

THE IMPACT OF PENSIONS FOR INSURANCE EXPERIENCE AND AGE ON THE SOCIAL INSURANCE SYSTEM

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Abstract

The period under review started in 2010, when the discussion of significant parametric changes in the pension system in Bulgaria began in order to improve it, resulting from the changed rates of economic growth, employment/unemployment, income, inflation, parameters and trends of demographic processes and their impact on the social insurance system and ends in 2018, with the inclusion of the latest changes in pension legislation and the available statistics on an annual basis. The article aims to show how the changes in recent years concerning the access to a pension for insurance experience and age and the determination of its amount have affected the number, amount and costs of pensions for insurance experience and age for the period 2010 - 2018.

Key words: social insurance, pension, economic growth, social insurance income, insurance experience and age

JEL:

Introduction

Old-age and old-age pensions (ERUs) are essential for social policy in Bulgaria. The contributions received in the funds of the insurance system cover all persons who work and pay social security contributions. The higher the level of economic growth in our country, the greater the amount of funds will go to the social insurance system. Energy security and economic growth depend on the development of the national economies (Dimitrov, 2019, p. 528). By accumulating more resources, this will help publicly financed services (PFS), which are those whose creation is financed entirely or partially by public resources (Valkov, Gorchilova-Atanasova, Penkova-Pantaleeva, 2019, p. 9). The information flow is about the occurrence of changes, which concern the persons of retirement age. It needs to be adapted to modern requirements. An important problem for modern societies is poverty, accompanied by social division (Велева, 2018, p. 161). One of the main tasks of modern human resource management is to create a working environment that helps to achieve the goals of the organization (Боянов, 2018, p.145).

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The social insurance structures have separate units in the administration (Симеонова, 2014).

All countries have come to realize that the IT industry will enhance the competitiveness and creativity of their economies (Blagoev, Yordanova, 2016, p. 382). There are other factors that, if well-functioning, have a positive impact on the social insurance system. To this end, the following factors will be considered:

- Amount of the pension
- Modernization of pensions
- Minimum and maximum amount of pensions
- Social Insurance income

The period under review started in 2010, when the discussion of significant parametric changes in the pension system in Bulgaria began in order to improve it, resulting from the changed rates of economic growth, employment/unemployment, income, inflation, parameters and trends of demographic processes and their impact on the social insurance system and ends in 2019, with the inclusion of the latest amendments in pension legislation and the available statistics on an annual basis.

The main type of pension, which is granted under Bulgarian law, is received by the largest number of pensioners and occupies the highest share in the expenditures for pensions of the state social insurance (SSS), is that for insurance experience and age (OSV). This analysis shows how the legal amendments concerning the access to a pension for insurance experience and age and the determination of its amount have affected the number, amount and costs of pensions for length of service and age for the period 2010 - 2019.

This article aims to present the role of pensions for insurance experience and age in the social security system in Bulgaria. This will be revealed through the presented main parameters influencing the formation of ERU pensions. They occupy a major place as a nominal value in the insurance system of our country.

Since the beginning of 2000, the conditions for retirement have changed with a pension for insurance experience and age, with the introduction of the so-called “point system”. A characteristic feature of the point system for retirement was that in case of insufficient insurance experience it could be compensated with age. It was envisaged that from 31 December 2011 the insurance experience would increase from the first day of each subsequent calendar year by 4 months for both sexes to 37 years for women and 40 years for men, and from 31 December 2020 the age would be increased. It increases from the first day of each subsequent calendar year by 6 months for both sexes until reaching the age of 63 for women and 65 for men. The requirement for the presence of a sum of insurance experience and age remained to be applied only in the cases of retirement under

the conditions of § 4, para. 1, 2 and 3 of the TFP (transitional and final provisions) for persons who have worked under difficult and harmful working conditions.

With the subsequent legislative amendments (effective from 1 January 2012), the age began to increase from 31 December 2011 by 4 months per year to reaching the age of 63 for women and 65 for men. From the same date, the insurance experience increases from the first day of each subsequent calendar year by 4 months for both sexes to 37 years for women and 40 years for men. In 2014, the initially envisaged increase of the required age and the insurance experience, necessary for granting a pension for ERUs under Art. 68, para. 1-2 of the CSR (Social insurance code), was suspended for one year in order to provide time tolerance to seek a more balanced solution regarding the retirement criteria. In 2015, the required age was maintained at the levels of the previous two years, and the insurance period increased by 4 months for both sexes.

