The Pension Reform in Bulgaria – Two Years after the Start

Authors: *Borislav Tafradjiyski*
Pobeda Loukanova
George Shopov
Dochka Staykova

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The objective of this report is to present the pension reform, implemented in the Republic of Bulgaria during the last years and the achieved outputs by the end of 2001.

Findings from various research projects, in which the authors took part[1], as well as a specially conducted survey of the available information regarding the pension reform, were used for the development of the report.

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[1] PHARE Consensus Project in Bulgaria- Second Pillar of the Pension Insurance System and Investment Strategy, BG-9710-0042
Development of the project "Mandatory Social Insurance Code" – working group to the Ministry of Labor and Social Policy
"Assessment of the Impact of Pension Reform on the Risk Population Groups". № P-8-04307 of May 22, 2000, UNDESA

Introduction

Bulgaria has many years of experience in development of insurance relations. The Bismarck insurance schemes in health care and pensions were introduced in the country in the previous century and they showed continuous positive development. This development of insurance schemes was interrupted when Bulgaria joined the Soviet Block countries. In the period 1945-1989 the pension insurance relations were put on a different basis and they resolved problems of the centrally planned economy. The pension insurance became a part of the motivation mechanism for work in sectors with low prestige or threatening the human health. The access to pension rights was extremely easy and the country possessed one of the most liberal pension schemes in the country. As a result of this at the end of the socialist era enormous disproportion was accumulated. It became the reason why the regime tried to change the situation. Studies for the establishment of certain pension funds were initiated, which had to link the pension rights with more strict access requirements, etc. Unfortunately significant changes could not be achieved in those conditions.

Changes could be made only after the collapse of the centrally planned economy and the one-party regime. Bulgaria, like many other Central and East European countries, underwent significant changes in the recent ten years[2]. The transition from central planning towards market economy turned out to be much harder and painful than the preliminary expectations. The situation required rethinking and fundamental changes in all public spheres. The social security system and particularly the pension insurance had to be adjusted to the new conditions. A number of activities now evaluated as positive, were undertaken in the period before the actual start of the pension reform. These measures were:

- Gradual institutional and financial separation of the pension insurance system from the state structure and the state budget;
- introduction of the principles of tripartite management;
- increasing the insurance contributions especially for those working in harmful conditions;
- attempts to link directly the pension payments with the insurance contribution of the beneficiary;
- initiation of information system, containing the insurance “history” of the insured and the employers;
- expanding the coverage of the insured persons beyond the sphere of employees;
- the emergence (although without special regulation) of voluntary pension insurance based on capital principle with individual insurance accounts.

Unfortunately all needed changes were made as a result of the problems of the day and were not based on careful strategic planning. Attempts were made to create “White Paper”[3] of the social security system, which would regulate and coordinate the

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[2] Appendix № 1 presents the main socio-economic characteristics of the country in the recent years.

[3] Some of the authors of the paper participated in 1993 in the drafting of “White Paper” for the situation of social security system. The authors participated in the group of trade unions and employers taking part in the tripartite dialogue. However, this document was not accepted by the government and did not become an official document.

changes in the pension system and mostly the social protection networks – the social insurance and social assistance. However these attempts did not produce the required output. This caused significant contradictions between the particular systems, which continues to have negative impact on the country's population. Many examples for this exist but one of them is particularly illustrative. Two simultaneous decisions were made – one for raising the retirement age, and the other for reducing the insurance contribution for covering the "unemployment" risk.

The lack of preliminary strategy led to many decisions and steps, which can be evaluated as inadequate. Many of them additionally deteriorated the existent situation. For example, Bulgaria did not make an exception from the practice of other countries to use the pension system as a protection mechanism against unemployment. The unemployment, which was an unknown phenomenon in the totalitarian period emerged in the beginning of transition (early 90s) and grew rapidly. As a result of this, a decision was made to provide an opportunity to the persons to retire 3 years earlier although Bulgaria was one of the countries with a very low retirement age (55 years for the female and 60 years for the male). The result was over 100,000 additional new pensioners for one year. The decision was soon abolished, but its negative impact was already consumed.

Many other examples exist for inadequate management decisions made in conditions of lack of national strategy, but it is not needed to point them now. In this case, the most important is the conclusion that the lack of single national strategy had and is presently having negative impact on the two social security networks.

The delayed reform and the lack of coordination among the social networks and schemes were combined with serious economic problems caused by the transition. The latter did not give any chance to the state or the population to meet the requirements of the existent pension scheme and to continue to maintain it. As a result a critical mass of problems was accumulated in the social insurance and particularly in the pension insurance. This urgently required the undertaking of pension reform. Here are summarized the factors, which led to the pension reform:

- persistent financial deficit and future financial collapse;
- low collection of insurance contributions;
- high social burden on the working generation;
- affected social justice and low amount of pensions.

The Government decided to start the pension reform in Bulgaria in 1998 considering the above pointed problems and the subjective factor[4].

[4] In that period, the Minister of Labor and Social Policy was an ex-leader of the largest trade union in Bulgaria.

1. The pension reform in Bulgaria

The pension reform started after the Bulgarian government and parliamentary majority made a political decision that this reform was inevitable. The decision to establish a three-pillar pension system in Bulgaria was also a political one. The following actions were undertaken as a result of this:

- Regulation of the voluntary insurance system (3rd pillar, capital-based pension system, based on voluntary contributions to individual accounts).
- Reforming of the present pension system (1st pillar, obligatory pay-as-you-go system) by linking the amount of pensions with the insurance contributions, improving the collection of contributions and system administration, improving the formula for setting the pensions, restricting early retirement.
- Redirecting the mandatory insurance contributions towards the system of private occupational and universal pension funds (2nd pillar, mandatory pension system, capital-based with individual insurance accounts).

This sequence was imposed by the problems of the day and the need to regulate the activities of the private pension funds in protecting public interest. However this sequence cannot be accepted as the most appropriate one because the main reforms in the first pension pillar had to take into account the enforced legal documents in the third pillar.

The goals of the reform declared in public were:

- Improving the pay-as-you-go system;
- Establishment of supplementary mandatory pension insurance in order to increase the incomes after retirement;
- Financial stability of the funds – state and private, mandatory and voluntary.

The reasons stated for the performance of the reform gave a much more clear illustration for its essence. It was stated that the entire system would collapse and the situation would be beyond control if the reform were not performed. The reform actually started with the drafting of the major legal acts – the Social Security Code and the Law on Supplementary Voluntary Pension Insurance.

The pension reform was a real reform in one more aspect. For the first time in Bulgaria important legal acts were drafted by working groups, which involved not only officials from the relevant ministries, but also all outstanding experts in this sphere and stakeholders like employer and trade union organizations, unions of disabled, unions of pensioners, media, NGOs, etc. Although this broad democratic approach produced some not very good decisions, it can be generally characterized as a very positive practice.

What are the changes brought by the pension reform? We have tried to draw the main changes, which occurred in the pension schemes in the country and the results from them at the present moment. An appendix to this report presents detailed information for the essence of the reforms.[5]

[5] See Appendix № 2

The two-year term is not enough for achieving the results for most planned measures. A reform like this gives a choice for those persons, who are on the verge between active working age and retirement. The opportunity to choose makes the persons (particularly those in advanced age) to prefer the more certain option i.e. to retire based on the previous pension system. This usually leads to increase in the number of pensioners compared to the anticipated “planned” number in the first years of the reform. This is just the opposite to the desired output from the reform – decrease in the pension burden on the working population in the country. However, the past two years give an opportunity to evaluate some of the important features of the reform. These factors are subjects to evaluation in the next part of the paper.

The most important reason for starting the reform is the financial destabilization of the pension system. The analysis of the two-year period in terms of the **financial stabilization of pension system** indicates the following.

The analysis will start with the revenues by reviewing the certain factors contributing to the stabilization of pension insurance and the factors, which have the *positive influence*.

There is no doubt that the real start of the pension reform and the confidence of the international partners that Bulgaria is ready to combat the problems in this area had a very positive influence on the necessary revenues in the positive system. As a result of this the private donors and particularly the international financial institutions supported the reform and granted financial resources for its implementation. The grants from USAID and the Japanese Government and the loans provided by IMF and the World Bank at favorable conditions were directed towards the pension insurance or the other insurance schemes. They alleviated the development of pension insurance and had extremely positive contribution for the implementation of the reform.

One of the goals of the pension system reform was to extend the coverage of the insured employees by stimulating them to participate longer in the insurance process and introducing more strict conditions for access to pension rights. The results from the recent years are shown on the table below.

	1998	1999	2000	2001
Employed persons[1]	3 082 000	2 917 000	2 775 700	2 809 550
- employees	2 697 100	2 562 000	2 387 900	2 417 021
- self-employed	384 900	355 000	387 800	392529
Insured persons [2]	2 273 660	2 155 763	2 116 293	2 155 029
- employees	2 039 999	1 953 023	1 927 293	1 954 029
- self-employed	233 661	202 740	189 000	201 000
Coverage (insured/employed)	73,77%	73,90%	76,24%	76,70%
Coverage (insured employees) employees)	75,64%	76,23%	80,71%	80,84%
Coverage (self-employed/insured self-employed)	60,71%	57,11%	48,74%	51,21%

Source:

1) Data from the National Statistical Institute – Labor Force Survey

2) Data from the National Social Security Institute – Personal Register

The results and the monitored trends can be evaluated as positive especially if the declining number of employed and the increasing number of unemployed in the last two years are taken into account. The economic problems, which make many small companies close down, reduced the number of insured self-employed persons. The raising of the insurance basis from one minimum wage to two minimum wages had a certain restrictive impact on the increase of the number of insured self-employed persons.

Although achievements were made in increasing the coverage of insured persons, there is still potential to be utilized. The potential future insured persons are mainly in two sectors:

A. Shadow economy – according to projections, this sector has significant share in Bulgarian economy. It produces about 30% of GDP. Many of the employed in the shadow economy are neither taxpayers nor insured.

B. Agriculture – according to data of the National Statistical Institute, the employed persons in this sector are about 320,000 persons in active age, but the insured persons in the first pillar in 2000 were only 21,500.

In 2002 significant achievements are expected in increasing the number of insured persons. At the end of 2001 the databases of the National Social Security Institute (NSSI) and the Tax Administration were linked. The first data match showed that there are about 330,000 companies (mostly one-man companies), which have paid patent tax, but only half of them are registered in the NSSI.

The raising of incomes basis for calculation of insurance payments can also be considered as a factor, which contributed to increasing the revenues in the pension system.

All the factors reviewed by now had positive impact mainly on the first pillar of the three-pillar pension system.

The main factors, which contributed to improving the revenues of the supplementary mandatory pension insurance, were as follows:

The obligatory direction of insurance contributions for the employees with first and second labor categories towards occupational pension funds, managed by private companies.

The starting of the universal funds in 2001 was another important factor. All persons born after December 31, 1959 are obliged to participate in these funds. According to the available data these are about 640 000 persons.

Here occurs one of the existent contradictions of the pension reform. The positive factors for the revenues of the second pillar have negative impact on the first pillar because the funds directed towards the capital pension funds are part from the funds, with which the main pay-as-you-go system operated before the reform. This contradiction will also develop in the future. Objective prerequisites exist for this, because the mandatory insurance will continue to generate deficits at least in the next 7-8 years. Meanwhile the pension funds and the persons insuring themselves in universal pension funds will be interested in the increase of the insurance contribution to the second pillar (presently this contribution is 2%). The willingness of the World Bank and the IMF to create investment resources in the country through the second pillar will also have influence in this relation. Presently, the pressure is not so strong due to the stagnation in the world economy. However it is expected to increase in the next years, and the World Bank will insist this percentage to become 5%.

The tax relieves for companies and individuals were the only factor, which had positive impact on the revenues of the voluntary supplementary pension insurance during the reform. Some gaps in the legislation and the possibilities to avoid taxation on significant amounts of personal funds can also be considered as factors, which contributed to the increase of the revenues.

The financial stability was also influenced by some *negative factors* during the reform.

