Tripartite round table on pension trends and reforms

Overall assessment of the pension system

Bulgaria (Workers)

- **The main principles that the Bulgarian pension system achieves are:**

Principle 1. OBJECTIVE OF UNIVERSAL COVERAGE - achieved

The Bulgarian pension system is a comprehensive and mature system for social protection of the ageing populations and the main challenge is to maintain a good balance between financial sustainability and pension adequacy. There are three pillars, based on contributory principle: first "pay as you go" pillar, second mandatory fully funded pillar and third voluntary fully funded pillar. According to the pension legislation, all types of workers (employees, self-employed and other types of persons employed) must be covered by pensions (old-age, disability, survivors' pensions) and be protected by receiving a decent replacement income upon retirement. This means that each of them must contribute responsibly during their active working life and participate to the common solidarity pension system. In recent years new forms of work pose major challenges not only in the labour market, but also require appropriate changes to the legislation to regulate the inclusion of these categories in the scope of the pension system. The coverage of the insured persons in Bulgaria is at a high level - about 86,4% (in 2019) of the employed and during the last 5 years, comprehensive and effective measures have been taken to reduce the relative share of people in the informal economy and those working without employment contracts in order to protect their pension rights and guarantee decent retirement income.

Principle 2. SOCIAL SOLIDARITY AND COLLECTIVE FINANCING – achieved

The design and financing of the pension system provide social solidarity through pension credits in case of career breaks: time of paid and unpaid parental leave; the time of pregnancy and childbirth, for the birth and adoption of a child up to 5 years of age; the time during which the person has received unemployment benefits, etc.

Since 2000, a ratio has been introduced between the pension contribution paid by the employer and the insured person. At the beginning of the period this ratio was 80:20, and now it is 60:40. Self-employed persons pay the entire pension contribution at their own expense.

Principle 3. RIGHT TO ADEQUATE AND PREDICTABLE PENSION BENEFITS – achieved only partially

The social security legislation guarantees the right of the elderly to receive a pension when they are covered by the mandatory pillars of the pension system. However, there are certain categories of persons for whom pension prospects and pension benefits are more limited. In addition, income inequality continues to grow as a result of the lack of equal opportunities for young people, low-skilled people, women, people without education, etc. Also the weak redistributive effect of taxes and social transfers and the increasing technological change are factors in increasing inequality and pension prospects for these categories. The adequacy of pensions is still low (38,8% is the ratio between the average pension and the average insurance income in 2019) and this is one of the biggest challenges facing the pension system.

In order to improve adequacy and predictability of the old-age pension system, in the last years, a number of steps were taken which are related to: improving the link between contributions and

rights, changing the pension formula and introducing the right of choice of insured persons to redirect their pension contributions from universal fully funded pension funds (UPFs) only to the state “pay as you go” pension fund (first pillar).
For the predictability of the pension system and the adequacy of old-age pensions, periodically are developed actuarial calculations on the income replacement ratio, the actuarial balance of the Pensions Fund and the amount of the actuarial pension contribution to ensure financial sustainability of the system.

Principle 4. RESPONSIBILITY OF THE STATE – achieved
The State plays an important role to secure an adequate level of income for all people in old age. In view of the financing and sustainability challenge faced by pension system in the context of demographic change, the State also has a vital role in forecasting the long-term balance between resources and expenditure in order to guarantee that pension system and other social institutions will meet their obligations towards older persons for adequate benefits and services and to allow life in dignity for adults despite the unfavorable demographic trends in the country. A special Fund for guaranteeing the financial stability of the pension system has been established, which is a kind of reserve for moments of peak load on the costs of the system.

Principle 5. NON-DISCRIMINATION, GENDER EQUALITY AND RESPONSIVENESS TO SPECIAL NEEDS – achieved
Under social security and social protection legislations, there are provisions specifically aimed at securing equality of treatment, incl. with respect to persons with special needs, taking into consideration situations of vulnerability (disabled persons, migrant workers and other groups). Gender equality is guaranteed by the pension formula, which is used to calculate pensions in the mandatory pension insurance - first and second pillars. The differences in the amount of pensions at present are still due to the different retirement requirements for men and women (age and years of service) as well as the lower wages that women receive during their careers and periods of more frequent breaks due to family care.

Principle 6. FINANCIAL, FISCAL AND ECONOMIC SUSTAINABILITY - in the medium and long term achieves only partially

Principle 7. TRANSPARENCY – achieved
The social legislation includes legal provisions that oblige the institutions administering pension funds (National Social Security Institute - for the first pillar and the Universal and Professional Pension Funds - for the second pillar) to ensure transparency and periodic reporting on the administration and management of the funds of the insured persons through a personal register of insurers and insured persons, a register of pensioners and the information systems of the UPFs and PPFs that provide an opportunity for electronic data exchange and the creation of a single electronic file of each insured person or pensioner and any information concerning their insurance rights, the amount of fees and the achieved return on investment.

Principle 8. INVOLVEMENT OF SOCIAL PARTNERS AND CONSULTATIONS – achieved
Representatives of trade unions and employers participate in the Supervisory Board of the National Social Security Institute by approving draft regulations, the social security budget and other documents and exercising control over the NSSI. Trade unions actively support government policies to achieve long-term financial stability of the pension system as part of the social protection system.
Principle 9. PERIODIC REVIEW OF PENSIONS BENEFITS – achieves only partially

There are not explicit normative provisions regulating the periodic review of the level of long-term benefits based on the cost of living and level of earnings in the country.

WHAT IS YOUR OVERALL ASSESTMENT OF YOUR COUNTRY'S PENSION SYSTEM?

The Bulgarian pension system is a advanced system that has been modernized and adapted to the profound socio-economic changes in the country. Measures are constantly being taken to improve protection by offering the pension products provided for in ILO Convention 102 for the risks of old age, disability and death. But there are still huge challenges to the adequacy. And the most serious problem facing her is the demographic picture in the country.

WHAT COULD BE DONE TO STRENGTHEN THE PENSION SYSTEM?

To strengthen its long-term financial stability it is needed to move gradually towards determining the rate of the pension contributions on the basis of the actuarial required size. Also to develop the Reserve fund of the solidarity system / etc. Silver Fund / to develop an efficient scheme for its inclusion in the financing of the pension costs of the solidarity system.