MAIN CHARACTERISTICS OF THE PENSION SYSTEM IN BULGARIA

Venelin Terziev

Academician of the Russian Academy of Natural History, Moscow, Russia, Prof. D.Sc. (Ec.), D.Sc. (National Security), D.Sc. (Social Activities), Ph.D., National Military University, Veliko Tarnovo, Bulgaria; University of Rousse, Rousse, Bulgaria, terziev@skmat.com

Abstract

This study makes a critical analysis of the development of the pension system in Bulgaria. An historical overview of the development was made, with the emphasis on the main points of this historical analysis, such as structure, strengths and weaknesses of the implementation of specific activities. The focus of the study is on the pension insurance of servicemen in Bulgaria.

Keywords: pension system, pension insurance, insurance of servicemen.

1. INTRODUCTION

According to the Social Security Code, servicemen born after 31 December, 1959 are entitled to additional The system of the pension insurance in Bulgaria is based on the development of the so called three pillars:

First pillar - compulsory state pension insurance as part of the State Social Security of cost-covering type. It includes the pensions, paid by funds, funded by insurance contributions and / or transfers from the national budget. It is managed by the National Social Security Institute (NSSI), responsible for the calculation and payment of the pensions;

Second pillar - supplementary compulsory pension insurance in pension funds, managed by licensed pension insurance companies of capital-covering type. It includes pensions, paid with finances, accumulated in universal and / or occupational pension funds, managed by licensed pension insurance companies. Funding is provided from insurance contributions from employers and employees;

Third pillar - supplementary voluntary pension insurance in pension funds, managed by licensed pension insurance companies of capital-covering type. It includes pensions, paid with finances, accumulated in voluntary pension funds, managed by licensed pension insurance companies. The funding is from insurance contributions, determined by the will of the parties. It consists of schemes based on collective agreements and schemes on the basis of the individual's personal wish.

The first pillar is the State Social Security (SSS), which entitles the receipt of pension for pensionable service and old age. To obtain this pension, compulsory insurance contributions are made in the amount specified in the Law for the Budget of the State Social Security, and the pension is formed on the basis of criteria related to insurance income, pensionable service and other factors.

The second pillar is the supplementary compulsory pension insurance, which is performed by licensed pension insurance companies in the managed by them:

• Occupational pension fund - mandatory for workers from the first and second labor category. This contribution is paid entirely by the employer. The insurance in occupational pension fund gives right to a fixed term occupational pension for early retirement, received up to entitlement to pension for pensionable service and old age from the SSS;

• Universal pension fund - mandatory for persons born after 31.12.1959, which is provided in the State Social Security. The contribution is paid by the employer and the insured person. The social security contributions are made monthly at a rate determined by the Social Security Code. The insurance in a universal pension fund gives right to obtaining an additional lifetime pension for old age, received separately and independently from the pension received from the SSS.

The third pillar of the pension system is the supplementary voluntary pension insurance, which is open to all individuals, aged 16 years and up. There is a legal option for anyone who wishes to provide himself with additional income after retirement, to make contributions for voluntary pension. Supplementary voluntary pension insurance is based on participation in a voluntary pension fund or a fund for supplementary voluntary pension insurance on occupational schemes, established and managed by a licensed pension insurance company.

The three-pillar model combines two different principles - cost-covering (in the State Social Security) and capital-covering (with the supplementary compulsory and the supplementary voluntary pension insurance).

Issues of development of the capital pension funds are examined in detail by Stanislav Dimitrov (2012a). The activity of the capital pension funds is regulated by the legislation that came in effect in 1999. The pension system is a three-pillar one: the first pillar is based on the cost-covering principle; the second pillar - on the capital principle and compulsory participation, and the third pillar on the capital and voluntary participation.

The new model of the pension system in Bulgaria is determined by the trends in the economic development and the social insurance in the country over the past twenty years. The model allows the country to perform pension insurance based on two principles - cost-covering and capital-accumulating.

The supplementary compulsory and the supplementary voluntary pension insurance is effected by the pension schemes on capital principle based on defined contributions.

The insurance in the universal pension funds is made for additional personal lifetime pension. Persons born after December 31, 1959, are mandatorily insured in a Universal pension fund, provided that they are insured under the terms and conditions of Part One of the Social Security Code (SSC).

The insurance in the occupational pension funds is made for a fixed term occupational pension for early retirement. Insurance in occupational pension fund is compulsory for the persons working under the first and second labor category, regardless of their age.

Insurance in funds for voluntary pension insurance is made for additional voluntary pension. Every natural person over 16 years of age can voluntarily insure himself or be insured in funds for supplementary voluntary pension insurance.