The factors, which had negative impact on the mandatory pension insurance were:

1. The reduction of the insurance contributions in order to reduce the total tax and insurance burden on the business in the country.[6] The reduction of the contribution for pension combined with the other mentioned factors, significantly exceeds the bonuses brought by the increased number of insured persons or the expansion of the incomes base for calculation of insurance contribution. Thus the reduction of the insurance contributions was stopped in 2002 and will possibly not be on the agenda in the next few years.

2. The gradual redistribution of the insurance burden between the employee and the employer is another factor, which has negative impact on the revenues of the mandatory insurance. Untypical accounting functions are ascribed to the employee, and therefore he/she cannot manage to do them.

3. The lack of insurance culture in the population and the difficult financial situation of many Bulgarian enterprises were also important factors, which led to decrease in the revenues of the mandatory pension insurance.

4. The introduction of maximum insured income equal to 10 minimum wages was expected to have negative impact on the revenues. In the first years of the reform this impact was very small. In practice, the persons with high incomes find ways not to declare them. If they declare these incomes, they make it in a way, which reduces the insurance burden.

Two factors had negative impact on the revenues of the pension funds from the second pillar.

1. The low percentage from the mandatory pension insurance contribution, which was directed towards them. All pension companies planned their revenues by supposing a percentage higher than the one accepted with the budget of the National Social Security Institute – 2 %.

2. The delayed registration of the pension funds in the Insurance Supervision Agency and the delayed process for selection of insurance company by the persons eligible to supplementary mandatory pension insurance. Thus the preliminary expectations of some experts (including the authors of this paper) were confirmed – that the scheme of individual choice would delay the process. In Bulgaria like in other countries with similar process (e.g. Switzerland) a significant group of persons (about 15%) did not show any interest and had to be distributed officially among the pension funds. This situation caused problems among the pension funds, whose interests are determined by the percentage of possible clients, which they attracted. Some of the pension funds insist on proportionate official distribution, while the rest funds demand these persons

[6] See Appendix №3

to be distributed equally per fund. The latter additionally delayed the process and respectively the revenues for the funds.

The problems of the third pillar of pension system were related to the delayed start of the supplementary mandatory pension insurance. The reason for this was the stand-by position of the employers and the individuals due to their expectations for the start of the second pillar.

The expenditures of the system are another aspect of its financial stability.

Few factors influenced the reduction of the expenditures in the first two years of the reform. Presently, the following items can be identified as such factors:

1. The political decisions (too unpopular) not to pay Christmas supplements or 13th pension to the pensioners at the end of 2002.
2. The creation of conditions for joint control on the insurance contributions by the institutions responsible for other insurance risks like the National Health Insurance Fund and the National Employment Service.

The following factors had stronger influence: (a) raising the retirement age for the male and the female with 1 year (with 6 months in 2000 and with another 6 months in 2002); (b) preserving the maximum limit of pensions.

However, many factors with different intensity acted during the period and they led to increase of the expenditures of the pension system.

The increase of the number of pensions is the most important factor for the first pillar of pension system. The possibilities for the pensioners to receive more than one pension increased the number of pensions with 47 000 above the number of pensioners. Many persons, who were eligible to retirement in the old system made use of this right. The easy regime for obtaining disability pension was another reason for the increased number of pensioners. The expectations that part of the pensioners will make use of this opportunity turned true. The reasons were the shortage of insurance service or the low insured income.

The real increase of the pensions in the country was another factor for increasing the expenditures in the system. Many pensioners received pension increase at the start of the reform due to the integrated recalculation of the pensions and the raising of the minimum and the social pensions. Other mechanisms for payment were envisaged for those, who did not receive such an increase in 2000. These expenditures were needed to make the population accept more easily the reform, which is very restrictive in nature.

The establishment of information system, which would cover individually all persons participating in the insurance relations and will inform every year the insured and the pensioners for the situation of their insurance accounts and pensions, caused enormous expenditures. In the first years of the reform, the NSSI also incurred expenditures related to its obligation to collect and distribute the contributions for the mandatory pension and the contributions to the privatization companies managing the pension funds from the second pillar. The pension companies will pay for this service in the next years, but presently this led to additional expenditures.

The first years of the reform were very hard for the second pillar. The pension companies, which were licensed for management of occupational and universal pension funds had extremely high expenditures for attracting insured persons. The individual choice of pension fund forced the companies to conduct mass advertising campaigns and to pay their agents significant amounts for provided applications. Many of the pension companies increased their basic capital in order to meet these expenditures. The precise information for the funds spent in the campaign and particularly the amount of the base capital spent on advertising, will be available after March 2002. The studies however indicate that companies, which have raised their base capital from the obligatory limit of BGL 3 million[7] to BGL 4 million have actually available less than BGL 1 million of base capital. This decapitalization is the greatest threat for the development of the pension system in general and in particular of the second pillar.

One of the main factors increasing the expenditures of the third pillar is that the employers and the insured persons have drawn part of their contributions. They were forced by the economic crisis to use this available resource. The drawing of this financial resource increased directly the expenditures of the system and forced the companies to remove the long-term instruments from their portfolios at unfavorable conditions. As a result of this all pension companies (with few exceptions), managing voluntary supplementary funds, ended up the financial years 2000 and 2001 with losses. This also led to decapitalization of the companies.

The conclusion is that the factors playing against the financial stabilization of the system are significantly more and they are stronger than the factors supporting its financial stabilization. This influenced the general picture of financial results. The deficit in all pension schemes practically increased. By this moment there is no data for the pension companies and funds, but the picture for the first pillar is clear and the data for 2001 is very indicative.

The total deficit in the system (NSSI), where 90% of the payments were linked to the pension system, was planned to 250 million BGL. According to preliminary data at the end of the year additional deficit amounting to 220 million BGL is expected.

The deficit is due to non-performance of revenues amounting to BGL 246 million, which is about 10% from the planned revenues of BGL 2 547 million.

Due to the expected non-performance of revenues, in August 2001 the budget was updated and the expenditures were planned to BGL 2 902 million. Despite this update, at the end of the year the expenditures are again excessive, as for the pensions these are another BGL 18 million.

Besides achieving financial stabilization, the pension reform aimed at resolving a number of other issues. In the next part of the paper we have tried to give answers to some of them.

[7] 1 BGL=1DEM.

2. Quantitative dimensions of the new pension system

2.1. What are the new pensions?

During the period between 1998 – 2001, the level of the actual pension amount in Bulgaria shows considerable fluctuations, due, on the one hand to the dynamics of the average annual inflation in the country, and on the other hand, to changes in the legislation, mainly, the implementation of the new formula for calculating the pensions on Jan. 1st 2000.

	1998	**1999**	**2000**	**2001***
Average pension (in BGL)	62,10	66,93	83,42	90,72
Inflation (annual)	22,3%	1,8%	7,9%	6,0%
Actual growth of pensions	36,2%	5,9%	15,5%	2,6%

*projected data

After the enforcement of the Mandatory Social Insurance Code the pension changed as follows:

- The old age social pension increased from BGL 37.00 to BGL 40.00, changing the minimum pension amounts as indicated in the table below:

Type of pension	Min amount up to Dec 31, 1999 – BGL	Min amount after Jan 1, 2000 – BGL
1. Length of insurance and old age		46.00
- complete length of insurance	42.55	
- incomplete length of insurance	38.85	
2. Disability due to workplace injury and occupational disease		
- 1-st disability group	55.50	60.00
- 2-nd disability group	51.80	56.00
- 3-rd disability group	42.55	46.00
3. Disability due to general sickness		
- 1-st disability group	51.80	56.00
- 2-nd disability group	48.10	52.00
- 3-rd disability group	38.85	42.00

- The maximum pension amount increased from three to four social pensions, i.e. from BGL 111, 00 to BGL 160, 00. The amount of the supplement for external assistance and the supplement for war veterans, calculated as a percentage of the old age social pension, also increased. They became BGL 30 and BGL 20 respectively. All supplements, of which widow's, are paid above the limit of BGL 160.
- All persons who have lost more than 70% of their working capacity are entitled to second social pension, though not its full amount. This measure was used by 200 000 disabled persons.
- No matter that the introduction of the new pension formula did not aim at direct increase of the pension amounts, but at overcoming the imperfections of

old pension law, when the pensions were recalculation according to the new formula they were increased by BGL 13 on average. Namely: BGL 5 increase for 455 798 pensioners; from BGL 5.00 to BGL 10.00 – 229 626, from BGL 10.00 to BGL 20.00 – 308 300, from 20.00 to BGL 30.00 – 145 147, over BGL 30.00 – 149 064.

- All pensioners were granted the so-called Christmas supplement to their December pension by the end of 2000. The supplement was within BGL 10 - 65, as the persons granted the lowest pensions received the maximum supplement. Besides, all persons whose pensions were not increased as a result of the new minimum amounts or as a result of the recalculation were granted a premium of BGL 10. The December supplement was not paid the next year due to the accumulated deficit and due to the fact that the reforms had already started and no populist actions were needed.
- Since January 1, 2001 a minimum amount of the survivors' pension was introduced – it cannot be less than 90% of the old age social pension. Thus many families are in a situation of "over-insurance", however the compromise is in favor of the better social protection.
- Indexation of all pensions by 10% and increase of the old age social pension from BGL 40 to BGL 44 was projected and implemented in 2001. The maximum pension (without the supplements) increased from BGL 160 to BGL 176. So at the end of 2001 the pension actually increased by 7.9%. The average pension according to the preliminary data is BGL 90.72 and represents 48.7% of the average net (reduced by taxes and contributions) insured income.

No matter that the actual pension increase in the last two-three years, the sociological surveys indicate that pensioners feel like the most neglected part of society. It is a common opinion that they pay the highest price for the transition to market economy and the concept "pensioner" is often used as a synonym for a poor person. In reality, this refers mostly to the pensioners, who receive a pension, which is equal or close in amount to the minimum pension and for whom this pension is the only source of income. As a result of this, those pensioners are supported by the so-called second safety net based on income and property test. For example, during the heating period in 1999/2000, 387 482 pensioners received benefits, amounting to 16% of the average annual number of pensioners in 2000. In 2000, 74 413 benefits were granted according to the Regulations for Application of the Social Assistance Law of pensioners with an average amount of BGL 33,09, incl. 26 923 cases of one-off benefits with an average amount of BGL 60,21.

2.2. How much do the pensions "cost" to the society and to what extent do they compensate the income?

The expenditures for pensions represent 8,2% from GDP in 1998, 9,6% in 2000 and 9,0% in 2001. As compared to some other European countries, the relative share of the expenditures for pensions from GDP is quite low, even though there is a tendency for increase. There is a Currency Board in Bulgaria since 1997 and the priorities in the government's policy besides improving the living standards of the population, incl. the pensioners are related to reviving and stabilizing the economy and to increasing the share of investments in GDP as a basis of fast economic growth.

The pension formula in Bulgaria does not contain an income replacement coefficient directly. The pension is determined by the following three elements:

- Length of insurance period (every year of insurance amounts to 1% of the average monthly insured income, as for the workers in dangerous and detrimental conditions, this percentage is higher);
- The individual coefficient of the pensioner – a ratio between the individual insured income of the person and the average insured income for the country;
- The average insured income for the previous year.

According to this formula, the coefficient for replacement of the pension income for insurance and old age is between 30 and 40%. For some professions, this coefficient is higher. At the same time though, there is also a ceiling on pensions amounts – the maximum pensions cannot exceed four social pensions.

