PENSION SYSTEM REFORM IN THE REPUBLIC OF MOLDOVA

Main aspects and recommendations for improvement

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Contents

Executive summary

The pension system is an essential part of the socio-economic model of a country. A strong public pension system is crucial for the intergenerational solidarity and social cohesion in our societies.

The main objective of the pension system is to guarantee the pensioners a decent standard of living and not just a minimum/surviving income. In order to make that possible, the system should be economically sustainable while the provided benefits should be adequate.

On the eve of the pension reform in December 2016 none of these conditions were met: the system was unsustainable and unfair with an economic support ratio of only 1.1 and for the majority of pensioners the pension was much too low (92% of the pensioners received less than 1.500 lei (75 Euro)/month). The replacement rate of the pension was hardly 25% on average. The main reasons for these issues are low employment rate and high informal employment, low salaries und under-declaration of wages, low trust in government institutions and in the pension system to name only a few.

In order to address these issues the Parliament of the Republic of Moldova adopted on 16 December 2016 the Law No. 290 on Public Pension System that introduced several structural changes to the pension system. Among the most important reforms are introduction of a more transparent pension calculation formula, total equivalence between contributions and benefits, equal treatment of men and women, increased standard retirement age (63 years) for men and women, extension of the contributory period (34 years), early retirement possibility, new indexation formula and others.

This law does not meet all the expectations of the workers- gaps still remain and a pension reform is never finished but always a "work in progress" simply because of ongoing societal changes.

This paper outlines some of the weaknesses of this law which would require further action by the government and the parliament. For instance, it is proposed to: change several articles as to improve the retiring provisions for workers in hard and hazardous conditions; consider as assimilated the non-contributory periods of care for parents older than 75 years; undertake pension indexation each time the inflation rises above 2% limit; diversify the state social allowance depending on the length of the contributory period; extend the rights to survivor's pension; ensure that work after retirement always results in a higher pension since workers continue to pay contributions, and others.

MAIN ASPECTS
OF THE NEW PENSION LAW EXPLAINED

A structural reform of the Moldavan pension system was imminent because of several demographic, social and economic factors, among which one of the lowest economic support ratios of the old age pensions, one of the lowest old age pension replacement rates, the lowest life expectancy at birth rate in Europe[1] and others.

In order to address these issues and respond to the new realities and challenges the reform had to accomplish several objectives, specifically:

- Increase the sustainability of the system by strengthening the economic support ratio;
- Increase the adequacy of pensions;
- Reduce the injustice in the pension system.

Main Aspects of the Reform

Retirement age

The new pension law introduces a new standard retirement age for men and women. This age is set at 63 years and not at 65 or 67 years as is the case in most European countries, mainly because of the low life expectancy in Moldova. For male workers, the standard retirement age will increase by 4 months/ year starting from the 1st of July 2017 and reach 63 years on the 1st of July 2019. For female workers, the standard retirement age will increase by 6 months/ year starting from the 1st of July 2017 and reach 63 years on the 1st of July 2028[2].

Early retirement

The new law provides the right to early retirement for male and female workers with a complete contributory period (assimilated years not included) from 3 years before the new standard retirement of 63 years onwards.

Special retirement ages

Pilots and flight attendants continue to benefit from a special retirement age- 45 years. The required contribution period for pilots is 25 years (M) and 20 years (W) (Law no. 156, art. 56).

Civil servants: for civil servants who, at the time of the entry into force of Law 290/2016, have completed the contribution period of 33 years for men and 30 for women and for at least 15 years of civil service, the retirement right is maintained in accordance with the provisions of Chapters V and VI of Law no. 156-XIV of October 14, 1998 on state social insurance pensions, until the adoption of the law in December 2016.

From 1st of July	Retirement age	
	Men	Women
2017	60 years 6 months	55 years 6 months
2018	61years	56 years
2019	61years 6 months	56 years 6 months
2020	62 years	57 years

However, the civil servants who do not meet these conditions will retire under the general conditions.

As in special conditions the following categories of employees are entitled to pension, upon the condition of leaving work, as follows:

a) ballet artists, professional dance bands artists with a contribution period of at least 20 years, equally for men and women;

b) circus artists, airphone instruments artists with a contributory period of at least 25 years, equally for men and women.

[1] Annex: Tables 1, 3, 4 (Life expectancy at birth (WHO 2015); Theoretical replacement rates (%) for workers with average wages (M+W) and a complete contribution period (OECD states in 2015 / west Balkan states 2009-2011); Financial support ratios: number of contributors to 100 pensioners (CE 2006) (EU countries: 2016 /Balkan and west countries - 2010).