The current state of the capital pension funds in Bulgaria is the result of developments in the market of supplementary pension insurance over the years. The development went through various stages, whereas these stages can be classified depending on the selected criteria: development of legislation on the supplementary pension insurance; development of the market pension insurance products; development of the supervision of this activity; development of the administrators of pension funds (pension insurance companies); development of a network of regional offices of the companies; information servicing of the activity, etc.

Among the negative demographic trends are decreasing the ratio of working to retired people, increasing the average life expectancy, retirement in 2030-2040 of a large numbers of persons born in the 70s of last century. This will additionally worsen the dependency ratio. In addition, it is expected that new pensioners will have a lower replacement rate by the public system because of taking into account all the years of insurance in calculating the pension.

2. HISTORICAL DEVELOPMENT OF THE PENSION INSURANCE OF SERVICEMEN IN BULGARIA

After the Liberation of Bulgaria, by Decree No1 of July 20, 1878, the Russian Imperial Commissioner in Bulgaria, Prince Alexander Dondukov-Korsakov created the Bulgarian Land Army. Its core were Bulgarian army volunteers and it was built as a permanent army with general conscription. At the end of 1878 the Bulgarian Land Army had in its composition a total of 31 400 people, equipped with weapons, materiel and munitions from the Russian army.

With the adoption of the Tarnovo Constitution, the election of Prince Alexander I Battenberg and the creation of the Bulgarian government, the Principality of Bulgaria started the life of an independent state. Decree №23 of July 17, 1879 established the Military Ministry. On December 17, 1879 entered into force the Provisional Situation of the Bulgarian Army, which served as the first law of the armed forces, the name of which was changed from Bulgarian Land Army to Bulgarian Army.

In parallel with the organizational construction of Bulgarian Army also began the processes of its insurance. As a result of the appointment of Russian officers on major command positions, namely chief of Bulgarian Land Army, Chief of Staff, Chief of the Bulgarian Artillery and Head of Engineering and Sapper Unit, main topics in the insurance of personnel were borrowed from the practice of the Russian army. Art. 139 of the Provisional Situation of the Bulgarian Army stipulated that servicemen will apart from receiving pensions from the treasury of the Principality also receive pensions from the Emerital Fund (<Russian supplementary pension fund for servicemen – translator's note>).

Immediately after the Liberation, the Tarnovo Constitution of 1879, provided for the right of pension for civil servants: „Article 166 - Officials appointed to service by the Government are entitled to a pension, the base and amount of which to be determined by a special law". Subsequently, this right was extended by a special law (2016a). In 1880 the Act on Disability was adopted which regulated the pensions of fighters and volunteers, and imposed the requirement of service as a condition for receiving disability pension, which is considered to be the beginning of the legislation in the field of the social insurance and assistance (2016b).

An interesting moment of the pension insurance from this period is the so called combatant pensions. The first Law on Improvement of the Situation of Combatants and Volunteers was adopted on June 3, 1880. This category included „not only the combatants injured in Turkish prisons and in times of war, but also all others who regardless of these reasons and after hostilities were injured and became unable to work". The law stipulated that „a combatant unable to work to be given annually from 100 to 300 francs support for life". In order to receive such support, combatants had to provide a medical certificate „which obviously shows that the disease, which the person has disables him to work and earn a living with his own labor" (2016c).

On 23.06.1886 the 4-th Ordinary National Assembly adopted the Act on Disability Pensions of Military Persons. Under this law, military persons were divided into four categories: the first category comprised those who were unable to earn their living with own labor and needed help, the second category - those unable to earn their living with own labor, the third category - semi-able to earn their living with own labor, and a fourth category - able to earn their living with own labor, but with obvious difficulty. The law set specific amount of disability pensions for the respective rank and category of disability.

In 1883 the Defense Minister Major General Nikolai Kaulbars offered the Bulgarian officer corps to join the Russian Emerital Fund, whereas for this purpose 60,000 levs should be deposited. The State Council of Bulgaria rejected this proposal. In 1885 the issue of the Emerital Fund was almost solved, but the events related to the Unification of the Principality of Bulgaria and Eastern Rumelia postponed it until 1887 and it was settled in 1888 when by Decree No. 143 from 01.01.1888, Prince Ferdinand I approved the „Position of the Emerital Fund of the Military Department".

Emerital Fund in the Principality of Bulgaria was founded on the principle of the Russian Emerital Fund of the military land department. Russian Emerital Fund was established in 1859 with a main fund of 8.325 million rubles, almost 25 million levs. Table 1 outlines the main differences between the Russian and Bulgarian Emerital Funds.

Table 1. Main differences between the Russian and the Bulgarian Emerital Funds

Specifics	Russia	Bulgaria
Main fund	available	not available
Deductions	6%	5%
Full pension is obtained having served	35 years	30 years
Requirements for obtaining pension	To have served 25 years and to have installed the relevant amounts for at least 5 years	To have served full 5 years and to have installed the relevant amounts

According to Decree No. 143 of 1887 of Prince Ferdinand I, the „Position of the Emerital Fund of the Military Department" was approved, whereas the objective of the fund was to secure materially the participants and their families (IA). Mandatory members of the fund were all serving officers, doctors and officials, receiving their salary from the Military Department.