	1998	1999	2000	2001
GDP – current prices (million BGL)	21 577,0	22 776,4	25 586,7	28 746,6
Expenditure for pensions (million BGL)	1 778,9	1 913,5	2 467,0	2 581,1
Minimum amount of pension	31,68	35,83	40,00	42,00
Average amount for one pensioner (BGL)	62,10	66,93	83,42	90,72
Maximum pension amount (BGL)	95,03	107,47	160,00	168,00
Average insured income (BGL)	164,79	180,05	217,11	241,98
Average wage (BGL)	187,44	205,05	230,00	263,00
Expenditure for pensions as a percentage of GDP	**8,2%**	**8,4%**	**9,6%**	**9,0%**
Replacement ratios:				
Min. pension amount to average insured income	**19,2%**	**19,9%**	**18,4%**	**17,4%**
Min. pension amount to average wage	**16,9%**	**17,5%**	**17,4%**	**16,0%**
Max pension amount to average insured income	**57,7%**	**59,7%**	**73,7%**	**69,4%**
Max. pension amount to average wage	**50,7%**	**52,4%**	**69,6%**	**63,9%**
Average amount to average insured income	**37,7%**	**37,2%**	**38,4%**	**37,5%**
Average amount to average wage	**33,1%**	**32,6%**	**36,3%**	**34,5%**

When the replacement ratio is analyzed, it has to be kept in mind that pensions are not taxed as well as that one person can receive more than one pension or various supplements to it. For example, the average pension amount and its supplements, received by one pensioner in 2001 make up for 48% of the net average monthly insured income (gross income, reduced by taxes and personal insurance contributions).

All pensions are updated on an annual basis, using a coefficient, not lower than the consumer price index for the previous year and not larger than the index for the increase of the average monthly insured income.

2.3. Is the system well-targeted?

Bulgaria has one of the most unfavorable ratios of pensioners and insured persons, and pensioners and active population (i.e. working age population). The basic reason for this lies in the aging of the population, characteristic for the whole Europe (the average age in Bulgaria is 38,7), the low birth rate, the negative natural growth, the low retirement age and the early retirement possibilities as well as some economic factors – the large number of emigrants – over 500 thousand persons for the last 10 years as well as over 90% of those being at working age, and the high level of unemployment during the last years (17-18%).

	1998	**1999**	**2000**	**2001**
Number of pensioners at the year's end	2 387 341	2 380 619	2 375 149	2 370 329
Incl. State Social Security	2 221 487	2 209 245	2 306 875	2 299 429
Insured persons at the end of the year	2 273 660	2 232 823	2 230 257	2 357 510
Working age population	4 750 328	4 752 804	4 764 087	4 773 492
Dependency ratios:				
Ration of State Social Security pensioners to number of insured persons	**97,7%**	**98,9%**	**103,4%**	**97,5%**
Ratio of pensioners to working age population	**50,3%**	**50,1%**	**49,9%**	**49,7%**
Retirement age (III category of labor):				
nominal (according to law):				
men	**60**	**60**	**60 yrs 6 m.**	**61 yrs**
women	**55**	**55**	**55 yrs 6 m.**	**56 yrs**
actual:				
men	**62 yrs 10 m.**	**63 yrs 1 m.**	**63 yrs 5 m.**	**63 yrs 5 m.**
women	**58 yrs 1 m.**	**60 yrs 2 m.**	**60 yrs 4 m.**	**60 yrs 4 m.**
Number of pensioners with disability pensions (personal)	**243 482**	**239 306**	**323 517**	**383 517**
% pensioners with disability pensions from Total number of pensioners	**10,2%**	**10,1%**	**13,6%**	**16,2%**

The increase in the number of disability pensions as compared with the total number of pensions from 10,2% in 1998 to about 16,2% in 2001 (according to preliminary data) is due not so much to the increase in diseases but rather to the new social insurance legislation. It makes possible for the persons having lost more than 70% of their working capacity to receive two disability pensions – a personal disability pension for general sickness or for workplace injury and social pension for disability in the amount of 25% of the social pension. The number of persons who receive a second social pension for disability in 2001 is around 180 000 - 190 000 persons.

2.4. Is the system equitable?

The purpose of the new pension formula is to link more closely the insurance contribution of the persons and their pensions within the financial potential of the system. Also, this provides incentives for longer participation in the insurance system as each year of service has direct influence on the amount of the pension. At other things held equal, this makes the new pension formula fairer in comparison to the older one.

In general, the pension formula promotes longer insurance, and payment of contributions on higher income. However, given the comparatively lower wage in the country and the lack of insurance culture these incentives are not fully operational. The incentives for later retirement are not operational and as a result of the rather liberal regime (set by the Constitutional Court), allowing simultaneous receiving pension and wage in full amount.

Due to the possibility for retirement according to the old law up to the middle of 2000 and the high unemployment level, particularly among people who are end the end of their professional carrier, the anticipated effects from the MSIC to reduce the number of pensioners, are not evident yet. A slight decrease of the pensions for length of insurance and old age is expected in 2001.

Number of pensions for length of insurance and old age

Total

1998 - 1 916 280
1999 - 1 938 924
2000 - 1953 151
2001 - 1 953 135

At the same time, the law envisages corrections to this formula, expressed in fixing minimum and maximum pension amounts or the sum of the pensions received by one person. **The minimum monthly amount** of the personal pension for years of service and old age cannot be less than **115%** of the old-age social pension, and **the maximum amount** is equal to **4 social pensions** till the end of 2003. The restriction of the maximum pension amount or the sum of pensions, received by one pensioner is expected to be removed in 2004. Those corrections have a social importance and for the time being are acceptable for the public.

At other things held equal, the new pension system is more restrictive for women due to the more unfavorable characteristics for determining the amount of their pensions.

Average parameters, determining the amount of pensions of men and women:

Year	Average years of service			Average individual coefficient		
	Total	Men	Women	**Total**	Men	Women
1998	**30,1**	33,2	27,6	**1,210**	1,460	1,010
1999	**30,0**	33,2	27,5	**1,227**	1,490	1,019
2000	**34,1**	40,5	29,1	**1,241**	1,514	1,028

The Survivor's Pensions are granted to the members of the families of the insured persons after their death. The general principle, adopted by the MSIC is that pensions can be inherited, provided that contributions for hose have been paid according to the insurance work relation. This rule has an exception only in case of pension for military disability, which also becomes hereditary despite the fact that it is a pension, which is not related to the insurance for a labor activity.
The survivor's pension is granted in general to all persons, who are eligible for pension and is equally distributed between them, where its maximum amount for one survivor cannot be below 90% of the social pension for old-age.

Number of Survivor's pensions:

	Total
1998	154 936
1999	146 072
2000	119 414
2001	119 000

Supplement form the pension of a deceased husband (in force as of July 1, 1999*)* – The husband/wife, when retired have the right for 20% of the pension or the sum of pensions of the deceased husband (wife), if they do not receive a survivor's pension from the same deceased person.

Number of Supplements to pensions - total

1999	452 493
2000	539 770
2001	570 000

2.5. Is the pension system sustainable?

The actuarial projections envisaged a financial downfall of the old pension system in Bulgaria as a result of the huge amount of accumulated eligibility rights without financial coverage. In order to prevent this downfall, it was necessary to either increase the pension contributions rate to 60% or to reduce the pension amounts to 20% of the income, received prior to retirement. The pension reform avoided this downfall. Nevertheless, the Pensions Fund will need subsidies for the next 6-7 years. The system will become financially sustainable only after this, when the restrictive measures as regards the retirement age and the higher requirements for years of insurance are felt.

Year	Pensions (% of GDP)	Total Fertility Rate	Net migration (000)	Unemployment (%)
2000	8,90	1,30	-15	18.0
2001	8,53	1.30	-10	17.0
2002	8,68	1.30	-10	16.0
2003	8,47	1.35	-5	15.0
2004	8,20	1.35	-5	14.0
2005	7,88	1.40	-5	13.5
2006	7,65	1.45	-5	13.0
2007	7,30	1.50	0	12.5
2008	7,00	1.55	5	12.0
2009	6,80	1.60	5	11.5
2010	6,68	1.65	5	11.0

2.6. What is the role of the supplementary pension insurance?

The development of the private pension funds in Bulgaria is closely related to the reforming of the public pension system. Moreover, the National Social Security Institute plays a key role by collecting the insurance contributions for the universal and occupational funds and maintains the personal register for all insured persons and insurers in Bulgaria. The management of the occupational and universal funds from the second pillar as well as the voluntary pension funds from the third pillar however, is done through private pension insurance companies, which are licensed by the State Insurance Supervision Agency. When issuing licenses, the Agency makes sure that all legal requirements as regards the interests of the insured persons, the financial parameters of the activity of the companies, the criteria for pension reserves and the way for their investment are observed. As of January 31, 2001, nine pension insurance companies for supplementary mandatory and voluntary pension insurance have been licensed with a total number of insured persons – around 500 000 persons and the amount of the revenue from contributions – around BGL 110 million.

Over 110 000 insured persons, working under the conditions of first and second labor category (about 90% of all persons working under these conditions) made their personal choice of an occupational pension fund for early retirement pension. Over BGL 30 million will be distributed in their personal accounts. The choice of a universal pension fund for second life pension for all persons, born after December 31, 1959 started successfully.

The participation in the second and third pillars of the pension system is related to large tax relief for the worker and employer. As a rule, the third pillar permits larger choice of pension products as compared to the second pillar.

2.7. Is there a conflict between the business and the new pension system?

The amount of the contributions for the State Social Security Funds is fixed for each fund by the State Social Security Budget Law for the respective calendar year, in conformity with the insurance risks.

According to **the range of social risks**, the mandatory insured persons are differentiated in three groups – insured for all insurance social risks, insured only for workplace injury and occupational disease and insured for general sickness disability, for old age and death.

The contributions (except for the ones covering workplace injury and occupational disease, which are entirely at the account of the employer), calculated on the employees' remuneration are paid by the employers and the employees in proportion of 80:20 for 2000-2001. Since 2002, this proportion will be changing, so that in every calendar year it will decrease with 5% the part paid by the employer and increase with the same percent the part of the contributor. This process will continue until the proportion **50:50 is reached on January 1, 2007.**

Contributions amount

- **Persons, insured by the employer for all of the insurance social risks - in %**

	Total	from the Employer	from the Employee
1998	**39%**	37%	2%
1999	**39%**	37% / 34,7%(from 1st July)	2%/1% (from 1st July)
2000	**35,7%**	28,7%	7%
2001	**32,7%**	26,3%	6,4%

- **self insured persons (self-employed persons)** are obliged to be insured for pension and voluntary for all insurance risks except for workplace injury and occupational diseases – as % on chosen monthly insurable income from 2 to 10 minimum wages and annually on the tax declaration income.

  1998 22% – for pension and 32% - for all insurance risks

  1999 22% – for pension and 32% - for all insurance risks

  2000 32% – for pension and 35% - for all insurance risks

  2001 29% – for pension and 32% - for all insurance risks

No matter the observed decrease of the employer insurance burden, the Bulgarian insurance system is too expensive and has a negative influence on the competitiveness of the Bulgarian economy. This assessment is due to the fact that the conscientious employers assume insurance burden, while most of the entrepreneurs either do not pay the insurance for their employees or pay the contributions on the basis of minimum wages, as their real income is much higher.

3. Qualitative dimensions of the new pension system

3.1. Specific evaluations of the new pension system

3.1.1. How does the proposed system cope with aging of population?

The gradual increase of the minimum age for retirement and decrease of the number of those entitled to an early pension are the principal measure to combat the unfavorable demographic changes. Out of the pension system, the government conducts a policy of encouragement of employment aiming at the increase of the number of contributors and decrease of the number of persons dependent on transferred payments. A gradual decrease of the dependency coefficient is expected up to 2015, as the ratio of insured persons – pensioners will be 100:75.

3.1.2. What is new system's impact on pension savings and on the development of the capital markets?

The annual projections about the development of the private pension funds (the second pillar – occupational and universal funds) according to NSSI show that this section of pension insurance will have an ever increasing part in the social sphere (about the higher security of the future pensioners) as well as a factor for the development of the capital markets and the investments in the Bulgarian economy.

(Thousand BGL)

Year	2nd pillar (revenues)	2nd pillar (expenditures)	Fund balance
2000	23 196	646	22 550
2001	28 413	1 039	49 924
2002	79 587	2 920	126 591
2003	96 386	4 078	207 899
2004	114 265	5 436	316 728
2005	175 142	8 145	483 725

The new pension system in Bulgaria influences directly the development of the financial sector. As main institutional investors, the pension companies will cooperate in a large extent for the development of the capital markets. Regarding demand, they will favor the development of new alternative investment instruments like mortgage bonds, deposit's orders and others.

