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ROMANIAN GOVERNMENT DRAFT BUDGET – REDUCTION OF 2ND PILLAR CONTRIBUTIONS

The EFRP (European Federation for Retirement provision) represents the various associations of pension funds and similar institutions for supplementary private pension provision in Europe. It affiliates pension funds from 16 EU Member States and from 5 non-EU countries totalling to 29 European Member Associations. We are proud and happy that “Asociatia pentru Pensii Administrative Private din Romania” (APAPR) is a full Member of EFRP.

Within EFRP the Central and Eastern European Countries Forum (CEEC Forum) brings together 9 CEE countries to discuss specific issues common to pension systems in that region. In that context EFRP wishes to express its concern about the Romanian 2009 budget proposals in respect of the contributions to the mandatory private pension system.

EFRP obviously supports the general objective of tabling a sound state budget, even during a crisis period such as the current financial and economic situation which is unprecedented indeed. However, a stable and sound macro-economic environment is essential to preserve the future delivery of private pensions. Furthermore, a sound budget will facilitate the Romanian integration process into euro-zone that equally will contribute to deliveries of promises made to the population at large.

To keep the level of contribution to the mandatory second pillar at 2% instead of 2,5% as stipulated in the Law no. 411/2004 on the pension reform in Romania, is of grave concern to EFRP. Not only do we see a breach of the rule of law in this proposal but also a breach of confidence in the pension reform so desperately needed throughout Europe. The proposal in fact cuts back 20 % of the contributions projected for 2009, a more than significant amount hampering the further development of the mandatory

private pensions system. The balanced development of a multi-pillar pension system is a prerequisite to deliver adequate retirement income to the population at large that deserves being fostered. Just consider that the contribution levels of 2 – 2,5 % are still very low compared to other CEE countries such as Hungary (8 %) and Poland (7,3 %).

Although appealing for addressing short term deficits, the proposed measure will make Romanians poorer. Independent academic research indicates that small differences in contributions make a huge difference to the accumulated pension capital at the pay-out date. A 1 % additional contribution during 40-years of pension savings leads to a 30 % higher pension. **Lowering the contribution rate with 0,5 % amounts to a reduction of the private pension by 15 %.** To explain this to the working people will undoubtedly be very difficult.

Additionally, we would like to draw attention to the fact that the private pensions industry is providing jobs to almost 1,000 Romanians. European financial groups have hugely invested in the necessary **infrastructure and expertise to run the 2nd pillar pension system** in Romania. Their business models are based on the legally established annual 0.5 % increase of contribution to the 2nd pillar to 6 % in 2016. Deviating from this model could undermine their commitment to the Romanian financial services industry.

We do hope that the Romanian Government will seriously consider our comments - as well as those of our Member Association, APAPR which we support in full – and decide to provide legal stability to the mandatory private pensions in an already too volatile financial environment.



Angel MARTINEZ-ALDAMA
Chairman



Chris VERHAEGEN
Secretary-General