The finances of the Emerital Fund were inviolable property of all participants and were used only for payment of pensions and for covering the costs of management and keeping the capital. Pensions received from the Fund did not deprive and restrict the rights of persons to receive pensions and other benefits under other laws.

Cash finances were raised in the following ways:

- 5% deduction on the monthly salary of servicemen;
- 3% one-time deductions on the pay gap at producing to a higher rank or higher remuneration;
- From interest on capital and
- From accidental revenues and donations.

All accrued cash finances were deposited in guaranteed state financial institutions.

Emerital pensions were granted according to military rank at which the latest installment was received. In case of death or when the servicemen had not become entitled to pension, but died in the war or during the performance of their duties, the pension was given to the family of the deceased. Granted pensions were terminated:

- When retirees re-enter active service;
- When the widowed re-marries;
- When a the son or sons of the deceased become 21 years of age or enter civil service;
- When the daughter or daughters of the deceased become 30 years of age if they have been married;
- When the pensioner is missing;
- When the pensioner is devoid of political, civil and economic rights;
- Upon death and
- On entry into monasticism.

The Emerital Fund was managed by a Board composed of a chairman, four servicemen and four reservists.

By decree №44 of 29.10.1894 issued by Prince Ferdinand I, the Emerital Fund was disbanded as of 01.11.1894 year.

From these first attempts of the young Bulgarian state the conclusion stems that the pension insurance of servicemen was of a mixed nature - on the one hand the state pension insurance through the laws governing the pensions for disability of military persons, on the other hand was the pension insurance based the solidarity principle by the Emerital Fund, which had the nature of a supplementary pension insurance.

By decree №177 of 12.15.1890 issued by Prince Ferdinand I was accepted the Law on the Pensions of Military Persons and the Officials from the Defense Ministry, and its Implementing Rules were adopted on 29.01.1892 (IA). According to the law officers, military doctors and officials of the Military Department acquired pension for retirement. According to the same rules, a pension fund was to be created and managed by the Ministry of Defense via the Pension Department (IA). Supervising the transfers, fund increasing and other financial operations of the fund was assigned to a pension committee, reporting to the Defense Minister. In his work, the Military Minister was assisted by an appointed by him special committee composed of: the Commander of the Pension Department, several commanders on the position of Commander Brigadier, several regimental commanders. When the committee considered important financial issues, also representatives of the Treasury, appointed by agreement between the Financial and Defense Minister, were involved.

Deductions amounted to 5% of the salary of each officer, military doctor, clerk and official of the Military Department. Deductions were not made on: accommodation expenses, the amounts for hiring a servant and supplements for certain garrisons or special occasions. Supplements for military doctors for a fiveyear service were not exempt from deductions.

In order to be granted a pension under this Law, the insured was required to have served in the Military Department not less than 10 years and the full pension was obtained after 35 years of service (IA). Personal, survivors and disability pensions were granted.

The basis of forming the personal pension was the full pension. The full pension was 50/60 parts of the salary of the retiring person. A person who has completed 10 years of service received pension amounting to 10/30 on the amount of the full pension and a supplement of 1/30 per year of service up to 15 years of service. From 15 years of service up the pension amounted 30/60 on the amount of the full pension plus a supplement of 1/60 per year of service up to 35 years of service, at which service full pension was obtained. The pension was granted by a decree of King Ferdinand I. The Survivor's pension was applied to only one category of family and entitled to receive such pension were:

- A widow with three or more children received ¾ of the amount of the calculated pension;
- Three or more orphans received ¾ of the amount of the calculated pension;
- A widow with less than 3 children received 2/3 of the amount of the calculated pension;
- Less than three orphans received 2/3 of the amount of the calculated pension;
- Father and mother received 1/3 of the amount of the calculated pension;
- Only father or mother received 1/5 of the amount of the calculated pension.

The pension fund was formed by:

- Share capital amounting to 750,000 levs, lump granted by the state;
- The annual contributions of 5% of the salary of each officer, a military doctor, clerk and serviceman of the Military Department;
- From bequests and gifts.

Issues related to the disability pension were regulated by this law, but finances were borne by the Treasury. The ones receiving disability pension were divided into three categories: the first category comprised those who were unable to earn their living and needed a servant, the second category - those unable to earn their living, the third category - semi-able to earn their living. The law determined the amount of the disability pensions for the respective rank and category of disability, whereas e. g. sergeant major received disability pension - for the third category 300 levs, for the second category 600 levs, and for the third category 840 levs.