The stimulation of economic growth is an implicit objective in Bulgarian pension reform. It is implemented by a gradual decrease of the contribution's burden by way of enlargement of the social security basis as well as by the accumulation of funds in the pension funds, which will be invested in economy.

3.1.3. Is the pension system more transparent?

The transparency in the new pension system is based on:

- The autonomy of the social security institution and of the insurance funds;
- Annually adoption of the budget of the insurance funds by law, preceded by a public debate;

- Tripartite management and supervision over the insurance institution;
- Right for the contributors to receive information from the insurance institute and pension companies;
- Right to complain before the supervising institution.

3.1.4. Is the pension system financial more stable?

One of the objectives of the pension reform is to decrease the subsidy for the pension fund from the state budget. This will be accomplished in no less than 6-7 years. Through this period the state subsidies and transfers (for the non-contributional pensions) will have an important part. Besides, the decrease of the subsidies from the budget should not be an end in itself. In case of high unemployment (which is the case in Bulgaria), it's much better to decrease the contributions as a direct taxation of the labor force in order to stimulate its demand and to increase the indirect taxation so as to finance the deficit in the pension fund.

3.1.5. How does the pensions system influence the labor market?

The Bulgarian pension reform mainly creates a tension on the labor market. The pension age increases and the possibility to work and to receive the pension simultaneously increases the labor force supply. Regardless of this, a special survey shows that there is no conflict between the youth and the pensioners because of the fact that in most cases they compete on a different labor markets.

3.1.6. Does the new pension system improve the choice of the participants?

The insured person's right of choice covers the following options:

- The possibility to choose the moment of retirement from the first pillar (after the qualification conditions are covered), including for the privilege groups;
- The personal choice of pension fund and the right to correct this choice;
- The personal choice of voluntary pension insurance regardless of the employer's participation or no-participation;
- The possibility of choice of the preferred pension system.

3.2. General evaluation of the new pension system

In general, the new pension system in Bulgaria could be qualified as very restrictive with respect to the pension amount as a percentage of the income and with respect to better conditions for access to a pension. This qualification is in effect especially for the first years of the reform, when the ratio between employees and pensioners is still unfavorable. This variant of the reform has been imposed by the objective economic reality in the country and the discrepancy between accumulated pension rights during the old pension system and financial possibilities to satisfy them. In fact, it was the only possibility to save the social security system in Bulgaria (which has a history of 110 years) from financial collapse and to lay a new beginning of transition to a financially stable three-pillar pension system.

The new pension system in Bulgaria could be defined as more efficient compared to the old one. The first pillar is universal and covers all groups of employees. There is a very close relationship between the insurance contributions and pension amount. The persons having higher insured income and longer participation definitely are granted larger pension. Greater differentiation of the pension amount is also achieved.

Gradually, the privileged groups are restricted and moved (without military and police officers) to the second pillar, where they will be entitled to an early pension from the occupational funds. However, given the low retirement age, the presence of privileged groups and easy access to disability pensions, the insurance system in Bulgaria cannot be defined as well-targeted. It is in a period of transition to such situation.

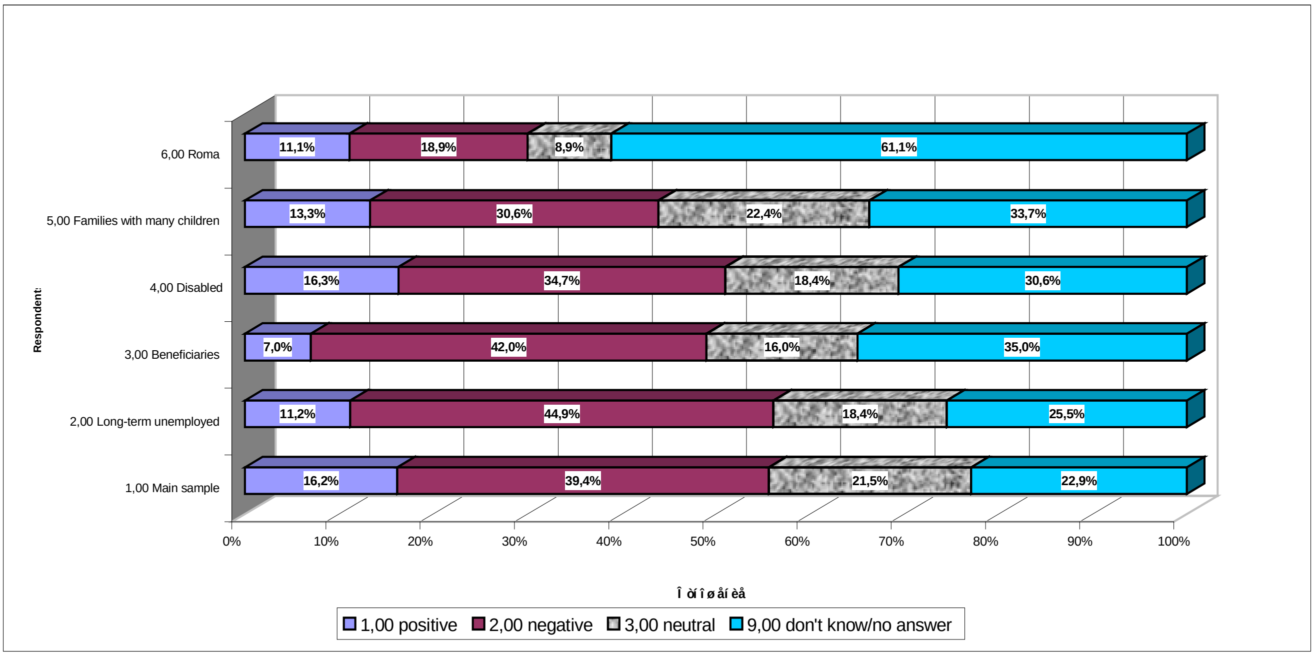
The insurance system is relatively autonomous – institutionally and financially. It is transparent – the management of the social pension fund is tripartite and the universal and occupational funds has custodian councils. The choice of a fund from the second pillar is a right of the contributor who can, once a year, transfer its rights from one fund into another. Given the expansive grounds for personal choice, the pension system may be defined as a comparatively liberal system.

The paper up to here covered the evaluation of the pension reform from the point if view of the authors, who (some of them) participated in system design. In our opinion, the viewpoint of the population and of other pension experts should be reviewed for more comprehensive understanding of the situation. The findings from the social assessment of the pension reform, under a project funded by UNDESA[8], are used to that end.

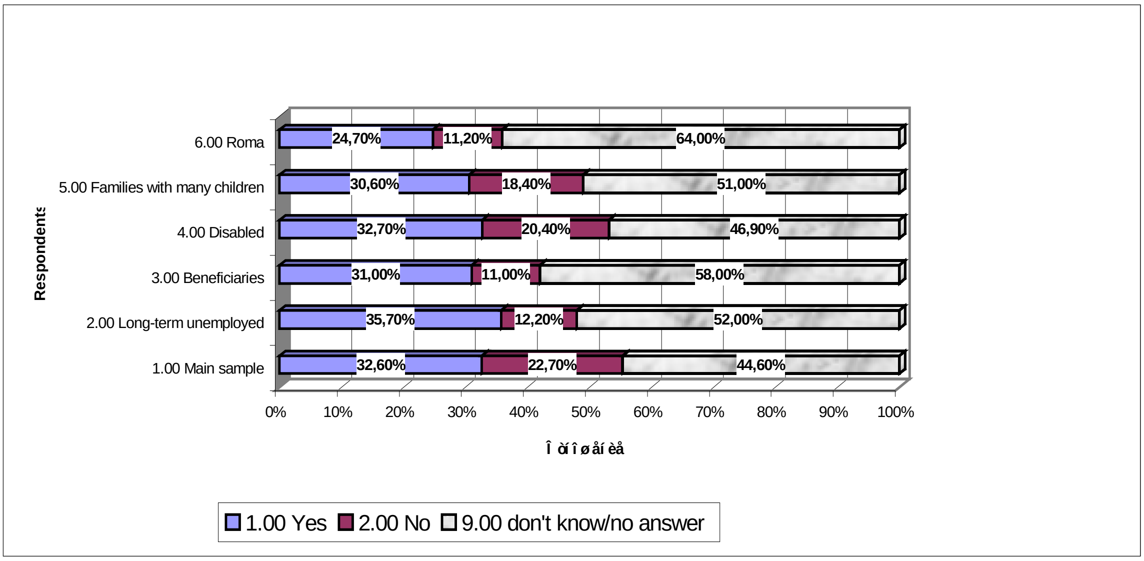
Evaluation of the population and the disadvantaged social groups

The distributions of the answers about the general attitude of the population towards the pension reform and its unquestionable necessity provide basic information for clarification of the respondents' attitude towards the reform in the pension insurance (see Graph 1 and 2).

Graph 1. Respondents' distribution according to their attitude towards the pension reform



Graph 2. Respondents' distribution according to their evaluation if the pension reform is unnecessary



The results outline not very favorable public attitude towards the reforms in the pension system. However, they should not be linked only with the reform but with the disappointment in the development and the situation of the pension reform in the last ten years, as well as in the general course of the public, economic and social transformations in the country. The insufficient campaign for promoting the reform, the delayed payment of the new (recalculated) pensions, the difficulties with the health reform, etc. are part of the specific and general problems shaping the negative public opinion at the beginning of the pension reform. It should be specially noted that the questionnaire survey was conducted in the period before the payment of the recalculated according to the new formula pensions, i.e. the elderly persons had not sensed directly the first effects from the changes.

Given the attitude towards the pension reform, the expectations of most respondents about the positive results mainly connected with "increase of the amount of pensions to a level corresponding to the personal contribution and providing decent life" are spread over a distant horizon – after 10, 15 and more years.

This picture leads to the following **conclusions**:

(a) the reform did not enjoy broad public support by the time of the survey;

(b) the share of the persons demonstrating disinterestedness and/or unawareness is high;

(c) the better media coverage of definite changes in the pension insurance (probably) provided better understanding (support respectively) on behalf of the population.

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[8] The survey was conducted in 2000. Presently we are trying to find financing for a project that will allow to continue the survey and to provide additional sociological data for the reform.

Experts' evaluation

The analysis of the information from the interviews with 15 leading Bulgarian experts in the sphere of pension insurance leads to the following conclusions:

- Overall, the positive evaluations about the contents of the reform and design of the pension system prevail.
- The experts' positive opinions predominate also in relation to definite measures projecting financial stabilization of the pension system – increase of the pension age, approximation of the age for men and women, enlarging of the insurance basis, tightening of access conditions, etc.
- There exist diametrically opposed visions about the particular approaches of the implemented reform. The positive features for some experts appear as negative for the others and if every expert should build own scheme and variant of the reform they would be too individualistic and different.
- The results from the interviews conducted half a year after the beginning of the reform indicate that the experts have already found some weaknesses and not good solutions that probably should be corrected.
- Overall the experts' evaluations are far more positive than the population's. Obviously there is a need for broad media campaign among the public for overcoming the negativism.

4. Conclusions

Some conclusions providing grounds for other countries to avoid the Bulgarian mistakes when carrying out pension reforms or suggesting some successful findings, working in a similar situation may be derived from the above report.

1. The pension reform should start only after a general strategy for the development of the social protection system covering the two safety nets – social insurance and social assistance is available. This strategy should comprise exact coordination and planning of the interrelations within the social insurance system - pension insurance, health insurance, unemployment insurance, etc.
2. The resolving of problems connected to other insurance risks, unemployment for example, with the leverages of the pension insurance leads to distortion of the insurance relations and considerable deterioration of the parameters of the pension reform.
3. The pension reform should not start just before the collapse of the old system, due to the following considerations:

- The start of the reform requires "the right to choose" for the persons, for example retirement or change in the insurance scheme, what usually increases the burden.
- The preservation of the social peace requires from the pension reform to be accompanied by some premiums for the population to compensate its restrictive nature.

