

# Tripartite round table on pension trends and reforms

## Overall assessment of the pension system

### Bulgaria (Government)

The main legislative act of the Republic of Bulgaria concerning social insurance is the Social Insurance Code. Its enforcement on January 1<sup>st</sup> 2000 introduced the three-pillar pension model in Bulgaria, namely: compulsory pension insurance (pillar I), supplementary compulsory pension insurance (pillar II) and supplementary voluntary pension insurance (pillar III).

According to the United Nations, Bulgaria ranks among the ten countries with the fastest aging population in the world. Demographic problems have a major impact on pension systems and in particular on the state social insurance system in Bulgaria which operates on a pay-as-you-go basis. In this light, a need for stabilization of the state social insurance system was identified, leading to an increase in revenues and a reduction of costs.

Thus a pension reform was implemented in 2015, establishing the legal framework of the enhanced pension model, and short-term and long-term measures were introduced for achieving financial stability of the pension system and improving pensions' adequacy. The accepted amendments concerned:

- increasing the receipts in the insurance system;
- optimizing the expenses in the insurance system;
- improving pension adequacy;
- developing and improving the three-pillar pension model;
- other changes to refine and further develop the existing provisions.

We are of the opinion that the pension system in Bulgaria functions in full compliance with the ILO principles related to *Progressive realization of universal coverage, Social solidarity and collective financing, Overall and primary responsibility of the State, Non-discrimination, gender equality and responsiveness to special needs, Transparent management and administration, Involvement of social partners and consultations with other stakeholders and Periodic review of pensions to match the evolution of the cost of living and level of earnings.*

The pension system in Bulgaria provides very large coverage for individuals. All economically active persons (employed and self-employed) fall within the scope of the compulsorily insured persons for the insured risk "old age", i.e. for pension, regardless of the nature of work, the method of payment or the source of funding, incl. workers and employees working under the conditions of part-time work, under an additional or second employment contract, etc. Practically all legally employed persons are covered.

Although there is a close link between the amount of the pension received and the personal contribution of the insured person, the solidarity principle lays in the basis of the

Bulgarian pension system – there are various mechanisms for vertical and horizontal redistribution within it.

The stability of the system is guaranteed by the State, as in case of deficits in the pension funds, transfers from the state budget are made.

The principle of non-discrimination is incorporated in many legal acts in Bulgarian legislation such as the Protection Against Discrimination Act, the Social Insurance Code, the Health Insurance Act and the Social Assistance Act.

In the Republic of Bulgaria, state policy in the field of state social insurance, including pension insurance, is developed, coordinated and conducted by the Minister of Labour and Social Policy. State social security is managed by the National Social Security Institute. The National Social Security Institute is managed, on the one hand, by the manager and the deputy manager of the Institute, who are elected and dismissed by the National Assembly, and on the other hand, by the Supervisory Board of the National Social Security Institute. Transparency in the management of the Institute is guaranteed by the tripartite principle on which the Supervisory Board is built – it consists of one representative of each of the representative organisations of employees and employers recognised under the Labour Code and an equal number of representatives appointed by the Council of Ministers, one of whom must be a deputy executive director of the National Revenue Agency.

Social dialogue in the management of the social security system is one of the basic principles enshrined in the basic legal act – the Social Security Code regulating pension provision in its three-pillar model. Any changes in the legal framework concerning the pension system are subject of discussion by the Social Security Relations Committee of the National Council for Tripartite Cooperation, a tripartite body whose functions and organisation are regulated by the Labour Code.

Pursuant to the Social Security Code, the pensions are updated annually as of July 1<sup>st</sup> by a decision of the Supervisory Board of the National Social Security Institute with a percentage equal to the sum of 50 percent of the increase in the social security income and 50 percent of the consumer price index for the previous calendar year (the so called “Swiss rule”).

The adequacy and long-term sustainability of the pension system are crucial for preventing and tackling poverty among the elderly. In this regard, a key priority is achieving the goals of the *Right to adequate and predictable benefits* principle. The 2015 pension reform, which adopted measures to be implemented over time until 2037, will ensure better financial, fiscal and economic sustainability of the system, thus ensuring an adequate pension income and a higher standard of living after retirement. By virtue of this reform, revenues in the pension system are gradually increasing and the system becomes more independent from the state budget. In recent years there has been an increase in the average amount of pensions and this process is ongoing.

As already noted, the state social insurance in Bulgaria operates on a pay-as-you-go basis. This means that the funds for pension payments are provided by the incoming social security contributions of citizens currently working, and not by accumulated amounts in personal accounts.

In many countries, including Bulgaria, this type of insurance is upgraded with other types – with supplementary mandatory and supplementary voluntary pension insurance, wherein the amounts are transferred to individual accounts. This supplements the compulsory social insurance of the pay-as-you-go type, creating an opportunity for persons to receive more than one pension and thus the replacement rate of the income from work to be increased, without increasing the insurance burden for insured persons.

The pension system continues to improve, as we will soon adopt changes in connection with the forthcoming start of the payment of pensions from the second pillar of the pension system. The third pillar of the pension system (supplementary voluntary pension insurance) is well-functioning. This will provide a secure additional income to the basic pension from the first pillar.