Raised finances were deposited at interest in government-backed credit institutions. According to the Regulations for Implementing the Law on the pensions of military persons and officials in the Defense Ministry, at the end of each year the pension department prepared a detailed evaluation of the state of the fund, the number of pensioners and comparative balances for past years. This evaluation was reported to the defense minister, who appointed a special commission to audit all the transactions of the fund and according to the findings of the Commission ordered the balance to be promulgated in the State Gazette

(IA).

In 1895 the Law on the Pensions of Military Persons and Officials in the Defense Ministry was canceled, whereas it was replaced by the Law on State Pensions for Military Personnel, which entered into force on 14.12.1895. In essence, the new law, in most part, was a copy of the old one. Differences in it were related to raising finances for the fund and the method of calculating the pension.

The pension fund was formed by: initially granted by the state share capital; 5% deductions from salaries for rank and position of the servicemen; temporary cash receipts from the state, which were necessary to cover the largest amount which the cost can reach; interest on deposited funds and deductions from gifts and bequests.

The amount of the pension was 40% of the salary for rank and position, whereas for less than 15 years of service the pension was to be reduced by 3% for each year less.

With the disembodiment of the Emerital Fund in 1894 the supplementary pension insurance of servicemen through mutual assistance in the Principality of Bulgaria was terminated.

In her study of the pension insurance in Bulgaria before 1944, Iliana Ivanova notes that with the adoption of the Law on Public Insurance in 1924, that remained unchanged until 1948, the Law on the Pensions for Retirement from 1932, and the creation of the Institute for Social Insurance in 1941, the fund system for the social insurance in Bulgaria was formed. Significantly expanded was the base of the insured, increased were the revenues of the pension funds that wisely invested the accumulated in them finances (2016d).

In the first pension laws, the norms for retirement and the age limit for retirement were relatively low. This made it possible to retire young employees with less service, something that is bad for the pension funds and therefore subsequently laws were gradually amended by increasing the length of service and the age for obtaining the right to pension. At the beginning pension deductions were 3 percent to reach in 1943 12.5 percent.

Until the wars for national unification, the size of the pensions allowed for a better living of pensioned servicemen, given their small number and growing demographic potential of the country. After two national catastrophes that lead to the Treaty of Neuilly, began a long process of devaluation of the pensions for objective reasons, which was interrupted briefly during the 30s of the twentieth century and was resumed again during World War II.

Generally by 1944 in the conditions of a market economy, Bulgaria managed to lay the foundations of the social security system, which was close to similar systems in developed countries, especially in terms of legislation. It set clear and precise criteria for granting pensions, whereas of primary importance were the size and duration of paid insurance contributions. After the coup d'état of September 9-th, was imposed a system of central planning. This inevitably had an impact on the pension insurance of servicemen, which also became highly centralized.

In 1948 a new Law on Public Insurance was adopted, replacing the current one from 1924, that replaced the fundamental principle that the right to pension arises from participation in insurance contributions in the fund rather than labor served. Insurance of employees under the new law was borne entirely by the state enterprises and institutions. After September 9, 1944 the Act on Support the Victims in the Fight Against Fascism and Capitalism came into force, which provided financial assistance and free repair of dwellings for the „victims". Gradually the circle of eligible „victims" expanded significantly and covered blood relatives of anti-fascists to the third degree of kinship, as well as those by marriage.

On January 14, 1948 was promulgated Law on Deprivation of the Right of Pension of Persons who had Manifested Fascist Activity. Based on it were stopped the pensions of the missing in the period from September 9, 1944 to March 30, 1945 in connection with the coup d'état on September 9, 1944, and the sentenced by the People's Court, and all other individuals for which the new government believed to have „fascist manifestations". Under this law were also withdrawn survivors' pensions, whereas the service of certain officials before September 9, 1944 - mayors, deputy mayors, military officers, policemen, etc., was not recognized as pensionable service.

The county People's Councils were mandated under this Act on Collection of Information for Fascist Activity of individuals through the structure of the Fatherland Front and other mass organizations. They were to give their opinion to the Pension Board on stopping the pensions of such persons. Furthermore, the Board was given the power to collect information „in a manner as it sees fit". So the Pensions Board was mandated with quite broad and unusual functions, namely to determine who was a fascist and who was not. Following the ambitions of the Pension Board for a „worthy" performance to the „people's power" and the relatively easy way to prove the fascist activity of the servicemen significant part of the them lost their pensions.

A characteristic feature of Bulgarian insurance and in particular of the pension insurance system of servicemen in historical context is that it was much more tied to the state than it was in the developed European countries in the late 19th and 20th century. Nationalization of the pension insurance in Bulgaria after the German model began in 1941 with the creation of the Institute for Public Insurance.