In 2016, the reform of the pension system was continued. According to the amended provision of Art. 68, para. 1-2, the right to a pension for insurance experience and age in 2016 is acquired at the age of 60 years and 10 months by women and 63 years and 10 months by men and insurance experience 35 years and 2 months for women and 38 years and 2 months for men. After December 31, 2037, the age for both sexes is associated with an increase in life expectancy. From 31 December 2016, the insurance experience increases from the first day of each subsequent calendar year by 2 months until the insurance experience reaches 37 years for women and 40 years for men.

The conditions for acquiring the right to a pension for insurance experience and age, which are specified in the CSR for the period under review, are shown in the following table.

Table 1: Conditions for acquiring the right to a pension for length of service and age (Art. 68, para. 1-2 of the Social Insurance Code) for the period 2013 – 2019

Year	Age		insurance experience	
	Man	Woman	Man	Woman
2013	63 y. 8 m.	60 y. 8 m.	37 y. 8 m.	34 y. 8 m.
2014	63 y. 8 m.	60 y. 8 m.	37 y. 8 m.	34 y. 8 m.
2015	63 y. 8 m.	60 y. 8 m.	38 y.	35 y.
2016	63 y. 10 m.	60 y. 10 m.	38 y. 2 m.	35 y. 2 m.
2017	64 y.	61 m.	38 y. 4 m.	35 y. 4 m.
2018	64 y. 1 m.	61 y. 2 m.	38 y. 6 m.	35 y. 6 m.
2019	64 y. 2 m.	61 y. 4 m.	38 y. 8 m.	35 y. 8 m.

Source: Summary data for the period from the NSI

If the men and women did not meet the above conditions, they could retire until 31 December 2010 with at least 15 years of service. From 1 January 2011 the requirement was for persons to have 15 years of actual insurance experience, and from 31 December 2011 the required age began to increase from the first day of each subsequent calendar year by 4 months to reach 67 years. In 2014, the planned increase in the age was suspended for this type of pension, as the minimum required age remained at the level of the previous year - 65 years and 8 months for both sexes, and the same retirement conditions were maintained in 2015 (Art. 68, paragraph 3 of the CSR). In 2016, after the change of Art. 68, para. 3 of CSR the persons who are not entitled to a pension under Art. 68, para. 1 and 2 of CSR acquire the right to a pension at the age of 65 years and 10 months for women and men and at least 15 years of actual insurance experience. From 31 December 2016, the age increases from the first day of each subsequent calendar year by 2 months until reaching the age of 67.

From the beginning of 2016, with the amendments to the Social Insurance Code, the possibility of granting a pension for insurance experience and age in a reduced amount was introduced. The reduction is 0.4% for each missing month until the person reaches the standard retirement age. The rule of the new art. 68a refers to workers, employees and civil servants working under the conditions of the third category of labor, who have accumulated the necessary insurance experience for granting a pension, but do not reach 12 months of age. These persons may, at their request, retire up to one year earlier than the standard retirement age specified in the CSR. Once granted, the pension under Art. 68a CSR is paid for life in a reduced amount.

Until 31 December 2010, persons who have reached the retirement age, and who have not reached 5 years of insurance experience to acquire the right to a pension, were entitled to retire when purchasing this insurance experience, and one of the options was to pay social security contributions to be made through monthly deductions from the granted pension, determined in a plan for deferred payment. As of January 1, 2011, the possibility for deferred payment of insurance contributions for the purchase of insurance experience, which is insufficient for the persons upon their retirement, has been eliminated. Persons who have reached the total retirement age may pay social security contributions for insurance periods of up to 5 years, insufficient to acquire the right to a pension under the procedure determined once, the social insurance contributions being calculated by the percentage determined for the Pension Fund for those born before January 1, 1960 on the minimum insurance income for self-insured persons, determined by the State Social Insurance Budget Act as of the date of payment of the contributions.

With the entry into force of the Compulsory Social Insurance Code (since 2003 - Social Security Code) the right to early retirement of persons working under the conditions of the first and/or second category of labor is preserved and regulated in the transitional and final provisions of the Health Insurance Fund as a transitional measure. The term of validity of the three paragraphs of § 4 of the TFR of CSR (paragraphs 1, 2 and 3) for the early retirement of the persons referred to in these provisions, who worked in difficult working conditions, has been extended several times over the years, the last extension for the considered period is until December 31, 2015. With the legislative amendments, effective from January 1, 2012, the minimum required retirement age was provided from December 31, 2011 under the conditions of § 4, para. 1 to increase gradually from the first day of each following calendar year by 4 months for women and men to reach 48 years of age for women and 53 years of age for men in the first category of work and 53 years for women and 58 years for men in the second category of labor. In 2014, the planned increase in age was stopped for both sexes, it remained at the levels of the previous year, and the same conditions remained in 2015.