[2] Annex: Table 6 - Contribution periods, retiring age and early retirement in Moldova 2017-2028

Heavy and/or hazardous work (List No. 1)

For heavy/ hazardous conditions, workers had the possibility to retire at 54 years (M) and 49 years (W). After the changes of the new law most workers will retire at standard retirement age.

Contributory period

The new pension law increases progressively the contributory period to 34 years[3].

New pension calculation formula

Starting with the 1st of April 2017 the old age pensions are calculated on the basis of a new pension formula which will guarantee equivalence between the contributions paid and pension benefits.

P = 1.35% x (accrual rate)

x Contributory period

x Valued average monthly income

The valued average monthly income represents the average indexed monthly income received starting with 01.01.1999, based on the national average salary increase coefficient from the contributory periods up until the preceding year of establishing the pension. Valuation coefficient for each years is approved by the Government by the 1st of April.

The valued average monthly income is calculated by multiplying the insured average monthly income realized during each year from 01.01.1999 onwards until the date of retirement with the valorisation index based on the growth of the average salary from the year when the income was earned and the year preceding the year of retirement in the country. The contributory period for the realization of the old age pension at the standard retirement age includes the periods during which social contributions were paid and the assimilated periods defined in Art. 5 par. 2[4].

Disability pension calculation formula

The disability pension formula has also changed and is calculated as follows:

P = 0.42 (severe disability) or 0,35 (accentuated disability) or 0,20 (average disability), multiplied by the valued average monthly income plus the contributory period, divided by the potential maximum contribution period from age 18 to retirement age established in Art. 41 point. (1) (max 40 y), multiplied by valued average monthly income x 0,1

$$P = 0.42 \times V_{av} + T_t/T_{max} \times V_{av} \times 0{,}1;$$

$$P = 0.35 \times V_{av} + T_t/T_{max} \times V_{av} \times 0{,}1;$$

$$P = 0.20 \times V_{av} + T_t/T_{max} \times V_{av} \times 0{,}1;$$

Survivor's pension

The survivor's pension is 50% of the pension of the breadwinner for each survivor. If the surviving spouse is working, she does not get a survivor's pension. For descendants referred to art. 25, par. (2) under full state support, the survivor's pension is paid in the amount of 25% of the established pension.

Minimum pension

The guaranteed minimum old age pension for a complete career is 961 lei / month. For an incomplete career, the minimum is proportional.

State social allowance

People with less than 15 contribution years are entitled to the state social allowance, which is 15% of the minimum old age pension (144,15 lei).

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[3] Annex: table 6 - Contribution periods, retiring age and early retirement in RM 2017-2028

[4] Annex: table 7 Example of use of new Pension Formula under Law No. 290 of 16.12.2016

State financial support

Old age pensioners with a pension below 1500 lei were in the past entitled to a state financial support of 180 lei/month for a complete career and 100 lei/month for an incomplete career. This support is not maintained in the new law for new pensioners, but it is maintained for the pensioners from before 01.04.2017.

Pension indexation

Pensions will be indexed on the 1st of April on the basis of the annual growth of the consumer price index during the previous year. If this growth is below 2%, there will be no indexation. The next indexation will be made if the cumulative consumer price index since the previous indexation is no less than 2%.

Work after retirement

Review of pension rights for the people who continue to work after retirement is done once every two years and only if the recalculated pension is higher than the current pension. Normally, the work after retirement should always result in a higher pension since workers continue to pay contributions. Regrettably, the provisions on the recalculation of the pension apply only to new old-age pensioners who have retired from 01.01.2017.

Valuation of pensions in payment

In a first stage, the old age and disability pensions established in 2001-2008 will be valuated in 2017.

The average monthly insured income realized from 1st of January 1999 and included in the calculation of old-age pensions and disability pension, established by April 1st, 2017, shall be valued on the basis of the increase in the average salary in the economy in the year preceding the year of pension establishment compared to the year of the insured income, by determining the difference in the size of the pension.

The difference in the amount of the pension obtained is indexed with the cumulative indexation coefficient of the pensions from the year of establishing the pension up to the year of the value of the insured income, established by the Government, and is added to the amount of the payment pension at the date of valorisation.

All other pensions established between 2009 and 1st of April 2017 will be valuated at a later stage.