After the April plenary session in Bulgaria and applying Soviet experience the Law on the Pensions was adopted, which came into force on January 1, 1958, and remained in force until the current Social Security Code, which also regulates the pension insurance of servicemen, entered into force in early 2000. According to the Law on Pensions, servicemen upon retirement and having served 20 years, of which two thirds actually served on military service, were entitled to a pension regardless of their age. The order of servicemen retirement has basically not changed since 1932.

Nikola Konstantinov examined the state-budget system of the social insurance in Bulgaria in the period 1951-1995, and made the conclusion that after the multiparty system was eradicated, the Marx-Lenin ideology imposed itself as the only scientific and indisputable one. Then a total nationalization and liquidation of the autonomy of all cooperatives, insurance, cultural, educational and other public organizations and institutions, started (Vitka Toshkova i dr., 2010a).

The first substantial blow on the independence of the Institute for Public Insurance, created in 1941 and renamed to State Institute for Public Insurance in 1949, as well as on the fund organization of the insurance, was inflicted with the government's decision from the beginning of 1950, the budget of the State Institute for Public Insurance to be included in the consolidated state budget of the country. Thus the beginning of the end was set for the fund system of the insurance in Bulgaria and in particular the servicemen pension insurance. The governing body of the social insurance was deprived of the possibility to allocate unused annual revenues of individual contributions into the relevant reserve funds in order to meet future needs.

By the Decree of the Council of Ministers of 10 December 1951 was provided for the establishment of a Pensions Directorate to the Ministry of Public Health and Social Welfare, which gradually took over the pension insurance not only of workers and employees, but also of the servicemen.

State-budget system of management of the social insurance lasted more than four decades. After removing the one-party system, in the circles of social insurance controversies began and proposals were made for reforming the current pension system. Only in the second half of 1995 was the Law on the Public Insurance Fund adopted. By it for the first time since 1950 the separation of its budget from the state budget was legalized. At the same time were laid the foundations of today's National Social Security Institute, which reports its activities to the National Assembly. The Law on the Public Insurance Fund did not solve all the problems associated with reforming the insurance. It did not change the security rights and obligations of the insured servicemen. In the following years, as in the preceding ones, the insurance was carried out under Section III of the Labor Code from 1951, the Law on Pensions from 1957, the Decree for Promoting the Birth Rate from 1968 and numerous amendments to these legislative acts.

Over the past few years in Bulgaria was carried out comprehensive reform of the social insurance. On 01.01.2000 the Code on Compulsory Social Insurance entered into force, and since 02.08.2003 has been in force the Social Security Code (SSC), which regulates the public relations on compulsory social and supplementary social insurance and codifies the legal matter on the compulsory short- and long-term social insurance, the supplementary compulsory and the supplementary voluntary pension insurance. Thus in the country has been built a three-pillar system of pension insurance, based on the principle „security through diversity", covering the public system of compulsory pension insurance of cost-covering type and the supplementary pension insurance.

In 2011, the Bulgarian government decided to reduce early retirement, which included servicemen. From January 1, 2012 the pensionable service was increased from 25 to 27 years. From January 1, 2013 was also introduced minimum required age for retirement - 52 years for soldiers, sergeants, officer candidates and junior ranks officers, and 54 years for senior ranks officers. The requirement for 27 years pensionable service, two thirds of which served in the Armed Forces, was preserved. This means that whenever these two thirds, i. e. 18 years are served, when the serviceman turns 52 respectively 54 he can retire.

In the presently in effect Law on Defense and Armed Forces, in Art. 44 of the transitional and final provisions is stipulated the creation of a military pension fund, from which supplements to the pensions of servicemen shall be paid.

With the changes in the Social Security Code, adopted on 28.07.2015 and published on 11.08.2015, was created the fund Pensions for Persons under Art. 69. To this fund insurance contributions of servicemen will be made under the Law on Defense and Armed Forces of the Republic of Bulgaria and from it their pensions will be paid. The Fund will pay pensions for disability due to general sickness, old age and death of servicemen. The insured in universal pension fund servicemen have the right to choose to change their insurance from the universal pension fund to the Pensions for Persons under Art. 69 fund, not later than 5 years before the age under Art. 68, para. 1, provided that they have not been granted pension for pensionable service and old age. Upon transferring the insurance from the universal pension fund to the Pensions for Persons under Art. 69 fund, accumulated finances from the individual account of the insured in the universal pension fund shall be transferred to the State Fund for ensuring the sustainability of the state pension system (the so called Silver Fund). Servicemen who have chosen to transfer their insurance from the universal pension fund to the Pensions for Persons under Art. 69 fund may choose to renew their insurance in a universal pension fund no later than five years before reaching the age for retirement under Article 68, para. 1 and provided that they have not been granted pension for pensionable service and old age. Upon transfer from the to the Pensions for Persons under Art. 69 fund to the universal pension fund, if the person has translated finances to the State Fund for ensuring the sustainability of the state pension system (the so called Silver Fund), these finances shall be transferred to his individual account in his chosen universal pension fund.