With the changes made in CSR from January 1, 2016, reforms in the pension system were introduced. On the basis of which, the right to early retirement from the Pension Fund of the Social Insurance Fund for work of the first and/or second category is acquired by the persons who have not acquired the right to early retirement pension from an occupational pension fund. This group includes persons who have experience in categories only before 2000, due to which they are not insured in an occupational pension fund, as well as those who have experience in categories - before and after 2000. Persons who have worked 10 years under the conditions of the first category of work or 15 years under the conditions of the second category of work, may retire if they had reached the age by 31 December 2015. 47 years and 8 months for women and 52 years and 8 months for men for the first category work or 52 years and 8 months for women and 57 years and 8 months for men for the second category of work, and if they have a sum of insurance experience and age 94 for women and 100 for men. (Table 2).

Table 2: Conditions for retirement under Art. 69b, para 1 and 2 of CSR (previous § 4, para 1, 2 and 3 of TF of CSR) for the period 2010 - 2020

Year	Age				Insurance experience(man and woman)		Sum of insurance experience and age	
	I labor category		II labor category		I labor category	II labor category	Man	Woman
	Man	Woman	Man	Woman				
2010	52 y.	47 y.	57 y.	52 y.	10	15	100	94
2011	52 y.	47 y.	57 y.	52 y.	10	15	100	94
2016	52 y. 10 m.	48 y.	57 y. and 10 m.	53 y.	10	15	100	94
2017	53 y.	48 y. 2 m.	58 y.	53 y. 2 m.	10	15	100	94
2018	53 y. 2 m.	48 y. 4 m.	58 y. and 2 m.	53 y. 4 m.	10	15	100	94
2019	53 y. 4 m.	48 y. 6 m.	58 y. and 4 m.	53 y. 6 m.	10	15	100	94
2020	53 y. 6 m.	48 y. 8 m.	58 y. and 6 m.	53 y. and 8 m.	10	15	100	94

Source: Summary data for the period from the NSI

The conditions for acquiring the right to a pension under §4, para. 2 of the TFP of CSR in force from 01.01.2016 were listed as permanent in Art. 69b, para. 3 of CSR, and on this basis, the persons who have 10 years of insurance experience, laid down under the conditions of Art. 104, para. 3, may retire before reaching the age under Art. 68, provided that they have a sum of age and insurance record of 90 and by 31 December 2015 have reached the age of 52 for men and 47 for women. From 31 December 2015, the age increases from the first day of each subsequent calendar year by 2 months until reaching the age of 55 for men and women.

From January 1, 2016, the insured persons in an occupational pension fund acquire the right to an early retirement pension from the PPF under Art. 168 of CSR in:

- not less than 10 years of insurance experience after December 31, 1999 under the conditions of the first category of work and age, 10 years lower than their age under Art. 68, para. 1;
- not less than 15 years of insurance experience after 31 December 1999 under the conditions of the second category of work or under the conditions of the first and second category of work and age, 5 years lower than their age under Art. 68, para. 1.

With regard to the conditions for retirement under Art. 69 of the CSR of the employees from the specialized departments, important changes also took place in the period 2010 - 2016. In accordance with the requirements for gradual increase of the insurance experience for retirement from 1 January 2012, the required total insurance experience for acquiring the right to a pension by the employees

of the specialized departments increased by two years. Soldiers, police officers, investigators and others began to retire upon discharge from service, regardless of their age and with 27 years of total insurance experience, of which two thirds (18 years) actually served in certain positions and under certain laws. For some of the persons under Art. 69 of the CSR, occupying positions of the flight crew, parachutists, submarine crews and diving staff and those of the position „diver“ in DG „PBZN“ of the Ministry of Interior the requirement for lower insurance experience in these positions - 15 years remained unchanged.

From 31 December 2016, the age for these persons started to increase from the first day of each subsequent calendar year by 2 months until reaching the age of 55. For the persons holding positions of the flight crew, the paratroopers, the crews of the submarines and the diving staff, and those of the position „diver“ in DG „PBZN“ of the Ministry of Interior, the required age for their right to pension from 01.01.2016 is 42 years and 10 months, and the same will increase from January 1 of each subsequent year by 2 months until reaching 45 years of age. The requirement under Art. 69 of the CSR is to be dismissed from the respective position in order to acquire the right to a pension.