According to the Government Decision No. 165 of March 21, 2017 on the approval of the Regulation on the method of calculating the pensions and the manner of confirming the contribution period for the determination of pensions, it is established that the average monthly insured income for the paid pensions will be calculated according to the following stages:

- From April 1 2018, valuation of pensions established in 2009- 2011;
- From April 1,2019, valuation of pensions established in 2012- 2014;
- From April 1, 2020, valuation of pensions established in 2015 and 31 March 2017.

CRITICAL COMMENTS
ON THE NEW PENSION LAW AND PROPOSALS FOR IMPROVEMENT

Art. 5 Non-contributory periods

The new law extends from 2017 onwards the list of non-contributory periods to be assimilated with contributory periods, e.g. care of children until age of 3 by one of the parents, or legal foster in case of death of both parents, care holidays for severely disabled children under the age of 18; periods of care for persons older than 75 are only assimilated if they were realized before 01.01.1999.

These and some other provisions are contradictory to the art. 18 of the Law No. 289-XV from 22.07.2004 on State Social Allowances that stipulate that one of the parents, *grandparents, other next of kin* that takes care of the child, as well as the legal foster are entitled to monthly allowances for child care. Mention should be made that the grandparents or other next of kin that take care of the children until the age of 3 are excluded from these provisions and this is discriminatory towards them.

Regretfully, care periods for severely disabled children between 01.01.1999 and 2017 as well as care periods for persons over 75 from 01.01.1999 onwards are not recognized as contributory periods. This situation will undoubtedly result in a lot of incomplete careers, especially for women. It is advisable that at least for the future, the periods of care for parents older than 75 be recognized as assimilated periods.

It is also recommended, that grandparents, or other next of kin that take care of the children until the age of 3 be included in the category of persons entitled to non-contributory and assimilated periods.

Art. 8 The average monthly income

Art. 8 paragraph 3 foresees that for the period of taking care of a child under 3 years of age by a parent or a tutor the minimum monthly wage in the country at the time of calculation of the pension shall be taken into account. It is proposed to amend the paragraph 3 of Art. 8 as to allow taking into account the average monthly wage in the country at the time of calculation of the pension for the period of the care during the first 6 months of a new-born child.

Art. 8 par. 4 The financial support versus the basic pension

The new pension law abolished the financial support of 180 lei (full career) or 100 lei (incomplete career) for all new pensions taken up from 01.04.2017 onwards. On the other hand, the financial support is maintained for all the older pensions established before that date which are lower than 1500 lei. This will affect more than 90% of the pensioners.

It would be more fair and justified to replace the financial support for only the older lower pensions with a basic pension for all pensioners, independent of their level and of the moment of establishment. For a full career, this basic pension would be at the level of 200 lei; for partial careers, the basic pension would be proportional. This basic pension should be financed out of the state budget.

As long as the general basic pension is not introduced, the financial support should be maintained not only for the lower pensions established before 01.04.2017, but also for those established from that date onwards. This approach would be more just and have a more equal treatment approach.

Art. 13 Pension indexation

Art. 13 determines that pensions will be indexed annually on 1st April and only if the consumer price index has increased by 2% or more. It is proposed to amend the paragraphs 1 and 1.1 as to undertake the pension indexation each time the consumer price index increases over the 2% limit and not limit the indexation to annual basis.

Art. 15.1 Right to Early Retirement (E.R.)

The new law provides the right to Early Retirement for male and female workers with a complete contributory period (assimilated years not included) from 3 years before the new standard retirement of 63 years onwards.

This legal provision means that men can go on E.R. from the 1st of January 2017 onwards at age 60 provided they realized a full contributory period of 33 years 6 months. Women, on the contrary, will have to wait until the 1st of July 2022 before being able to benefit from this new provision.

In order to guarantee equal treatment for men and women and eliminate discrimination, also, exclude discrepancies with the Law No. 121/25.05.2012 (Ensuring Equality and Antidiscrimination), it is proposed to grant the right to E.R. from 3 years before the standard retirement age as defined in art. 41 par. 1 onwards and this under the condition of realizing a complete contributory period as defined in art 42 par. 1. That would mean that on the 1st of July 2017 men with a contributory period of 33 years and 6 months could take up E.R. from age 59 years and 4 months and women with a contributory period of 30 years and 6 months from age 54 years and 6 months onwards.

Art. 15 par. 2 The state social allowance

According to Art. 15 par. 2 the insured person who, upon reaching the standard retirement age, does not have the minimum contributory period of 15 years, will be entitled to the state social allowance. This allowance is a fixed flat rate amount equal to 15% of the minimum old age pension.

