural resources, gross national income, and state budgets, while promoting the economic, social and cultural rights of people on one hand and fostering the economic welfare of people on the other, through a 'people-centred' approach as opposed to 'state-centric' development programmes. The state is also obliged to respect and promote the genuine principles of the rule of law with the existence of an independent judiciary, under which corrupt practices and abuses of power by administrative officials can be brought to justice and a transparent society can be established.

The emergence of civil society organizations and institutions will help secure the right to social security for all. As such, all oppressive laws and other restrictions imposed on the formation and independent functioning of civil society organizations must be abrogated, and their communications with the outside world and among the organizations themselves to seek assistance and cooperation on social security matters must be institutionalized and legalized.

Social security can also be protected when people live in dignity with a secure livelihood. To this end, last but not least, the state must guarantee people's access to the resources required, in addition to the cancellation of legal and administrative barriers which hinder equal rights to employment, equal pay for equal work, and the independent formation and operation of trade unions, commencing with the right not to be forced to work.

Eventually, the right to social security will become a reality when the inner dynamics, interconnectedness and interaction between the state, civil society organizations and capable individuals better reflect the dire need of the Burmese people. ■

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