4. The resolving of other issues related to the economic development like using the pension reform as a factor for creating portfolio investors or to help the development of the capital market should be carefully considered from the point of view of the sequence of steps over time.
5. The lack of financial resource in the population should not be a reason for transferring contributions from the main pension scheme to the supplementary mandatory insurance, if there is deficit in the main insurance scheme. The later provides grounds for a conflict among generations and destabilizes the pension schemes.
6. The pension reform should be preceded by a social assessment that should answer the question how the planned changes will affect the risk population groups. The restrictive pension reform finally places some of the persons in the risk groups outside the pension schemes and "dooms" them to social assistance.
7. The preparation of the normative documents for the reform by a broader group of stakeholders is a powerful mechanism for avoiding the organized opposition to the restrictive measures.
8. The experts involved in the preparation of the normative documents and in the implementation of the reform should be aware not only of the objectives and the essence of the reform, but of the consequences in all spheres of public life. The implementation of one big project in this relation before the start of the reform would have an immense positive effect.
9. When establishing the second pillar as a national scheme to cover part of the population, opportunities for minimizing the costs for attracting clients (insured persons) should be sought for. The personal choice of each insured person and the

promotion of competition among the pension companies are the most expensive mechanisms.

10. The Bulgarian experience provides grounds for considering that the collective choice for example in an enterprise or a branch may appear as a better idea. The arguments against the idea that the pension companies related to or owned by trade unions would be in a favorable position did not proved to be practically operational due to two reasons:

- They have considerable advantages and the highest number of insured persons also in a situation of personal choice;
- The schemes almost always allow moving from one fund to another after a specified time period.

11. The preliminary and the simultaneous (with the reform) media campaigns did not play a substantial role for the acceptance of the restrictive changes. At the same time, the distortion of reform nature and declaring objectives like higher pensions finally affects the expectations of the persons who become negatively minded about the reform. The policy of explaining the inevitability of the pension reform due to the unavoidable collapse of the old system has far more favorable impact from the point of view of the implementation of the pension reform.

The paper does not aim at comprehensiveness and systematic presentation of the Bulgarian pension reform. Given the limited volume of the paper, the authors tried to display some substantial characteristics of the pension reform that:

1. will provide general idea of the implemented reform in Bulgaria.
2. Will show those manifestations of the reform and their present interpretation that may be considered when carrying reform in other parts of the world.

We, the authors, will be very glad if we managed to arouse your interest and to induce you to search for additional information about the processes in the country, not only in the sphere of the pension reform.

Our web site is: www.club2000.org

Appendix 1

General background

According to the last official census, the population of Bulgaria is 7,973,617 people by 1st of March 2001. The census indicated a decrease of the population with almost 500,000 people compared to the previous census from 4th of December 1992, when the country's population has been 8,487,671 people. The decrease in the number of population is due to the negative natural growth in the entire ten-year period, as well as to the reason that many young and educated people have left the country. This situation has impact on another characteristic feature of the population – its age structure. The census indicates significant ageing of the population and by the present moment over 17 % of the population is age 65 years and over.

The country's GDP for 2000 amounts to 25,453,649,000 BGN[9], and the country is on some of the last positions in Europe according to GDP per capita. It is an optimistic fact that in 2000, the country's GDP grew with over 5,8 %, and there are similar expectations for 2001.

The average wage for 2000 is BGN 241, as the average wage for the public sector is BGN 266, and for the private sector it is BGN 217. These statistic figures indicate the official information, provided by the employers. In fact, the private enterprises use the practice to pay a small part of the remuneration according to official documents, and the other part unofficially, thus reducing the paid taxes and social security contributions. It is expected that at the end of the current year, the average wage according to official data will reach BGN 280. According to official information, about 1.7 million people work on labour contracts, while the employed people in the country are slightly less than 3 million people. The average wage statistics, does not account the self employed people, who pay taxes and social security contributions based on chosen incomes, as well as significant number of employees working without any contracts with their employers.

The ageing population, the high unemployment and the low number of employed, the deteriorating economic situation, and the low standards for access to the pension system regulated during the communist period, required the introduction of pension reform in the beginning of the democratic transition in the country. Unfortunately, the pension reform was delayed due to a number of reasons. However, when it started at the end of 1998 and the beginning of 1999, the reform's parameters were extremely difficult for the country's population.

By the middle of 2001 the pension reform has been completed in its legislative section. As a result of this the population has the following opportunities to receive pension:

1. State pension insurance system – First pillar of pension system.
2. Supplementary mandatory pension insurance - Second pillar of pension system.
3. Supplementary voluntary pension insurance – Third pillar of pension system.
4. Rent insurance for pension, performed by insurance companies.

[9] There is Currency Board in Bulgaria, and the exchange rate of the BGN is fixed to the DEM in ratio 1 BGN=1 DEM.

The main legislation, regulating the pension system is:

- The Mandatory Social Insurance Code /MSIC/, adopted in the beginning of 2000 and regulating the first and the second pillar of pension system;
- The Law on Supplementary Voluntary Pension Insurance /LSVPI/, regulating the third pillar of pension system. According to this law are also licensed the pension companies, which operate in the second pillar of pension system.
- Law on Insurance, regulating the provision of rent pension insurance.

These legal acts regulate the basic parameters of the pension reform. Its essence is to increase the standards for access to the state pension system, operating on the basis of pay-as-you-go principle, and to increase the share of the capital based insurance forms.

Appendix 2

Comparative analysis of the pension schemes before and after the adoption of the Mandatory Social Insurance Code

The assessment of the effectiveness of the impact of the pension reform on the risk population groups should be based on a comparative analysis of parameters characterizing the pension system. It presupposes awareness and comparison of the main elements of the legal regulation, as the changes are regarded as the basis of the conducted pension reform in the country.

The following scheme was adopted for reviewing the structure of the problems in order to achieve the objectives of the survey:

Firstly, the insurance regime, comprising the amount of the insurance contributions and scope of the insurance.

Secondly, the terms for eligibility for separate type of pensions and the way of their determination.

Thirdly, the introduction of the supplementary mandatory pension insurance.

It should be explicitly mentioned that only these legislative changes regarding rights and responsibilities of the citizens in the country, not changes of institutional nature are the subject of the study.

I.1. Insurance regime

Presently the insurance regime is regulated by the Mandatory Social Insurance Code, enacted on January 1, 2000, and before this date the matter was elaborated in Part III of the Labor Code from 1951 and its numerous amendments.

A. Amount of the insurance contributions

The Mandatory Social Insurance Code changed primarily the principle for determining the insurance contributions.

Till the adoption of the Mandatory Social Insurance Code there was no differentiation of the insurance contributions for the separate insurance events. The insurance contribution had universal character and covered all insurance events.

The following amount of the insurance contributions for all insurance events on account of the insurers (employers) was set by the Budget Law for the Social Insurance Fund for 1999:

1. 37 percent of the gross labor remuneration or the insurance income for the individuals who become eligible for full pension for length of service and old age under the conditions of the third labor category for the period till June 30, 1999, and 34.7 percent - since July 1, 1999;
2. 47 percent of the gross labor remuneration or the insurance income for the individuals who become eligible for full pension for length of service and old age, 3 and more years earlier than the age required under the third labor category for the period till June 30, 1999, and 44.7 percent - since July 1, 1999;
3. 52 percent of the gross labor remuneration or the insurance income for the individuals who become eligible for full pension for length of service and old

age, 8 and more years earlier than the age required under the third labor category for the period till June 30, 1999, and 49.7 percent - since July 1, 1999;

4. 40 percent of the gross remuneration of the teachers for the period till June 30, 1999, and 37.7 percent - since July 1, 1999.

Since January 1, 2000 a differentiated amount of the insurance contribution for the separate insurance risks was introduced, set for every fund by the Law for the Public Social Insurance Budget. For year 2000 the amount is defined as follows:

1. Pension Fund – 32 percent;
2. General Sickness and Maternity Fund – 3 percent;
3. Work Injury and Occupational Sickness Fund – 0,7 percent;
4. Professional Qualification and Unemployment Fund – 4 percent.

Secondly, a distribution of the amount of the insurance contribution for each risk between the worker and employer was introduced.

Till January 1, 2000 the insurance contribution at the account of the insured individuals for all insurance events was 2 percent of all gross labor remuneration or insurance income for the period till June 30, 1999, and 1 percent - since July 1, 1999.

After the adoption of the Mandatory Social Insurance Code a distribution of the insurance contribution between the insurer and the insured individual for each insurance risk was introduced.

The distribution ratio of the insurance contribution between the employer and the insured individual will change though the years as follows:

- in 2000 and 2001 – 80 : 20
- in 2002 – 75 : 25
- in 2003 – 70 : 30
- in 2004 – 65 : 35
- in 2005 – 60 : 40
- in 2006 – 55 : 45
- in 2007 and after – 50 :50.

For the year 2000 the amount of the insurance contributions is defined for the insurer and the insured person as follows:

1. Pension Fund –

For the insurer – 25.6 percent and

For the insured person – 6.4 percent

2. General Sickness and Maternity Fund -

For the insurer – 2.4 percent and

For the insured person – 0.6 percent

3. Work Injury and Occupational Sickness Fund –

Only for the insurer – 0.7 percent

4. Professional Qualification and Unemployment Fund –

For the insurer – 3.2 percent and

For the insured person – 0.8 percent.

Insurance of the self-insured categories

There existed a possibility before the adoption of the Code for the persons who self-insure for pension for length of service and old age and for disability pension due to general sickness and survivor pension, to make insurance contributions amounting to 22 percent of a chosen insurance income, but not lower than two minimum wages for the country and not higher than ten minimum wages. They could insure themselves for all insurance events except work injury and occupational sickness by a contribution amounting to 32 percent of a chosen insurance income between two and ten minimum wages for the country.

The Code obliges the self-insured persons to make insurance contributions amounting to 32 percent for: disability due to general sickness, old age, death, as the minimum amount of the chosen insurance income is preserved. However, there exists a requirement for the final amount of the insurance income to be set for every calendar year on the basis of the tax declaration of the person and cannot be less than two times the amount of the minimum wage and more than ten times the amount of the minimum wage during the 12 months of the year.

Insurance for work injury and occupational sickness

The insurance contribution for the persons, insured only for work injury and occupational sickness, till the adoption of the Code was at the account of the insurer (the employer) and amounted to 10 percent of the gross labor remuneration or the insurance income. Since January 1, 1999 the people who worked under second or additional labor contract were insured for work injury and occupational sickness only if they were insured for all insurance events under the basic labor full-time contract.

After the adoption of the Code the insurance contribution for work injury and occupational sickness is set at 0.7 percent and is at the account of the employer. At the same time the cases of due insurance contribution only for work injury and occupational sickness were limited.

Insurance of individuals working under contracts for management and control

Before January 1, 2000 there existed a requirement for insurance of individuals working under contracts for management and control of state EAD and EOOD (commercial partnerships) amounting to 37 percent of the monthly remuneration paid by the company under the contract, and 34.7 percent - since July 1, 1999.

The Code eliminated the difference between state and private enterprises, as for the executors under a contract for management and control there were introduced obligatory insurance contributions for Pension Fund - 32 percent (for 2000), for General Sickness and Maternity Fund – 3 percent, distributed between the insurers and insured persons in a ratio 80:20 for 2000 and 2001, and for the coming years - according to the ratio set in the Code.

Insurance of the persons receiving unemployment benefits

Till the adoption of the Code the insurance contribution at the account of the Professional Qualification and Unemployment Fund amounted to 22 percent of the calculated benefits for the unemployed, for the time considered as length of service.

Since January 1, 2000 the amount of the insurance contribution is set in the same way as the amount of the due contribution for Pension Fund.