Given the increase in the number of non-standard jobs, we may expect in the future a growing number of people who will not be able to reach the threshold of 15 years. In order to avoid an increase of poverty in old age, it would be recommendable to increase the level of the social allowance.

There is a lack of consistency in the way in which the pension rights are determined/calculated for all those who don't have a complete contributory period. In order to put an end to this inconsistency it is proposed to diversify the state social allowance depending on the length of the contributory period:

For instance:

- 5-7 years would guarantee 20% of the minimum old age pension,
- 8-11 years would guarantee 30% of the minimum old age pension,
- 12-14 years would guarantee 40% of the minimum old age pension.

Art. 24 Right to survivor's pension

Art. 24 foresees that the survivor's pension shall be granted if the deceased benefitted already from an old age or disability pension or met the conditions for getting a disability pension.

It is proposed to change this article as to ensure that the survivor's pension shall also be granted if the deceased met the conditions for getting an old age pension or an early old age pension.

Art. 27 par.2 Payment of the survivor's pension

Art. 27 par. 2 foresees that the surviving spouse or guardian who takes care of children under the age of 3 will only be entitled to a survivor's pension during periods of unemployment or child-care leave if they do not have incomes subject to state social insurance. As the par. 3 of this article limits the survivor's pension to only 25%, it is proposed to eliminate this article in order not to push the receivers of a survivor's pension into informal work.

Art. 33 Recalculation of the pension for pensioners who continue to work

Under the new pension formula, the pension is calculated on the basis of the average monthly wage earned since 01.01.1999. Since the monthly wage of workers who continue to work after retirement is generally lower than the wage before retirement, the recalculation of pensions should not be based on the average salary over the whole career including the years of work after retirement, because this would often result in a lower pension.

Another aspect of changes in this context is the possibility for recalculation of pensions established only after 01.01.2017 and the new formula is enacted only starting with 01.04.2017. In this sense, the pensioners retired before these dates are generally discriminated against new pensioners and have no rights to recalculation of their pensions.

The more justified and correct formula for recalculation would be to calculate the pension value for each year of work after retirement and to add this amount as a supplement to the revaluated pension in payment. It is also recommended to undertake this exercise annually, not only for the new pensioners after 01.04.2017 but, ideally, also for the older pensioners.

Formula for each year: recalculated pension = pension in payment + supplement

The supplement = 1.35% x valued average monthly earnings during that year.

These recommendations are argued for by the basic principles of the public social welfare system, specifically- equality, social solidarity, single/ unified interpretation.

Art. 34 Financing of the public-sector pensions

It is proposed to amend par. 4 and 5 of Art. 34 as to finance 35% of pensions from the state social insurance budget (SSIB) and 65% from the state budget as to cover the expenses for paying the pensions to the members of the Parliament, Government etc.

The reason for this recommendation is that, currently, the social contributions of the public-sector workers represents only 35% of the cost of the public-sector pensions[5]. It is therefore unfair to expect from the workers of the private sector, who have the lowest pensions, that they subsidize the pensions of the public-sector workers, who benefit from the highest pensions.

Art. 41 Standard retirement age

Art. 41 par. 2 grants to women who gave birth to and educated until the age of 8 years five or more children a reduction in the standard retirement age by 3 years. As an addendum to this paragraph it is proposed that women who gave birth and educated three or four children until the age of 8 years to also benefit from a reduction in the standard retirement age by 2 years. For one or two children under that same condition, the retirement age should be reduced by one year. These reduction years should be assimilated with contributory years and covered by the state budget.

Art. 41 Retirement age of people working under very heavy and/or hazardous working conditions and of some specific professions

The old par. 3 of Art. 41 has been cancelled. That means that, in principle, for the workers under heavy/ hazardous working conditions, the same standard retirement age will apply as for the workers under the general regime. This is not justified, contradictory, discriminatory and very unfair.

These changes collide with the art. 18 of the Law No. 489-XIV from 08.07.1999 on social welfare system that states that, due to the very nature of these jobs, (harsh conditions, high risks exposure), these workers should benefit from earlier retirement and shorter contributory periods.

According to the provisions of art. 56 of the Law No. 156, some categories of civil aviation employees will continue to benefit from special retirement conditions. That means retirement at age 45 for crew members and flight attendants.