In recent years in social and economic life the controversy intensified for reducing the early retirement of servicemen, and for taking over the entire amount of the pension contributions of servicemen by the relevant government department, for limiting their social rights and increasing their social protection.

Bulgaria faces serious demographic and social security challenges that have a significant influence on pension insurance system. Progressive reduction of the total population, and in particular the generation of working age, suggests that the future workforce in Bulgaria will decline and age, and those who are currently working abroad do not make contributions to the social insurance system. Discussions are ongoing about the need to limit early retirement and to regulate personal contributions in the insurance of the employees from the security sector.

Main characteristics of pension funds

Stanislav Dimitrov (2012b) summarizes the main characteristics of the capital pension funds as follows:

• Fund organization. Contributions are accumulated or accounted in a special pension fund. The fund can be legally and financially separate from the administrator who manages it;

• Legislative regulation of the activity. The activity is legally regulated, since it concerns the interests of very large groups of the population of a country. Some of these groups have high insurance or financial culture. In the relations between the insured and the administrator of the pension fund arises imbalance (asymmetry) in owned information and knowledge on products and processes. The asymmetry of information can be detrimental to the insured persons and useful for the ones managing the pension assets. This is one of the reasons for the need for a set of measures to protect the interests of insured persons. One of these measures is detailed regulation of activities of pension funds. Where there is compulsory nature of the insurance, more detailed regulation of the activity is necessary;

• Individualization of fund assets. This is one of many essential distinguishing features in comparison with the cost-covering systems. The existence of a personal interest in the insurance requires personification (individualization) of the assets. By individualization in the insured person is created the feeling that finances in the personal account are his. Contributions go on his account and will be used for payment of his pension. Very often individualization is associated with inheritance of the assets in the personal account;

• Investing capitalization of contributions. Investing is another major trait to cost-covering systems. Contributions are invested according to the investment policy of the fund. Along with achieving profitability they are capitalized in the personal account of the insured person; • Competition among pension funds. This feature is related to the market management of pension funds. Funds compete in products, price, attraction, service and information to the insured persons;

• Competition in asset management. Funds compete in achieving investment results, in the risk characteristics of the investment portfolio, in the investment policy carried out;

• Private management of the funds. Usually capital pension funds are managed by private organizations. Cost-covering systems are managed by public, state or municipal authorities.

- Supervision of the operations of the funds. Interests of shareholders or managers of private organizations may differ and even contradict the interests of the insured. Therefore, effective supervision is needed to ensure the interests of the members of the funds;

- Need for high security and financial culture. The possibility of choosing, the risks for the insured person and personal initiative are just some of the factors requiring high insurance and financial culture of the users of the capital pension funds service.

Capital pension funds mean all funds that are based on the principle of accumulation of contributions in favor of an insured person and funding of social security benefits for that person from these contributions. The insurance in these funds may be compulsory or voluntary. Usually the supplementary compulsory pension insurance is made in the capital pension funds. The supplementary voluntary pension insurance is most often done in the form of capital pension funds. Funds may be based on defined contributions or on the basis of defined payments. Sponsor of the insurance can be the person himself, his employer or a third party insurer. This third party is not in an employment relationship with the insured person. The monograph does not cover funds for financial sustainability of public pension systems (silver funds) that accumulate certain assets managed on the capital principle. Their assets are invested, but there is no individualization, no individual element. In Bulgaria such fund is the State Fund for Ensuring Sustainability of the State Pension System (SFESSPS).

For a definition what most accurately and fully corresponds to the characteristics of a capital pension fund, St. Dimitrov holds as follows: fund, with which personified pension plans of insured persons are funded through the accumulation of finances for the purpose of paying future insurance benefits to these same persons.

3. LEGAL ASPECTS OF THE ACTIVITY OF THE PENSION FUNDS

In the White Paper on adequate, safe and sustainable pensions in the EU (2012c) are enshrined questions about the problems in the pension systems and the agenda for achieving a higher degree of adequacy and sustainability of the pensions in the long term and increasing the opportunities for building secure additional pension savings. It provides further guidance on policies and initiatives at European level with which the EU supports national policies to develop and implement comprehensive strategies to adapt pension systems to changing economic and demographic conditions. Reforming the pension systems and retirement practices is essential for improving the growth prospects of Europe and is urgently needed in some countries as part of current actions to restore confidence in government finances.

Sustainability and adequacy of pension systems depends on the extent that they are based on contributions, taxes and savings of working people. The methods of funding, eligibility conditions and conditions in the labor market must be adapted in such a way as to achieve a balanced relationship between contributions and entitlements, the number of employed contributors of security and that of retired beneficiaries.