Insurance for the period of temporary incapacity or pregnancy and birth giving

The insurance contribution for the period of temporary incapacity or pregnancy and birth giving amounted to 22 percent of the daily average gross labor remuneration or the daily average insurance income, on which the cash benefits were calculated. Insurance contributions were not due for the time of payment of cash benefits after the termination of the labor contract, as well as when the temporary incapacity occurred before the termination of the labor contract, singed for indefinite period and continued after the termination. Insurance contributions were not paid during the period of raising a small child, for the period of unpaid leave for temporary incapacity, for the period after termination of the labor contract during which cash benefits for temporary incapacity or pregnancy and birth giving were paid, as well as when the temporary incapacity occurred before the termination of the labor contract, signed for indefinite period and continued after the termination.

In the Code, the amount of the insurance contribution on the paid benefits for temporary incapacity for sickness, pregnancy and girth giving is 25.6 percent for 2000, at the account of the employer.

Insurance contributions on the funds for social expenses

Before January 1999 the insurance contribution was calculated as 22 percent of the sums or the cash equivalent of the in-kind payments at the account of the social expenses paid by the employer. For payment of insurance contributions on the amounts for social expenses, they should be paid (be given in-kind) constantly or periodically and should be directly received by the workers and employees and the granting should be documented for each worker and employee. These are the funds for food, clothing, transportation, and recreation. No insurance contributions are calculated on the amounts for social expenses if they are not received directly by the worker and the employee. The workers and employees who receive benefits in relation to accidental events, such as death of a family member, sickness, medications, birth giving, as well as the contributions paid for the supplementary pension insurance if paid at the account of the social expenses, are exempt of paying insurance contributions. The funds for social expenses on which the insurance contribution is paid are included in the gross labor remuneration in defining the pension, but are not taken into account for calculating the cash benefits for temporary incapacity or pregnancy and birth giving.

The Code sets the amount of the insurance contribution on the social expenses at 32 percent, and is distributed in a ratio 80:20 between the employer, who pays 25.6 percent and the worker – 6.4 percent.

Minimum and maximum amount of the insurance income

There existed a minimum and maximum amount of the chosen insurance income till January 1, 2000 for the freelance professionals and craftsmen – respectively from two times to ten times the minimum wage. There was no income ceiling for calculation of the insurance contributions for all categories, for which the employer made insurance contributions.

The Code introduces maximum amount of the income for calculation of the insurance contributions for all labor categories and it is ten times the minimum wage for the country.

Acquisition of rights by the insured persons

Before the adoption of the Code, there existed the fact that non-payment of the due insurance contributions by the enterprises, establishments or the organizations did not deprive the workers and the employees of the right of receiving all cash compensations, benefits and pensions.

The Code introduces the requirement for at least 6 months of insurance for acquiring right to cash compensation for temporary incapacity, except for the right for compensation for temporary incapacity due to work injury and occupational sickness, pregnancy and birth giving and for insured under 18 years of age.

Scope of insured persons

Two main insurance regimes existed till the adoption of the Code – the one referred to the employers who had to pay a definite amount of the insurance contribution for the separate categories of insured persons and the other regulated the insurance of the self-insured persons.

In relation to the first regime there existed 3 main groups of insured persons, for whom the employers were obliged to make different insurance contributions according to the scope of the insurance risks, and namely:

Mandatory insured for all insurance events:

Workers and employees employed by Bulgarian or foreign legal entities and individuals in the country – state, cooperative, joint or private enterprises, establishments or organizations or individuals, regardless of the nature and the duration of their work and the way of payment.

1. Voluntarily employed workers and employees to the Ministry of Defense, Ministry of Interior, Chief Directorate of the Construction Armies and their divisions
2. Workers and employees working for more than one employer under part-time labor contracts, except for those employed under a labor contract according to Art. 114 of the Labor Code.

Mandatory insured only for work injury were:

1. Ph.D. students;
2. Students in university, colleges, general secondary-special and vocational educational institutions during the time of the production practice before graduation;
3. Children, under 15 years, allowed to work only in the sphere of art;
4. Workers and employers, who according the labor contract, work in an enterprise, establishment or organization successively or not, more than 5 working days or 40 hours a month;
5. Persons performing services of short duration in state, public or cooperative enterprises, establishments or organizations;

6. Persons working under additional or second labor contract, when they are insured under the main full-time labor contract for all insurance events.

The service of short duration is work of accidental or one-time nature for the enterprise, establishment or organization and is performed by persons not included in the staff list for 5 days or 40 hours a month (but no more). When the work continues more than the above-mentioned period the person is considered insured for all insurance events.

The persons performing services of short duration in state, public or cooperative enterprises, establishments or organizations were regarded as insured only for occupational sickness.

Not subjected to mandatory insurance were:

1. The employed by private persons for performing services of short duration;
2. The husband (wife), the ascending and descending minors of the employer and of the husband (wife) when they work in his enterprise, farm or household.

There were two possibilities for insurance of the **self-insured persons**:

1. Mandatory insurance at their account for length of service and old age pension, disability pension for general sickness and survivor pension on two times the amount of the country minimum wage, and if they want – on chosen monthly insurance income not higher than ten times the minimum wage.
2. Voluntary insurance for all insurance events – on a chosen insurance income between 2 – 10 minimum wages.

These persons were not subjected to mandatory insurance if they were insured for all events or only those insurance events on other premises, or they are pensioners for length of service and old age. The pensioners for length of service and old age could insure themselves for length of service and old age pension, disability pension for general sickness and survivor pension.

The following individuals were insured for length of service and old age pension, disability pension for general sickness, survivor pension or for all insurance events, except work injury and occupational sickness:

1. Sole traders, partners in trade companies, private farmers, cooperative members and renters;
2. Freelance professionals or performing services after registration according to the set order;
3. The husband (wife) and the ascending relatives of the employer (insurer) and of the wife (husband) when they work in his enterprise or farm.

In regard to the persons working under no legal labor relations – they were subjected to mandatory insurance for all insurance events if they received a remuneration from the enterprise, establishment, organization or sole trader higher than 25 percent of the minimum wage for a calendar month or higher than the minimum wage for the entire calendar year.

Persons insured for all insurance events on other premises on a monthly remuneration not less than the minimum wage were not subjected to insurance.

The Mandatory Social Insurance Code changed the scope of the insured persons by limiting the cases of non-due insurance contribution or of due insurance contribution for work injury and occupational sickness. There was introduced the requirement for calculating insurance contributions on all types of incomes under contracts, of which on the incomes under civil contract that were free from this obligation till the enforcement of the Code, if the person was insured on other premises for all insurance events. The possible cases of payment of insurance contribution only for work injury and occupational sickness were limited, and the requirement for working 5 days or 40 hours per month was linked with the simultaneous execution of the requirement for payment that amounted to 1 minimum wage.

The Code abolished the two main insurance regimes and defined three main types of insured persons, owing different amount of insurance contribution:

1. **Mandatory insured persons insured for all social risks are:**

- workers employed for more than five working days or 40 hours, in one calendar month regardless of the nature of the work, the way of payment, and the source of funding;
- government employees;
- permanent military staff under the Law for the Defense, officers and sergeants under the Law for the Ministry of the Interior;
- individuals employed as cooperative members compensated for their labor;
- individuals working under a second or additional labor contract;
- individuals working under contracts for management and control of commercial companies.

2. **Mandatory insured persons only for work injury and occupational sickness are:**

- individuals hired by only one employer for no more than five working days or 40 hours in one calendar month if their compensation does not exceed one minimum wage; when their compensation exceeds one minimum wage these individuals shall be subject to insurance for all social insurance risks;
- individuals working without a labor relation with monthly compensation amounting to up to one minimum wage;
- students during their professional specialization or training practice

3. **Mandatory insured persons for disability due to general sickness, old age and death are:**

- individuals registered as freelance professionals and/or craftsmen;
- individuals performing economic activity as sole traders, owners or partners in commercial companies;
- Ph.D. students if they do not have pension insurance on other premises;
- private farmers;
- individuals working without labor relations and receiving compensation equal to or exceeding one minimum wage.

Calculation of the length of insurance

Till the enforcement of the Code, there was no difference between length of service and length of insurance, as the length of service was calculated in days, months and years, but for the calculation of the pension only the whole years were considered and the months were eliminated. Full 12 months length of service were acknowledged as one-year length of service. The period exceeding the actual length of service under labor relation acknowledged for pension was not considered as length of service, as well as the extra time when transforming the labor from one category into another when a worker or employee retired.

The Code introduced differentiation between length of service and length of insurance, as in calculating the cash compensations and pensions the length of insurance is taken into account – i.e. the time during which insurance contributions were paid for the person. The new formula for calculating the amount of the pension accounts for the whole length of insurance of the person.

Defining the insurance income

After the adoption of the new Code all incomes as compensations for the labor activity of the insured are included, of which the incomes under civil contracts. The private farmers are exception, for whom the monthly insurance income is one minimum wage.

The eligibility for insurance on a chosen income was preserved for persons, for whom, till the enforcement of the Code, the Regulation for Insurance of the freelance professionals and traders applied, and this income cannot be less than two times the minimum wage and higher than ten times the minimum wage.

The insurance contributions for Pension Fund are also paid on the minimum wage for the periods of temporary incapacity or pregnancy and birth giving, acknowledged as length of service. In this cases the insurance contributions are at the account of the employer.

The insurance of the workers and the employees arises from the day, from which they start to execute their duties under the labor relation and proceeds during the time acknowledged as length of service according the Labor Code.

The Code introduced clear rights of the insured persons dependant on the type of insurance.

Persons insured for all insurance risks are entitled to:

1. cash compensations for:

a) temporary incapacity due to general sickness, work injury and occupational sickness, for sanatorium treatment and urgent medical tests or examination, quarantine, suspension from work upon prescription of the medical bodies, sick person care or a quarantined family member care, urgent accompanying of a sick family member for medical examination, tests or treatment, as well as for healthy child care suspended from kindergarten due to a quarantine at the kindergarten or of the child;

b) labor readjustment in the event of temporarily reduced working capacity due to general sickness, work injury or occupational sickness;

c) labor readjustment due to pregnancy and breast feeding;

d) pregnancy and birth giving;

e) child raising.

2. cash benefits for:

a) disability due to general sickness when there are no grounds for granting a pension;

b) prevention and rehabilitation;

3. pensions for:

a) length of insurance and old age;

b) disability due to work injury or occupational sickness;

c) disability due to general sickness.

(2) In case of death of the insured person his/her spouse, children and parents shall be eligible for survivor pension and a lump sum benefit.

The insured persons only for work injury and occupational sickness are eligible for:

1. cash benefits for temporary incapacity, sanatorium treatment, urgent medical examination, medical tests or treatment;

2. cash benefits for prevention and rehabilitation;

3. disability pension for work injury or occupational sickness;

The persons insured for disability, old age and death are entitled to:

1. disability pension due to general sickness;

2. length of insurance and old age pension.

(2) In case of death of the insured person, his/her spouse, children and parents are eligible for survivor pension.

I.2. Acquiring pension rights

Till the adoption of the Code the workers, employees and farmers – cooperators, members of Labor Productive Cooperatives, culture workers and lawyers were eligible for length of service and old age pension after reaching a length of service and age according to the defined labor categories:
For I category – 15 years length of service and 52 years of age for men and 47 years of age for women;
For II category - 20 years length of service and 57 years of age for men and 52 years of age for women;
For III category - 25 years length of service and 60 years of age for men and 55 years of age for women.

For all categories the eligibility for length of service and old age pension arose under the simultaneous presence of the legal prerequisites – age and length of service. Differentiated approach was adopted in determining the necessary age and length of service depending on the labor category considering harmfulness, intensity, etc.

The Council of Ministers set the type of labor and the respective labor category according to the nature and the particular conditions of the labor, as well as the terms, conditions and order for acknowledging length of service for retiring. There existed the possibility for the Council of Ministers to set another age and length of service for retiring of separate categories of workers, employees and farmers-cooperators employed under specific labor conditions.