In this context, it would be advisable to review the previous very generous retirement conditions for these categories. The preservation of the retirement age of 54/49 years for the workers covered by the list No. 1 as well as the equally generous conditions for personnel of the civil aviation and for seamen is no longer justified taking into account that the working conditions today are no longer the same as in 1992 when the list No. 1 was compiled. Moreover, in times of international competition, one has also to look at comparable situations in other countries.

For instance, a study of the Belgian Planning Office on the concept of “heavy professions” in the pension legislation of some European countries[6] indicates that the older regulations provide a list of jobs which are classified as “heavy” (this is the case in Greece, Hungary, Italy, Portugal, Spain and Romania). Newer systems use a list of criteria in order to determine which jobs are “heavy” (this is the case of Finland and France). Other countries like Austria and Poland combine the two methods: a list of professions based on criteria.

A new tendency which is observed in these two last groups of countries is the extension of the no-

[5] Moldova’s public sector pension system – An assessment- German economic team Moldova, Policy Briefings Series, PB /11/2015, p. 16

[6] Report CEP 5-11188 by Yves Bryst, Brussels 2016

tion of “heavy” to “mentally heavy” jobs (besides “physically heavy” and “hazardous”).

In the newer systems, the pension age can be shortened from 2 years (Finland and France) to 5 years (Poland and Austria). In countries with an older system the reduction of the pension age varies from maximum 3 years (Italy), 5 years (Greece, Hungary, Austria) to 10 and even 13 years (Romania and Spain).

The required number of years of work in a “heavy” profession to qualify for an earlier pension on that basis varies: most countries require minimum 10 to 15 years in that profession.

The total number of insurance years varies from 15 years in Spain and Greece, to 45 years in Austria. In Romania, it is 35 years (M) and 30 years 3 months (F).

An example from Belgium in this context can also be considered as a best practice:

- **Miners**

Until 2011, miners who worked in the underground could retire either with 25 years underground or from age 55 onwards.

From 01.01.2012 onwards, the old system remains valid for miners of 55 years with 20 years underground work. Miners with less than 20 years underground at that time will fall under the general regime (retirement at 65 years with 45 years insurance period).

- **Pilots and flight attendants**

Until 2011 pilots could retire at 55 with a contribution period of 30 years as pilot; for flight attendants, this was 55 years and 34 years contributory period.

From 01.01.2012 onwards, new pilots and flight attendants fall under the general regime (retirement age 65 years with 45 years contributory period).

- **Police**

Policemen and -women can go on early retirement from age 62 onwards after a career of 40 years. From age 58 onwards they can take a pre-pension with 37.5 years of service and a payment of 74% of their previous salary.

- **Train drivers**

In 2017 train drivers can go on early pension from age 55 onwards after 30 years of service. From 2018 onwards, the minimum retirement age will be 57 and by 2030 it will be 63 with minimum 42 years of service.

- **Military**

For the military, the pension rules are similar to those of the train drivers:

- In 2017: minimum retirement age- 56 years
- In 2018: minimum- 57years
- By 2030: minimum -63 years age and 42 years of service.

In the coming months the Belgian Government, together with the social partners, will try to define, on the basis of 4 objective criteria, which professions can be defined as “heavy”. The criteria are as follows:

- How physically heavy the job is?
- How mentally heavy the job is?
- How hazardous, risky the job is?
- How heavy is the work organization? (night work, changing shift work, etc.)

It is the ambition of the government to finalize this exercise in 2018. Heavy jobs will be able to benefit from earlier retirement conditions (probably from age 60 at the earliest) and from shorter contributory periods (still undefined).

For Moldova, it would be advisable launching a similar exercise as in Belgium. Based on the 4 mentioned objective criteria, a new and unique list of “heavy and/or hazardous” professions can be established, the so-called special categories (like pilots) included. For these professions, the retirement age could be reduced by 1 to 8 years. The required minimum length of work in that profession could be set at between 15 and 25 years and the minimum contributory period would be between 25 and 32 years. The exact conditions for each profession would be determined based on the 4 objective criteria mentioned above.

It is suggested therefore that this exercise be undertaken by the government in cooperation with the social partners during the years 2017-2018 so that by 2019 the government could publish a database with professions qualified as “heavy and/or hazardous” with differentiated retirement conditions and the pace of their progressive introduction. These conditions should remain valid until 2028 at least.