According to the European Commission the pensions represent a very large and growing share of public spending: more than 10% of GDP on average today, likely to reach 12% in 2060 in the EU as a whole. However, costs for public pensions, ranging from 6% of GDP in Ireland to 15% in Italy today, individual countries are in very different situations, although they face similar demographic challenges.

Over the last decade there has been considerable progress in reforming pension systems. The majority of Member States have changed their pension systems, giving them a more sustainable footing and enable them to withstand the demographic changes ahead. This is achieved through reforms designed to adapt the parameters of the systems consistent with fiscal sustainability, or through structural reforms such as the passage from schemes with defined benefits to schemes with defined contributions or by creating pillars of compulsory pension insurance under capital schemes. The pensions - mostly from public schemes - are the main source of income for elderly Europeans who represent a significant and growing part of the EU population. The number of people of working age (20-59) will decline annually in the coming decades (Chart 1).

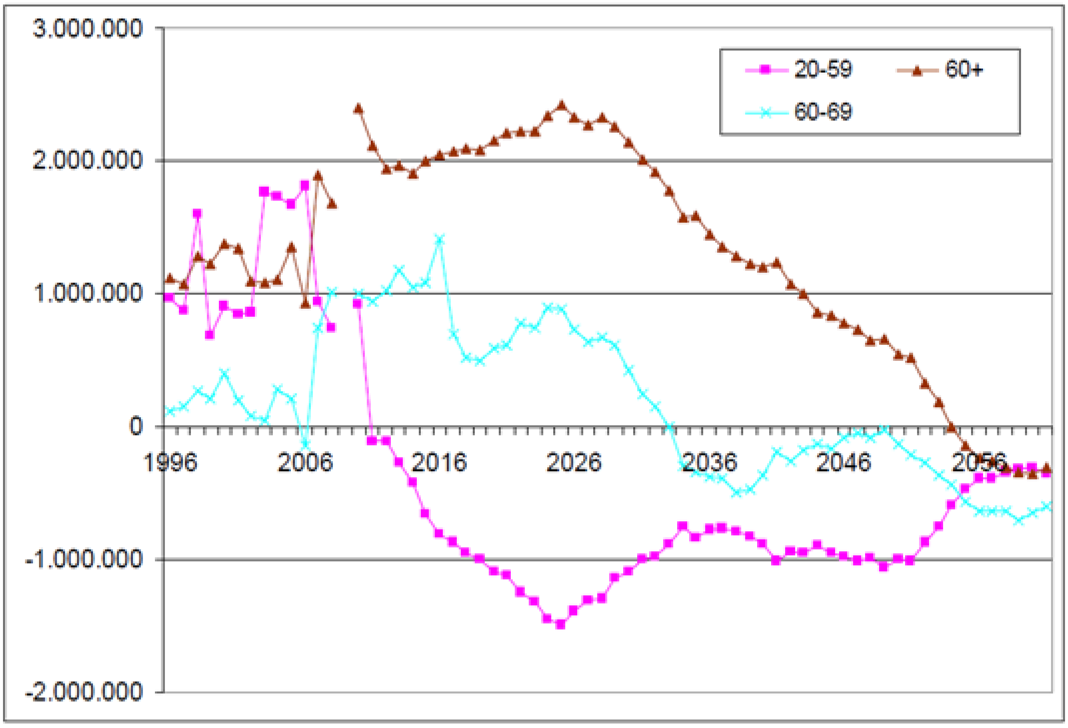

Chart 1: Change in population compared to the previous year, EC-27, 1996 - 2061 (2012c).

Supplementary pension savings (Additional retirement savings include occupational and personal pensions, life insurance and other forms of accumulating assets that can be used to maintain the standard of living after retirement. Moreover, there are tools (for example, the so-called 'Reverse mortgages'), which enable people to convert assets (in general their home) into an additional retirement income.) can also help for ensuring the necessary replacement rates in the future. Some countries have introduced measures to complement their public cost-covering pension schemes with private capital schemes, but there are many opportunities for further development of supplementary retirement savings in many Member States. However, this would require the private capital pension schemes to become safer and more cost-effective and more compatible with flexible labor markets and mobility.

In some countries the crisis clearly showed the need to improve the ability of the capital pension schemes to reduce risks and absorb shocks. The recession and the subsequent deterioration of public finances also revealed some weaknesses in the way some Member States have tried to build mandatory private pension schemes.

Pension systems influence retirement patterns, and hence the offering of labor and the economic dependency ratio. Parameters of key importance are the usual retirement age and the age of early retirement. Currently about one third of the life in a mature age goes in pension and if policies are not changed, this share will grow in line with future growth in life expectancy. Furthermore, opportunities for early retirement from the labor market have led to levels of employment of older workers (at the age of 55-64) below 50% in 2010 in the EU. But behind this general result for the EU are masked considerable variations between the Member States with ranges from 30.2% in Malta to 70.5% in Sweden. Also the degree of employment of older women (38.6%) is significantly lower than that of men (54.6%).