Persons became eligible for pensions under the conditions of the more favorable category if they had at least two thirds of the required length of service for this category. At the same time the retirement was possible under different length of service for different types of categories by adjusting the categories and recalculating the length of service. If a person was eligible for more than one pension, he/she was able to receive (his/her choice) the full amount of one of the pensions and 50 percent of every other. There was an exception only in regard to the pensioners – military disabled, who received the full amounts of both pensions – for military disability and for economic activity after reaching 60 years of age for men and 55 years of age for women.

There were projected deviations in the retirement regime, specified mainly by social considerations aiming at better social protection: women who gave birth to and raised 5 and more children till the children reached the age of 8, retired if they had 15 years length of service and 40 years of age for I labor category, and 45 years - for II and III labor category.

Another group were the blind persons, the disabled by birth, those who became disabled before they started work, and the military disabled having permanent, irreversible and progressing pains and ailments, placing them in I and II disability group. They retired under the terms for I labor category. The military disabled with ailments placing them in III disability group retired under the terms for II labor category.

Another category of persons who retired under alleviated regime were the military staff, who after retiring were eligible for pension after 20 years length of service, two thirds, of which was actual military service regardless of age.

The military staff occupying positions in air staff, crews of submarine vessels and divers for more than ten years were eligible for pension rights regardless of their age if they are dismissed from the armed forces after expiration of the contract or due to incapacity certified by the competent bodies.

There was projected a possibility for granting a pension of limited amount to persons who did not have the required length of service for the respective labor category, but had reached the required age: men – 65 years and women – 60 years, if they had half of the required length of service for the respective category. In this case the amount of the pension was set in proportion to the full length of service for the respective labor category.

By the adoption of the Mandatory Social Insurance Code the terms for acquiring length of service and old age pension were changed by the introduction of the requirement of availability of a definite number of points, acquired as a sum of length of insurance and age. Eligibility for pension for length of insurance and old age is acquired upon reaching 63 years of age for men and 60 years for women if the sum of the years of length of insurance and age is not less than 100 points for men and 90 for women.

As of January 1, 2000 the required age shall be increased from the first day of each calendar year with 6 months for both men and women, until 63 years for men and 60 years for women is reached.

As of January 1, 2004 the sum total of length of service and age for women shall be increased by one from the first day of each consecutive year, but not more than 94.

Year	Men		Women	
	points/ age		points/age	
2000	98	60,5	88	55,5
2001	99	61	89	56
2002	100	61,5	90	56,5
2003	100	62	90	57
2004	100	62,5	90	57,5
2005	100	63	91	58
2006	100	63	92	58,5
2007	100	63	93	59
2008	100	63	94	59,5
2009	100	63	94	60

In the event that the minimum number of points are lower than required, eligibility for pension shall be acquired with 15 years length of insurance and 65 years of age for men and women.

Military officials shall be eligible for pension upon dismissal, regardless of their age, if they have 25 years of service, two thirds of which are actually served at a permanent military service.

The military staff who have served 15 years (increased by 5 years in comparison with the previous legislation) occupying positions in the air staff, of the submarine and divers crew staff become eligible for pension regardless of the age if they are dismissed by the armed forces due to expiration of the contract or due to incapacity, certified by the competent bodies.

Till December 31, 2003 the military staff that retired according to the old regime can preserve this opportunity.

B. Determining the amount of pensions

Till the adoption of the Code, the amount of the pension was determined proportionally to the completed years of service for the respective labor category.

The amount of the pension was defined as 55 percent of the average monthly gross remuneration or income, on which the insurance contributions had been paid. This constituted the basic amount. Depending on the length of service, the basic amount could be increased or decreased. For length of service above the defined years for the respective labor category, the amount of the determined pension increased by 2 percent for each completed year of service without limitation.

The amount of the personal pension for length of service and old age was calculated on the average monthly gross remuneration or income, on which the insurance contributions were paid for a period of three consecutive years, which the person could choose from the last 15 years of service until January 1, 1997. The period taken as a basis for calculating the amount of the pensions granted before January 1, 1997 was three consecutive years from the last 15 years of service, chosen by the person. This enabled each person to point the most favorable three-year period from the last 15 years of service, during which he had received the highest gross wage. In relation to this, each pensioner could require the determination of a more favorable amount of his pension, by presenting a new and more favorable three-year period than the one initially presented. This right was terminative and was terminated when the person had exercised it once.

For those, who retired after January 1, 1997, beside the three years of their choice, the length of service after January 1, 1997 was also added to the period on which the pension was calculated.

The amount of the personal pension for length of service and old age for the persons who were labor-adjusted, was calculated from the average monthly gross remuneration, on which the insurance contributions were paid for the period of three consecutive years before their labor-adjustment until January 1, 1997 – if this has been more favorable for them – and from their length of service after this date.

With the adoption of the Code, a new formula for calculating the pensions was set.

The amount of the pension for length of service and old age is defined as the income on which the pension is calculated, multiplied by a percentage equal to the years of insurance.

The income, on which the pension is calculated, is determined by multiplying the average monthly insurance income for the country for the previous year with the individual coefficient of the person.

The individual coefficient of the person is calculated on the income, on which the insurance contributions for the period of three consecutive years from the last 15 years of service until January 1, 1997 were paid (on the choice of the person) and for the period after this date until his retirement and on the acknowledged length of service (insurance).

The following items need to be defined for calculating the individual coefficient:

1. the ratio between the average monthly insurance income of the person for the period before December 31, 1996 and the average monthly insurance income for the country for the same period.

2. the ratio between the average monthly insurance income of the person for the period after December 31, 1996 and the average monthly insurance income for the country for the same period.

The individual coefficient is determined by multiplying each of the above ratios with the respective number of months for which the ratio is determined, and the sum of these multiples is divided by the total number of months included in both periods.

When the persons have not worked after January 1, 1997, their individual coefficient is equal only to the first ratio, and when the base period is only after this date, their individual coefficient is equal to the second ratio.

The amount of the personal pension for length of service and old age cannot be less than 115 percent from the social pension for old age.

Disability pensions

They compensate to an extent the wages of the persons, which cannot be received due to lost or diminished work capacity. Not all disability pensions are in connection with work activity. Some are of social character – these are the civil-disability and military-disability pensions, which are set as a percentage of the social pension.

A common prerequisite for granting a disability pension is the disability to have occurred at the time of work or not later than two years after leaving work. This prerequisite is established for the disability pensions due to general sickness, work injury or occupational sickness.

Eligibility for Disability Pension

The insured persons are eligible for disability pension if they have lost fully or partially their work capacity forever or for a long period of time.

The disability pension was granted if the disability had occurred at the time of work or no later than two years after leaving work, as for some sicknesses, which were stated in a regulation, this term could be extended. The requirement for the disability to have occurred at the time of work did not apply to those blind by birth and to those who had gone blind before starting work. According to the degree of loss of work capacity and in respect to the profession, the disability was divided into three groups. A labor-expert health committee determined the group of disability on the basis of a Rule, enacted by the Council of Ministers.

There are three disability groups according to the degree of lost work capacity in the Mandatory Social Insurance Code:

1. first group – more than 90 percent lost work capacity;
2. second group – between 71 percent and 90 percent lost work capacity;
3. third group – between 40 percent and 70 percent lost work capacity.

The right to disability pension is established at the date of disability. The disability pension is granted for the period of disability.

The disability pension for the persons, who have reached the age for granting a pension for length of insurance and old age, is granted for life. When a re-certification of these disabled persons is performed at their request, the pension is not diminished or terminated.

Eligibility for Disability Pension for General Sickness

The insured persons were eligible for disability pension for general sickness in respect to the length of service on the following basis:

1. until the age of 20 – regardless of the length of service;
2. until the age of 25 – with length of service of three years;
3. above the age of 25 – with length of service of five years;
4. those blind by birth and those who went blind before starting work – with length of service of five years regardless of their age.

With the adoption of the Code the insured persons become eligible for disability pension for general sickness if they have lost their work capacity and have length of insurance acquired prior to the date of disability in the following manner:

1. until the age of 20 and for those blind at birth and those who went blind before starting work – regardless of the length of insurance;
2. until the age of 25 – with length of insurance of 1 year;
3. until the age of 30 – with length of insurance of 3 years;
4. until the age of 40 – with length of insurance of 7 years;
5. above the age of 40 – with length of insurance of 10 years;

Determining the Disability Pension for General Sickness

The amount of the disability pension for general sickness was determined depending on the disability group as a percentage of the average monthly gross remuneration or income, on which the insurance contributions were paid in the last 12 months before the disability, in the following manner:

1. for I group disability– 55 percent;
2. for II group disability– 40 percent;
3. for III group disability– 25 percent.

For the disabled due to common sickness from I and II group, a certain percentage was established as a supplement to the defined pension, depending on the length of service in the following manner:

1. for length of service between 10 and 15 years – 5 percent;
2. for length of service between 15 and 20 years – 10 percent;
3. for length of service above 20 years – 15 percent;

The minimum amounts of the disability pensions due to general sickness were set as follows:

1. for I group disability – 140 percent of the social pension;
2. for II group disability – 130 percent of the social pension;
3. for III group disability – 105 percent of the social pension;

With the adoption of the Mandatory Social Insurance Code, the personal disability pension due to general sickness is determined by multiplying the income on which the pension is calculated with the coefficient for each year of actual length of insurance in the following manner:

1. for persons from the first group – 1;
2. for persons from the second group – 0,9;
3. for persons from the third group – 0,8.

When, prior to the date of disability, the person has less than the required age for granting a pension for length of insurance and old age, the difference between his actual age and the required age is recognized as length of insurance in determining the disability pension. In determining the disability pension, the recognized years of length of insurance are multiplied with a coefficient as follows:

1. for persons from the first group – 0,9;
2. for persons from the second group – 0,8;

3. for persons from the third group – 0,7.

The amount of the disability pension due to general sickness cannot be less than:

1. for persons from the first group – 140 percent of the social pension for old age;
2. for persons from the second group – 130 percent of the social pension for old age;
3. for persons from the third group – 105 percent of the social pension for old age;

The income, on which the amount of the disability pension due to general sickness is calculated, is determined by multiplying the average monthly insurance income for the country for the previous year with the individual coefficient of the person.

The individual coefficient of the persons who have lost their work capacity is determined in the same way as the individual coefficient for calculating the pension for length of insurance and old age.

Disability Pension due to Work Injury and Occupational Sickness

The insured persons who have lost their work capacity due to work injury or occupational sickness, were eligible for disability pension due to work injury or occupational sickness regardless of the length of insurance, and this condition was preserved with the adoption of the Mandatory Social Insurance Code.

The amount of the disability pension due to work injury or occupational sickness was determined depending on the disability group, as a percentage of the average monthly gross remuneration or income, on which the insurance contributions were paid during the last 12 months before the disability or before the accident or the occupational sickness, whichever is more favorable for the person, in the following manner:

1. for I group disability – 70 percent;
2. for II group disability – 55 percent;
3. for III group disability – 35 percent.

The minimum amounts of the disability pension due to work injury or occupational sickness were set as follows:

1. for I group disability – 150 percent of the social pension;
2. for II group disability – 140 percent of the social pension;
3. for III group disability – 115 percent of the social pension.

With the adoption of the Mandatory Social Insurance Code, the personal disability pension due to work injury or occupational sickness is determined by multiplying the average monthly insurance income for the country for the last year with the individual coefficient and with the following coefficients:

1. for persons from the first group – 0,4;
2. for persons from the second group – 0,35;
3. for persons from the third group – 0,3.

The amount of the minimum disability pension due to work injury or occupational sickness cannot be less than:

1. for persons from the first group – 150 percent of the social pension for old age;

2. for persons from the second group – 140 percent of the social pension for old age;

3. for persons from the third group – 115 percent of the social pension for old age.

Supplement from the Pension of a Deceased Spouse

With the adoption of the Mandatory Social Insurance Code the pensioners became eligible for a supplement amounting to 20 percent of the pension or the sum of pensions of the deceased spouse. The supplement cannot be received simultaneously with the survivor pension of the same legator.

In case of death of a pensioner who has received personal disability pension, the amount of the survivor pension is determined from his personal pension as disabled from the first group.