Proposed new Art. 41 Progressive retirement (newly proposed)

In order to allow workers to make a smooth transition towards retirement and to allow workers to remain longer active on the labour market, the government should create the possibility for workers to reduce their working time progressively from the age of 55 onwards. Reduction by 20% (1 day/week) would be possible for workers aged 55-59; for workers from age 60 onwards, the possible reduction would be 40% (2 days/week). The details of such arrangements should be agreed through a collective agreement. The loss of income for the workers should be compensated for minimum 50%, by the employer and the government (each minimum 25%).

Art. 42 par.2 Special contributory period for very heavy and hazardous work

Given the fact that in Moldova the special contributory period for very heavy and hazardous work as well as for some special professions like air traffic controllers, pilots, flight attendants, etc. is rather short in comparison with other countries (as illustrated above under Art. 41) it is proposed to extend this special period progressively to minimum 15 and maximum 25 years. The total contributory period should be between minimum 25 and 32 years. This would increase the sustainability of the pension system.

Art.52 Valuation of the pensions in payment

It is a very important positive decision to valuate the pensions in payment retroactively. This measure will result in an important increase in most pensions, boost the equivalence of the pensions and constitute an important incentive for workers to declare their full income.

Unfortunately, this measure will in a first stage only apply to the pensions established in the period 2001-2008, leaving the older pensions and the pensions established after 2008 unchanged.

According to the provisions of the Government Decision no. 165 of 21.03.2017 on the approval of the Regulation on the method of calculating the pensions and the manner of confirming the contribution stage for the determination of the pensions, it is established that the average monthly insured income for the paid pensions will be calculated according to the following stages:

- from 1st April 2018, the pensions of beneficiaries established between 2009-2011 will be valued;
- from 1st April 2019, the pensions of beneficiaries established between 2012-2014 will be valued;
- from 1st April 2020, the pensions of beneficiaries established between 2015 and 31 March 2017 will be valued.

It is strongly recommended in this context that the old-age and disability pensions established before 2001 be also valuated properly.

All pensions that are not (yet) valuated should be indexed on the basis of the wage index.

Art. 53 Calculation of the old age pension

The new pension formula is simple, transparent and fair. One of the major consequences of this reform is that the future pensioners will be able to benefit from a more adequate pension level, enabling them to maintain to a certain degree their previous standard of living.

The gross replacement rate of the old age pensions in Moldova was very low before the reform: only 25,8%. By this reform, the gross replacement rate of the new old age pensions for men with a full career (34 years) will go up from 01.07.2018 to 45,9% of the average valuated monthly wage over the full career. The women with a complete career of 31 years who will retire on 01.07.2018 will have a replacement rate of 41,85%. From 01.07.2024 onwards, the women will also benefit from a replacement rate of 45,9%.

It is important to note that the replacement rates will be the same for all levels of income because there will be no longer a salary ceiling for the calculation of the social contributions and for the calculation of the pension benefits.

Mention should be made that through this reform the pension replacement level will be comparable with the rates of other European countries.

The new pension formula is also a strong incentive for workers to work in the formal economy and to declare their full income.

Proposed new article

In order to safeguard the full rights of retired people to work it is proposed to introduce a new article in the law so as to ensure that pensioners who took up their pension at the standard retirement age on the basis of a full career should be entitled to continue to work in the formal economy without any restriction.

CONCLUSIONS AND RECOMMENDATIONS

The new pension law No. 290 on Public Pension System from 16 December 2016 is without any doubt a very important step forward towards the modernization of the pension system in Moldova.

This new law strengthens the sustainability of the system and leads to an important increase in the adequacy of the pensions by introducing a strict equivalence between the pension contributions and the pension levels and a correct valuation mechanism of previous earnings. The reform eliminates also existing injustices and provides important novelties like early retirement.

There is hope that this reform will lead to a more compliance-behaviour regarding the declaration of the real income and the formalization of (until now) undeclared work. An increase in the formal employment rate as well as in the total wage levels, which is the basis for the financing of the pensions, remains an absolute necessity for the long-term sustainability of the new system.