From the beginning of 2016, a fund “Pensions for the persons under Art. 69” was established. The incomes under it are collected from insurance contributions for the persons who retire under art. 69 of the Social Insurance Code, and the costs will be for the payment of pensions for insurance experience and age, disability pensions due to general illness and supplements to this category of persons, as well as for updating these pensions and for payment of prevention and rehabilitation benefits.

As of January 1, 2011, a provision in CSR has been in force, according to which ballerinas, ballet dancers and dancers in cultural organizations have started to acquire the right to a pension for insurance experience and age upon termination of employment, regardless of their age, if they have 25 years insurance experience in these positions. From January 1, 2016 for this category of persons an additional condition was introduced for acquiring the right to a pension - age 42 years and 10 months, which from December 31, 2016 has increased from the first day of each subsequent calendar year by 2 months to reaching the age of 45. From the beginning of 2016, the requirement for termination of insurance as a condition for acquiring the right to a pension was abolished.

Until 31 December 2011, the teachers acquired the right to a pension for insurance experience and age with a teacher’s insurance experience of 30 years for men and 25 years for women and 3 years earlier than the retirement age under Art. 68, para. 1 of CSR for the respective calendar year. From 31 December 2011, the required teaching experience began to increase from the first day of

each subsequent calendar year by 4 months to 28 years for women and 33 years for men.

From January 1, 2013, the right to receive an early pension from UchPF (teachers pension fund) began to be assessed in relation to the individual retirement age of the person, and not in relation to the universal age, specified in Art. 68, para. 1 of CSR. After the change, the right to an early teacher's pension began to be acquired up to 3 years before the person reaches the retirement age, at which he would be entitled to a pension for insurance experience and age from the Pension Fund of the Social Insurance.

In 2014, the annual increase in the required insurance experience for a teacher's pension was canceled and it remained at the levels of the previous year - 25 years and 8 months for women and 30 years and 8 months for men, respectively, and the same conditions remained in 2015. The conditions for acquiring the right to a pension by teachers from the beginning of 2016 were described as permanent texts in CSR (Article 69c). Teachers are entitled to a pension for insurance experience and age at the age of 57 years and 10 months for women and 60 years and 10 months for men and teacher insurance experience 25 years and 8 months for women and 30 years and 8 months for men. From 31 December 2016, the age for women increases from the first day of each subsequent calendar year by 2 months to 31 December 2029, and from 1 January 2030 - by 3 months, and for men by 2 months until December 31, 2017, and from January 1, 2018 - by 1 month until reaching the age of 62 for both sexes.

With the development of the dynamic processes in the field of retirement, the amount of pensions is also an important point.

From January 1, 2013, the requirement for deferred retirement was introduced to take into account only the insurance experience laid down after the date of acquisition of the right to a pension under Art. 68, para. 1 and 2 of CSR.

Another significant change regarding the determination of the amount of pensions for ERUs is the newly adopted provisions of para. 7 and 8 of Article 70 of the CSR (in force since 15.08.2015). They are related to the right of the persons insured in a universal pension fund, regulated from 01.01.2015, to change their insurance from this fund to the Pensions Fund, respectively the Pensions Fund for the persons under Art. 69 of the CSR and introduce rules for determining the individual coefficient. For the periods during which the persons are insured in UPF their individual coefficient is reduced on the basis of the ratio between the amounts of the social security contributions for the universal pension fund and for the Pension Fund for the third category of labor for the persons born before January 1, 1960.

According to the new wording of Art. 70, para. 1 of CSR (effective from January 1, 2016), the amount of the pension is determined by multiplying the

income from which the pension is calculated by the amount formed by: by a percentage of 1.1 percent for each year of service and the respective proportional part of the percentage for the months of insurance experience. After December 31, 2016, the percentage for each year of insurance experience will be determined annually in the Social Insurance Budget Act and will be increased by a percentage equal to or greater than the percentage under Art. 100, para. 1 of CSR, until reaching 1.5.

Effective from 01.01.2016, the recalculation of the pension from insurance income for another three-year period before January 1, 1997, is limited to one time and within 12 months from the entry into force of the order for granting the pension.

Given the significant changes that occur in the social insurance system, it is necessary to update pensions.

During the period 2010 - 2012 the updating under Art. 100 of the CSR was suspended as part of measures to limit public spending during the economic crisis. As of January 1, 2012, a change in the provision of Art. 100 of the CSR, according to which the pensions granted until December 31 of the previous year had to be updated from July 1 by a decision of the Supervisory Board of the National Social Insurance Institute with a percentage equal to the consumer price index in the previous calendar year.