Social Pension

Social pension is granted to two categories of persons:

1. to disabled with disability from the I and II group, who are more than 16 years of age;

2. to old people who are more than 70 years of age, whose annual income per family member is less than half the sum of the minimum wages set for the country for the last 12 months before the pension is demanded. In determining the income per family member, only the spouse and the children under the age of 18 are considered.

The social pension was granted to persons whose labor contracts were terminated due to complete or partial liquidation of the company, for men more than 57 years and women more than 52 years of age, and who have the required length of service for retiring under the third category of labor, prior to the date of the termination of their unemployment benefits, if they have not started work up to three months after the expiration of the benefits payment.

The Council of Ministers granted personal pensions in exclusive cases according to a specified order to persons who did not fulfil some of the requirements of the pension acts.

After proposals made by the municipal and regional councils, the Council of Ministers used to grant pensions to the persons who have not completed the age for acquiring the pension for length of service and old age, who did not have the right to other kinds of pensions, and who:

1. have given birth and have raised three or more children until the completion of the children's 18th year;

2. have taken care for more than 10 years for disabled persons – their family members who had needed constant assistance.

With the adoption of the Code, the eligibility for social pension is granted to persons who have completed 70 years of age, whose annual income per family member is less than half the sum of the guaranteed minimum income set for the country for the last 12 months before the pension is demanded.

The amount of the social pension for old age was determined by the Council of Ministers, and this condition has been preserved in the present.

Social Pension for Disability

With the adoption of the Mandatory Social Insurance Code, a new kind of social pension is introduced – the social pension for disability. Persons, who have completed 16 years of age and are in the first or second disability group, are eligible for social pension for disability.

The amount of the social pension for disability is 120 percent of the social pension for old age for the first disability group and 110 percent for the second disability group.

The following pensions cannot be received simultaneously:

1. personal and survivor pension for length of insurance
2. personal or survivor pension for length of insurance and old age and personal or survivor pensions for disability due to general sickness;
3. personal pension for disability due to general sickness and survivor pension for disability due to general sickness.

When the person is eligible for more than one personal pension for disability due to different sicknesses the most favorable type of pension is granted according to the disability group.

Recalculation of the pension

The persons, granted a pension for length of service and old age or for disability due to work injury, occupational sickness or general sickness, can require recalculation of the pension for acquired length of insurance after retiring.

The personal pension coefficient is not recalculated in these cases.

Supplement for external assistance

The pensioners from the first disability group, who constantly need external assistance, were granted a supplement of 75 percent of the social pension for old age to their pension and this condition was preserved in the Mandatory Social Insurance Code.

I.3. Mandatory Social Insurance Code

Another characteristic feature of the new Mandatory Social Insurance Code is the introduction of the supplementary mandatory pension insurance, the so-called second pillar of the pension system. The purpose of this type of insurance is guaranteeing additional income by providing additional pension and providing a possibility for early retirement for the individuals working under the conditions of first and second labor category.

The supplementary insurance in **an occupational pension fund** is of mandatory character for all employed under the conditions of first and second labor category and is implemented on the basis of individual contract signed between the pension-insurance company and the insured person. The purpose of the supplementary mandatory pension insurance is guaranteeing a possibility for early retirement for the individuals working under the conditions of first and second labor category by providing a fixed-term occupational pension.

The supplementary insurance in **a universal pension fund** is mandatory for the persons born after January 1, 1960 if they are insured in the state social insurance under the term and conditions of Part I of the Code and it would be enforced on January 1, 2002.

The supplementary mandatory pension insurance is performed on a **capital-funded principle** and the accumulated amount in the personal account is formed by the insurance contributions and by the distributed return on their investment. The pension schemes are on the basis of **defined contributions** – i.e. the amount of the insurance contributions and the periodicity of their payment on behalf of the employers are set annually in the Law for the Public Social Security Budget, and the amount of the pension is defined on the basis of the actuarial estimates by considering:

- *the accumulated amount in the personal account by the moment of retiring;*
- *the minimum return on investment of the assets of the pension fund;*
- *the term for receiving the pension.*

The supplementary mandatory pension insurance is performed only by monthly contributions as their amount is regulated as a percentage of the gross wage – for year 2000 for the insurance in an occupational fund they were set as follows:

- **12%** for the working under the conditions of first labor category, and
- **7%** for the working under the conditions of second labor category

The above insurance contributions in the occupational pension fund **have mandatory character and are paid by the employer**. The amount of the insurance contributions for supplementary mandatory pension insurance is set annually in the Law for the Public Social Security Budget.

The individuals working under the conditions of first and second labor category are obliged to be insured in an occupational pension fund since January 1, 2000 and it is connected to the personal choice of a pension fund established and managed by a licensed pension-insurance company.

The insurance in a universal pension fund will be performed by monthly contributions as percentage of the gross labor remuneration and they will be paid in a ratio, set for the contributions for the state insurance between the employer and the employee.

Principles of the Supplementary Mandatory Pension Insurance

Supplementary mandatory pension insurance is performed in observance of the following principles:

- *mandatory participation;*
- *legal independence of the pension insurance company from the universal and occupational pension funds;*
- *transparency, separateness and exclusiveness of the activity;*
- *licensing regime and government regulation;*
- *mandatory periodic reporting and disclosure of information;*
- *representation of the interests of the insured persons.*

Pension Schemes

Insurance in an **occupational pension fund** gives the right to:

1. *fixed-term occupational pension for early retirement;*
2. *lump sum or installments payment of the accumulated amount in the personal account upon decision of the territorial board of health experts for reduced working capacity;*
3. *lump sum or installments payment of the accumulated amount in the personal account paid to the heirs of a deceased member or pensioner of the occupational fund.*

The insured persons in the occupational fund are eligible for occupational early retirement pension under the following conditions:

for the individuals working under the conditions of first labor category – 8 years lower age than the required eligibility age for old age and length of service pension from the State Social Insurance and not less than 10 years work under the conditions of first labor category.

for the individuals working under the conditions of second labor category – 3 years lower age than the required eligibility age for old age and length of service pension from the State Social Insurance and not less than 15 years of work under the conditions of second labor category.

The insurance in **a universal pension fund** gives right to:

- *supplementary life pension for old age after the person becomes eligible for old age and length of service pension;*
- *lump sum or installments payment of the accumulated amounts in the personal account in case of a decision of a territorial board of health experts for permanent disability;*
- *lump sum or installments period payment of accumulated amounts in the personal account paid to the heirs of a deceased member or pensioner of the universal pension fund.*

Membership

The membership is on the basis of individual request to the Company and conclusion of written contract for supplementary mandatory pension insurance in an occupational and a universal pension fund. All requirements for the pension-insurance company, pointed in Part II of the MSIC, the rights and obligations of the parties under the contract are regulated in the insurance contract.

Every insured person in **an occupational or a universal pension fund** has a personal insurance number and individual insurance account where the funds from insurance contributions and the distributed return of investment, reduced by the fees and deductions, pointed in the Rule of the company, are accrued.

Rights of the Insured Persons in an Occupational Pension Fund

Insured persons are eligible for insurance in only one occupational and one universal pension fund.

The rights over the accrued amounts are personal – only the person and the heirs are eligible for them.

The insured person is eligible to transfer the accumulated amounts in the personal account in another occupational or universal pension fund, established and managed by other pension-insurance company.

The insured person is eligible, upon retirement, to draw as a lump sum or to transfer the amount accumulated in the individual account in a universal fund, if he/she is not eligible to occupational pension.

In case of death of the insured person in the occupational or universal pension fund, the amount accumulated in the individual account is paid to his/her heirs, as a lump sum or in installments.

The insured persons are eligible for free information about the accumulated amounts in the personal account, about the profitability of their management and about the acquired rights at least once within a calendar year.

It is evident that the separate changes affect the whole country's population to one extent or another. The general issue for all them finally is reduced to two things:

- *the establishment of a less accessible and less "giving" social pension insurance system.*
- *an attempt for a certain compensation for the above-mentioned through the establishment of more liberal, in terms of the opportunities for personal choice of everyone, supplementary, compensating scheme of pension insurance through the introduction of capital funding schemes for the second and third pension pillar.*

It is quite natural for one to presuppose that reforms in this direction will appear to be additional burden for the person in unequal position.

Appendix 3

Changes in the insurance burden in the mandatory insurance (1999-2002) - %

	Mandatory social insurance				**Supplementary mandatory insurance**			**Total (c.4+c.7)**
	For pensions	**For general sickness and birth giving -**	**For workplace injury and occupatio nal sickness**	**Total for MSI (c.1+c.2+c. 3)**	**For suppl. Mandat. Insurance in an occup. Pension fund**	**For suppl. Mandat. Insurance in an universal pension fund (persons born after January 1, 1960)**	**Toral for SMI (c.5+c.6)**	
	c.1	*c.2*	*c.3*	*c.4*	*c.5*	*c.6*	*c.7*	*C.8*
Insured person - III labor category								
1999	-	-	-	1	-	-	-	1
2000	6.4	0.6	-	7	-	-	-	7
2002	7.25 (1959) * 6.75 (1960) *	0.75	-	8 (1959) * 7.5 (1960) *	-	- 0.5 (1960) *	- 0.5 (1960) *	8
Employer - III labor category								
1999	-	-	-	34.7	-	-	-	34.7
2000	25.6	2.4	0.7	28.7	-	-	-	28.7
2002	21.75 (1959) 20.25 (1960)	2.25	0.7	24.7 (1959) 23.2 (1960)	-	- 1.5 (1960)	- 1.5 (1960)	24.7
Total insurance burden for the insured person - III labor category								
1999	-	-	-	35.7	-	-	-	35.7
2000	32	3	0.7	35.7	-	-	-	35.7
2002	29 (1959)	3	0,7	32.7 (1959)	-	-	-	32.7

	27 (1960)			30.7 (1960)		2 (1960)	2 (1960)	
Insured person - II labor category								
1999	-	-	-	1	-	-	-	1
2000	6.4	0.6	-	7	-	-	-	7
2002	7.25 (1959) 6.75 (1960)	0.75	-	8 (1959) 7.5 (1960)	-	- 0.5 (1960)	- 0.5 (1960)	8
Employer - II labor category								
1999	-	-	-	44.7	-	-	-	44.7
2000	28.6	2.4	0.7	31.7	7	-	7	38.7
2002	24.75 (1959) 23.25 (1960)	2.25	0.7	27.7 (1959) 26.2 (1960)	7	- 1.5 (1960)	7 (1959) 8.5 (1960)	34.7
Total insurance burden for the insured person - II labor category								
1999	-	-	-	45.7	-	-	-	45.7
2000	35	3	0.7	38.7	7	-	7	45.7
2002	32 (1959) 30 (1960)	3	0.7	35.7 (1959) 33.7 (1960)	7	- 2 (1960)	7 (1959) 9 (1960)	42.7
Insured **person** - I labor category								
1999	-	-	-	1	-	-	-	1
2000	6.4	0.6	-	7	-	-	-	7
2002	7.25 (1959) 6.75 (1960)	0.75	-	8 (1959) 7.5 (1960)	-	- 0.5 (1960)	- 0.5 (1960)	8

Employer - I labor category								
1999	-	-	-	49.7	-	-	-	49.7
2000	28.6	2.4	0.7	31.7	12	-	12	43.7
2002	24.75 (1959) 23.25 (1960)	2.25	0.7	27.7 (1959) 26.2 (1960)	12	- 1.5 (1960)	12 13.5 (1960)	39.7
Total insurance burden for the insured person - I labor category								
1999	-	-	-	50.7	-	-	-	50.7
2000	35	3	0.7	38.7	12	-	12	50.7
2002	32 (1959) 30 (1960)	3	0.7	35.7 (1959) 33.7 (1960)	12	- 2 (1960)	12 14 (1960)	47.7

* - The figures in brackets mean that the data refer to persons, born up to the end of 1959 and after January 1, 1960 respectively. The non-brackets figures mean that the data refer to both groups.