At the same time, the new pension law has several drawbacks and on certain points it needs serious corrections that can increase the performance of the reform. It is therefore recommended for the decision makers to consider changing and/or reviewing the law in order to ensure a more balanced, adequate, equitable and fair conditions for retirement as follows:

- For heavy/hazardous professions, the retirement age and the contribution period should be shortened;
- Valuation of pensions in payment should also be implemented for the oldest pensions (from before 2001);
- Work after retirement should pay, which means that the work after retirement should always result in a higher pension if contributions are paid;
- Early retirement should be possible from 3 years before the current standard retirement onwards;
- Non-contributory (assimilated) periods should also be taken into account for early retirement;
- The first 6 months of parental leave should be taken into account for the calculation of the pension on the basis of the average salary in the country (or of the previous salary of the parent);
- Progressive retirement should be made possible;
- Pension indexation should take place each time the consumer price index increases by 2%;
- Women who gave birth to and educated 1 to 4 children should also enjoy a proportional reduction of the retirement age (1 or 2 years);
- Workers with less than 15 years of contribution should be entitled to a reasonable proportional state social allowance in relation to the minimum pension, and last but not least,
- The government and the parliament should urgently start with the creation of a mandatory occupational 2nd pillar pension system. The need for a Pillar II pension system is dictated mainly by the necessity for diversification of retirement instruments.

It is recommendable also to evaluate the effects of the new law after 2 years of operation. It may be necessary to increase the state subsidy to the pension system as long as the efforts of the government to reduce the informal economy (and subsequently the revenues to the state budget) do not produce the expected results. Other measures like an increase in the minimum salary and/or a tax reform could be useful to guarantee the financial viability of the redesigned pension system.

It is considered as counterproductive the latest developments with the ruling of the Constitutional Court to consider null the changes according to which the judges and prosecutors retire under general conditions. This can serve as precedent for other categories of workers and ultimately undermine the reform progress.

ANNEXES

1. Life expectancy at birth (WHO 2015)

	Men, years	Women, years
MOLDOVA	***67.9***	***76.2***
Lithuania	68.1	79.1
Latvia	69.6	79.2
Georgia	70.3	78.3
Bulgaria	71.1	78.0
Romania	71.4	78.8
Hungary	72.3	79.1
Estonia	72.7	82.0
Serbia	72.9	78.4
Slovakia	72.9	80.2
Macedonia	73.5	77.8
Poland	73.6	81.3
Montenegro	74.1	78.1
Croatia	74.7	81.2
Bosnia Herzegovina	75.0	79.7
Czech Republic	75.9	81.7
Slovenia	77.9	83.7
Belgium	78.6	83.5
Germany	78.7	83.4
Switzerland	81.3	85.3

2. Vârsta de pensionare standard (UE, OECD, 2015)

	Present		Future
	Men, years	**Women, years**	**Men & Women**
MOLDOVA	***62***	***57***	***63 (M&W)***
Lithuania	63/2 months	61/4 months	65 up to 2026 (M+W)
Latvia	62/6 months	62/6 months	65 up to 2025 (M+W)
Georgia	65	60	--------
Bulgaria	64/4 months	61/4 months	65 up to 2017 (M) 63 up to 2020 (W)
Romania	65	60	65 up to 2030 (M+W)
Hungary	62/6 months	62/6 months	67 up to 2028 (M+W) 68 up to 2046 (M+W)
Estonia	63	62/6 months	65 up to 2026 (M) 63 up to 2016 (W) 65 up to 2026 (W)
Serbia	65	60	---------
Slovakia	62	62	---------
Macedonia	64	62	---------
Poland	65/7 months	60/7 months	67 up to 2020 (M) 67 up to 2040 (W)
Montenegro	---	---	67 up to 2025 (M) 67 up to 2041 (W)
Croatia	65	61/3 months	67 up to 2038 (M+W)
Bosnia Herzegovina	65	65	---------
Czech Republic	62/10 months	61/4 months	67 up to 2041 (M+W)
Slovenia	64/4 months	64/4 months	65 (M+W)
Belgium	65	65	67 up to 2030 (M+W)
Germany	65/4 months	65/4 months	67 up to 2029 (M+W) 65 if 45 y. ensured
Netherlands	65	65	67 up to 2025 (M+W)
EU average	64/8 months	63/5 months	----------

3. **Gross theoretical replacement rates (%) for workers with average wages (M+W) and a complete contribution period (OECD states in 2015 / western Balkan states 2009-2011)**

MOLDOVA (2016)	***25.8***
Germania	37.5
Slovenia	38.4 (M) – 40.4 (W)
Croatia	38.8
Poland	43.1
Belgium	46.6
Czech Republic	49.0
Serbia	49.8
Estonia	50.5
Hungary	58.7
Slovakia	62.1
Macedonia	70.9

4. **Economic support ratios: number of contributors to 100 pensioners (CE 2006) (EU countries: projections for 2016 /western Balkan countries - 2010).**

