

**Statement to the Panel
Ministry of Labor and Social Policy, Bulgaria**

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Bulgaria**

(1) Key policy approaches

In 2000 a new pension system was established in Bulgaria. The previous p-a-y-g system has been transformed by creating a mandatory funded tier. The traditional p-a-y-g pillar has been complemented and three-pillar pension model has been created by the introduction of the mandatory and voluntary funded tiers. Moreover, in 2006 we transposed all the directives concerning occupational pension schemes, implementing them in our third pillar of the pension system. In recent years we have worked towards improving the flexibility of the Bulgarian pension model in order to put it in conformity with the changing labour market needs.

Taking into account the recent developments of the Bulgarian pensions system and the situation in the labour market, the approach should be based on: **first**, policies aimed at stimulating the economic activity and increasing the overall employment rate /1/; reducing the unemployment /2/; integration in the labour market of people outside the labour force and discouraged /3/; **second**, policies aimed at reducing the 'grey' (undeclared) employment and thus - increasing the revenues from contributions in their real amount; **third**, policies aimed at adequacy of remuneration in order to increase the employee's motivation to participate in the insurance system, including the voluntary pension schemes.

Bulgaria has been working successfully in these three directions and already the first results are in place: the continuing economic growth created new 194 thousand working places only in the last 2 years and the expectations are that this tendency will continue; because of compulsory registration of labour contracts with the National Revenue Agency registers, more that 150 thousand employees have emerged from the 'grey sector'; the employment rate among the old workers (55-64) tends to increase – since 2000 it has risen by 18.8 percentage points (p.p.) from 20.8 to 39.6 per cent.

In our opinion, the approach in further pension reforms implementation should include policies in the following spheres:

@ Benefit reform removing work disincentives

- the new pension formula has already introduced closer link between the pension amount and the amount of the contributions and the length of insurance periods, i.e. the Bulgarian p-a-y-g system provides the so-called 'earnings related benefits'

- as of 2007 entered into force a new amendment and according to it to the persons who are entitled to I pillar pension (with real period of insurance no less than 37 years for men and 34 years for women, at the relevant retirement age) and continue to work after the retirement age, without receiving a pension payment, each year of insurance will be calculated with coefficient 1.5, compared to coefficient 1 in the standard formula.

@ Training and life-long learning

Yes, there is such a necessity. In Bulgaria it has been executed the Operational Programme "Human Resource Development" financed under European Social Funds regulation. But efforts should not be limited to the professional education area. Also, measures are necessary in the following fields:

- **Removing the obstacles faced by employers to hire older workers.** The labour legislation concerning the additional payments for service and professional experience was changed and the so-called "transferability" of the seniority bonuses was removed;
- **Integration of the older unemployed in the labour market** – two programmes have been elaborated as part of the active labour market measures. These are: Programme "Support for retirement" and economic incentives for the employers who

hire older workers (over 50 years of age for women and over 55 years of age for men);

@ Improving employment services for older workers

That is of great necessity because older workers are among the vulnerable groups in the labour market and the success of employment services depends on more specific circumstances. That's why it is necessary to apply differentiated and individualized approach taking into account the particular needs of each of the vulnerable groups. That is the approach applied by Bulgarian government.

@ High employment/lower unemployment

Yes, it is necessary and that is the approach of the Bulgarian Government. On that basis the National Action Plan on Employment for 2007 was prepared and targeted. The Plan has three priorities: increasing the economic activity and the employment rate; integration in the labour market of vulnerable groups; education and training facilitating the transition to a knowledge-based economy.

@ Others: It is necessary to improve the **employability and adaptability of young people** in order to facilitate their transition from education to work. In favor of the young, Ministry of Labour and Social Policy started the programme "Career start" which gives the opportunity to young unemployed persons (below 29 and with higher education) to start their careers in the public administration. There are as well several measures which provide the employers with the opportunity to receive economic incentives when hiring young unemployed persons, including young unemployed with severe disability. There are special measures aimed at labour market integration of young people leaving schools for raising and education of youth without parental care.

(2) Requirements to MF and other policy makers

No specific requirements towards particular stakeholders or ministries have been imposed. It's only necessary to ensure that consensus about the priorities in different policy spheres exist and mutual-interacting and coherent policy is applied. That approach was taken by Bulgarian Government last year when the tripartite "Pact for economic and social development of Republic of Bulgaria till the end of 2009" was signed. It identifies the principles, challenges, priorities and goals of the state policy in all the important fields.

We are working in close co-operation with the Ministry of Finance on the issues concerning the pension reform as a part of the macroeconomic and public finances stability policy. We believe that there is a common understanding about the future development of pension policy and that is the approach successfully put in place in 2006. It was created a separate budget account as a part of the fiscal reserve. The funds accrued in it will be used to support the public pension system in case of demographic pressure. Now the necessary inter-institutional agreement was reached that this separate account has to be transformed into an independent Demographic Reserve Fund with its own management. Also, together with the Ministry of Finance we share the responsibilities concerning the functioning of the funded pension schemes and especially with regard to their investment policy.

(3) Institutional arrangements

At the beginning of the pension reforms in 2000 there have been established the relevant structures – the National Social Insurance Institute, responsible for administration of the pay-as-you –go pillar; pension insurance companies, responsible for the administration of the fully funded schemes in the II and III pillars. The pension companies are supervised by the Financial Supervisory Commission.

The new proposals for further reforms in the area of pensions are usually elaborated by inter-institutional working groups. The draft laws are to be approved by the National Tripartite Cooperation Council that consists of representatives of the government, the organizations of employers and the employees.