For 2013 the pensions were updated, but not by the order of art. 100 of CSR, and differentiated according to the year of issue. The increase was intended to compensate for the temporary non-implementation of the pension modernization in the period 2010-2012, which was part of the measures to limit public spending during the economic crisis. All pensions, with the exception of non-employment pensions, were updated from 1 April 2013 as follows:

- Granted with a starting date until December 31, 2009 - by 9.8 percent;
- Granted with a starting date from January 1 to December 31, 2010 - by 8.8 percent;
- Granted with a starting date from January 1 to December 31, 2011 - by 5.7 percent;
- Granted with a starting date from January 1 to December 31, 2012 - by 2.2 percent.

In 2014, the so-called “Swiss rule” for modernizing pensions was restored. Pensions for labor activity were updated from July 1, 2014 by 2.7 percent, according to Art. 100 of CSR with a percentage equal to 50 percent of the consumer price index and 50 percent of the increase in the average insurance income in 2013. From July 1, 2015, the pensions for labor activity were updated by 1.9 percent, according to Art. 100 of CSR with a percentage equal to 50 percent of the consumer price index and 50 percent of the increase in the average insurance

income in 2014. As of July 1, 2016, the pensions for labor activity were updated under Art. 100 of CSR by 2.6 percent. It is essential to set a minimum pension. Unfortunately, in Bulgaria there is a ceiling on pensions, which harms part of the insured persons when they reach retirement.

The minimum monthly amount of the pension for insurance experience and age under Art. 68, para. 1 of CSR is determined every year by the State Social Insurance Budget Act. The amount of the pension for insurance experience and age in case of incomplete insurance experience (Art. 68, para. 3 of the Social Insurance Code) may not be lower than 85 per cent of the minimum pension for insurance experience and age. The minimum amount of the survivor's pension may not be less than 75 per cent of the minimum amount of the pension under Art. 68, para. 1. The change in the minimum dimensions for the analyzed period is shown in the following table. The maximum amount of one or more pensions received is shown in Table №3, and the regulatory changes regarding the procedure for its determination in the period 2010 - 2020 are the following:

Table 3: Minimum amounts of pensions for ERUs and maximum amount of received one or more pensions for the period 01.01.2010 - 31.12.2020 (BGN)

Period	Minimum monthly pension amount for ERUs under Art. 68, para. 1 of CSR	Minimum monthly pension amount for ERUs under Art. 68, para. 3 of CSR	Minimum monthly amount of the survivor's pension	Maximum amount of received one or more pensions
01.01.2010 – 31.05.2012 y.	136,08	115,67	102,06	700,00
01.07.2016– 31.12.2016 y.	161,38	137,17	121,04	910,00
01.04.2017 – 30.06.2017 y.	174,40	148,50	138,52	910,00
01.07.2018 – 30.06.2018 y.	195,50	169,42	156,90	910,00
01.07.2019 – 30.06.2019 y.	219,43	185,68	171,85	1200,00
01.07.2020 – 31.12.2020 y.	250	212,50	187,50	1200,00

Source: Summary data for the period from the NSI

In effect from 1 January 2010, a maximum amount began to be set for one or more pensions received, excluding the supplements granted until 31 December 2011. Prior to the regulatory change, this procedure for determining the so-called “ceiling” applied for pensions granted until December 31, 2009. The method for determining it remained the same - as of July 1 of each calendar year in the amount of 35 percent of the maximum insurance income for the previous calendar year, determined by the State Social Insurance Budget Act.

The data for the period below in Table 4 clearly show the huge share of pensions in the social insurance system.

Table 4: Social insurance budget and pension fund

YEAR	Social insurance budget in thousand BGN	Pension costs in thousand BGN
2018	11 067 344,2	9 455 866,4
2019	11 759 728,0	9 989 655,3
2020	13 455 690,4	10 577 667,6

Source: Summary data for the period from the NSI

In 2018 Expenditures for the pension fund are as much as 85% of the social insurance budget, in 2020 this percentage drops to 78%, but in general pensions have a major impact on the distribution of social insurance funds

Conclusion

The review shows what a significant part of Bulgaria's social policy is allocated to pensions for insurance experience and age. They have the greatest weight for the insurance system of our country. In this form, the insurance system damages a group of persons who have been imposed a pension ceiling, and they must receive a higher amount than the statutory one. Bulgaria is the country with the lowest minimum pension of all member states in the European Union. In our country there is social solidarity from the point of view of the fact that there is a maximum insurance income, which benefits the persons receiving a higher amount of remuneration. The higher the remuneration, the less in percentage as a relative share is allocated for insurance from the amount received. Serious and thorough reforms in the social security system in Bulgaria are needed to make it socially just.

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