MOLDOVA	***110***
Lithuania	113
Bosnia & Herzegovina	120
Croatia	121
Hungary	129
Germany	133
Serbia	140
Slovenia	144
Belgium	151
Macedonia	165
EU average	166
Czech Republic	170
Montenegro	170
Slovakia	189
Latvia	220
Poland	228

5. Funding structure of the social welfare in EU and Moldova (%).

	EU	Moldova	
	2000	2011	2015
Social contributions	60.8	56.2	90.0
Paid by employer	38.6	36.1	71.6
Paid by employee	22.2	20.1	18.4
Government	35.5	40.2	10.0
General income	32.0	33.0	
Share/allocations	3.5	7.1	
Other	3.7	3.7	
TOTAL	100 =	100 =	100
	27.8 % GDP	2 9. 7 % GDP	

6. Contribution periods, retirement age and early retirement in Moldova

	Men				Women			
Starting from 1st of July	**Complete contri-bution period**	**Standard retire-ment age**	**Early retirement age**		**Complete contri-bution period**	**Standard retire-ment age**	**Early retirement age**	
			CNSM	Law No 290			CNSM	Law No 290
2017	33 y 6 months	62y 4m	59y. 4m	60 y	30 y. 6 m.	57 y. 6 m.	54 y. 6 m.	60 y.
2018	34 y.	62y. 8m	59y. 8m	60 y	31 y.	58 y.	55 y.	60 y.
2019	34 y.	63y	60 y	60 y	31 y. 6 m.	58 y. 6 m.	55 y. 6 m.	60 y.
2020	34 y.	63y	60 y	60 y	32 y.	59 y.	56 y.	60 y.
2021	34 y.	63y	60 y	60 y	32 y. 6 m.	59 y. 6 m.	56 y. 6 m.	60 y.
2022	34 y.	63y	60 y	60 y	33 y.	60 y.	57 y.	60 y.
2023	34 y.	63y	60 y	60 y	36 y. 6 m.	60 y. 6 m.	57 y. 6 m.	60 y.
2024	34 y.	63y	60 y	60 y	34 y.	61 y.	58 y.	60 y.
2025	34 y.	63y	60 y	60 y	34 y.	61 y. 6 m.	58 y. 6 m.	60 y.
2026	34 y.	63y	60 y	60 y	34 y.	62 y.	59 y.	60 y.
2027	34 y.	63y	60 y	60 y	34 y.	62 y. 6 m.	59 y. 6 m.	60 y.
2028	34 y.	63y	60 y	60 y	34 y.	63 y.	60 y.	60 y.

7. Example of use of new Pension Formula under Law No. 290 from 16.12.2016

Year	Valorisation coefficients	Monthly average wage	Annual ensured income	Valuated income
1999	16.6907	304.6	3655.2	61007.8466
2000	12.4638	407.9	4894.8	61007.8082
2001	9.3507	543.7	6524.4	61007.7071
2002	7.3521	691.5	8298	61007.7258
2003	5.7072	890.8	10689.6	61007.6851
2004	4.6088	1103.1	13237.2	61007.6074
2005	3.8553	1318.7	15824.4	61007.8093
2006	2.9957	1697.1	20365.2	61008.0296
2007	2.462	2065	24780	61008.36
2008	2.01	2529.7	30356.4	61016.364
2009	1.8503	2747.6	32971.2	61006.6114
2010	1.7108	2971.7	35660.4	61007.8123
2011	1.5922	3193	38316	61006.7352
2012	1.4619	3477.7	41732.4	61008.5956
2013	1.3503	3765.1	45181.2	61008.1744
2014	1.2186	4172	50064	61007.99
2015	1.1026	4610.9	55330.8	61007.7401
2016	1	5084	61008	61008
Valued ensured average monthly income: 5084,02				

Pension amount =1.35 %x5.084,02x33 years= 2.264.93 lei/month

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Confederaţia Naţională a Sindicatelor din Moldova (CNSM)

The National Trade Union Confederation of Moldova (CNSM) is a national interbranch trade union centre of confederal type, which meets on voluntary basis national-branch trade union centres and is independent of public authorities, parties and other socio-political organizations, employers' associations and public organizations, is not subject to their control.
National Trade Union Confederation of Moldova consists of 25 branch federations, comprising over 400 000 trade union members. Among them, there are employees from education and science, agriculture and food, social services and production of goods, communications, constructions, light industry, consumer cooperatives, trade and business, chemical industry and energy resources, culture, employees of the Ministry of Internal Affairs, state bodies and other branches.