Member States are primarily responsible for the design of their pension systems according to the conditions in them. However, the Treaty on the Functioning of the European Union requires the EU to support and complement the activities of Member States in the field of social protection (Article 153) and adequate social protection to be taken into account in formulating and implementing its policies (Article 9).

Many of the competences and EU policy initiatives affect national pension systems and policies.

The challenge for pension policies is to introduce a system that is financially sustainable so that the main purpose of pension systems can be realized, namely, to provide adequate retirement incomes and to allow elderly people to enjoy a decent standard of life and economic independence.

In the Programme for adequate, safe and sustainable pensions the European Commission issued recommendations that will most likely affect Bulgarian servicemen, namely:

Restricting access to early retirement schemes and other ways for early exit from the labor market;

Support for the development of supplementary retirement savings to enhance retirement income.

Restricting access to early retirement

Pension reforms aimed at people to be detained for longer in the labor market should also focus on removing unjustified opportunities for early retirement, which can be applied to all employees or for specific professions.

In some Member States compulsory state pension system allows the persons with full pensionable service to retire before the standard retirement age (e. g. Austria, Belgium and Luxembourg). Thus pension reforms should not focus only on increasing pension age, but also, where appropriate, on length of service, which should also reflect the increase in life expectancy. Taking into account the contribution period (even if the required length is increased in line with life expectancy) allows pension systems to offer fair conditions to persons who started their careers early (usually unskilled workers who often have less time life expectancy and worse health).

Member States reform their early retirement schemes in different ways. Employers may be required to accept all or at least a significant share of the cost of benefits for early retirement. When the opportunities for early retirement are eliminated, it is important to ensure that affected individuals are able to work longer or, if this is not possible, can enjoy adequate income security.

Development of schemes for supplementary private pension savings.

Supplementary private pension savings play a greater role in ensuring the pensions adequacy in the future, so that Member States will have to find ways to improve cost-effectiveness, security and equitable access to schemes of supplementary pension insurance. An important role here plays tax and other financial incentives, as well as collective contracting. These tools are used in many different ways in different Member States, so there are significant opportunities for knowledge exchange.

The crisis has exposed the vulnerability of the capital pension schemes in times of financial and economic crises. It also stressed the need to review the regulatory framework and scheme design to improve the security of private pension insurance. The EU has legislative competence in this area and have already introduced two tools: the Directive on the protection of employees in the event of the insolvency of their employer and the Directive on the activities and supervision of institutions for occupational pension insurance. EU can strengthen its framework to support occupational pension insurance within the overall pension system of Member States and contribute to reducing the cost of pensions. Through the directive on institutions for occupational pension insurance can be improved the quality of financial products for individual pension insurance, that are not related to employment, such as third pillar schemes and other financial products used to supplement the income of the people.

Enhanced role of complementary private retirement savings depends primarily on improved access to schemes for supplementary insurance and their economic efficiency. Opportunities to acquire additional retirement savings through occupational schemes and such under the third pillar are underdeveloped and lack economic efficiency and safety in many Member States. Therefore it would be beneficial to strengthen the European support for better insurance coverage for women and men and the dissemination of good practices, including in relation to the optimal targeting of tax incentives for the capital pension schemes. They can be encouraged by governments or social partners. Since in future people will have to rely more on complementary retirement savings, their safety and effectiveness will need to be optimized (Terziev, Georgiev, 2018 a-h, Terziev, Banabakova, Georgiev, 2018i-t).

4. CONCLUSION

Studying the examined processes the following findings and conclusions can be made:

- Pensions from capital funds will continue to increase their share in the total amount of the pensions at the expense of reducing the share of income from public schemes. Reasonable are the expectations the capital pensions to catch up with public pensions and the two together to form a 70-80% rate of income replacement
- There are several possible solutions for the implementation of early retirement of servicemen. As a first option - the retirement of the servicemen to remain in the current pension insurance. They shall continue to

retire under the universal pension scheme with clearly defined legal forms, as it is now. The disadvantages are related to the fact that as members of the European Union, we continuously receive recommendations to limit early retirement and this will continue both for the servicemen and for the rest of the population.

- Another option is to create capital pension funds for servicemen, which is in line with the predominant global experience. This pension fund can be realized as a military pension fund, in which certain contributions are made by the employer and the servicemen. Servicemen will be able to retire earlier by receiving pension from this fund and then enter into the general scheme of retirement.

- From the nature of the capital pension funds we can derive their main advantages. The advantages of the capital pension funds and the shortcomings of the public cost-covering system lead to an increase in the share of the capital pensions in overall retirement incomes.

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