PENSION AND INSURANCE REFORM – INEVITABILITY OR POLITICAL PURPOSE

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Abstract: For years, the public debate has been focused on the issue of the shortage of accumulated social security contributions in the social security funds of the State Social Security (SSS) and, more specifically, in the Pensions Fund. According to a number of experts, the reason for this is the negative demographic picture, which is resulting in a decrease in the number of people employed in the labor market, the increase in the number of people of retirement age (approximately 2.5 million pensioners), the shadow economy, the low level of social security thresholds - minimum by economic activities and professions and maximum monthly social security income. In parallel with this, the significant increase in the amount of pensions in recent years in absolute terms is manipulatively proclaimed, without indicating their relative share in relation to the growth of income and GDP. In this context, there was talk of another pension reform in connection with the preparation and presentation of an extraordinary convergence report on the admission of the Republic of Bulgaria to the Eurozone. Assurances were expressed to present the necessary analytical calculations and proposals to be provided for public discussion. During the visit of representatives of the ECB and the IMF, a recommendation was made to raise the retirement age, increase social security contributions, and tax reform. Despite the fact that disagreements with these recommendations have been expressed from the parliamentary rostrum, with the preparation of the draft budget of the country for 2026, which is the first budget in euros in connection with the upcoming accession of our country to the Eurozone from 01.01.2026, the Tripartite Council, employer organizations, trade unions and the public are unpleasantly surprised by a 2% increase in insurance contributions to the Pension Fund and an increase in the minimum and maximum monthly insurance thresholds. The reason for this is the lack of public debate, of analytical calculations of how this increase affects the net incomes of employers and employees. The backstage of the development of the draft budget, the lack of access to public information for public discussion by interested persons and structures, disagreement with the members of the Tripartite Council, the quick decisions in the parliamentary budget committee when adopting the autonomous social security draft budget, are rather violations of the principle of transparency and neglect of civil control, characteristic of any democratic society. All this provokes a public debate about the pension reform, questioning its justification, the arguments “for” and “against” this reform. Hence the purpose of the author's scientific research in support of the above arguments for the expediency of the pension and social security reform.
Keywords: pension and social security system, pension insurance, pension and social security reform, pension and social security justice

1. INTRODUCTION

In its 145-year history, pension insurance legislation has undergone a number of changes affecting one or another party in the legislative framework. A brief historical overview of social security legislation based on a study conducted by the National Social Security Institute (NSSI, 2015) shows that the beginning was added in 1880 with the adoption of the first law in this direction - the Law on Disability Status, which regulates the pensions of the champions and volunteers, and introduces the requirement of employment status as a condition for a disability pension. This was followed by the First Regional Law - on assistance to elderly or disabled lecturers or teachers and the Law on Military Pensions (1882) and the beginning of organized social security in Bulgaria was set with the adoption in 1883 of the Public Administrative Regulations for the Conclusion of Contracts and the Obligation of Public Construction Entrepreneurs. It provides for the creation of a fund to support workers and their families in the event of an accident, illness, or death. Following historical events, this period is not at all an accident, since this is the period of post-liberation Bulgaria and is placed at the beginning of the young independent Bulgarian state. It is no coincidence that a profile of social security legislation was created for individual activities - the first social security Act on Disability Pensions for Military Personnel (1886), the first special law introducing state pensions in Bulgaria (the Teachers' Pensions Act, 1888) and the construction of the social security system began. The foundations of the social security fund system were laid with the creation of the first pension fund - the Pensions and Temporary Assistance Fund. A second pension fund was also formed with the adoption of the Law on Pensions and Temporary Assistance for Priests (1890), which existed as an independent fund until 1926. In 1891, the Law on Pensions for Civil Servants and Employees laid the foundation for the civil pension fund in Bulgaria, and the Law

on Pensions for Military Personnel and Civil Servants and Employees established a pension fund for military personnel and civil servants. During the years of Tsarist Bulgaria, marked by both world wars, payments were made to legislative services for employer liability in the event of an accident and the right to compensation in the event of an accident at work, for the protection of women's and children's labor, of civil servants and the disabled. For the first time, compulsory insurance against the risks of "accident", "illness" and "maternity" was introduced for all workers and employees in state, public and private enterprises (1918). With the Social Insurance Act of 1924, Bulgaria was the first in the Balkans to create comprehensive social insurance, covering all categories of employees and all types of social insurance, financially independent, property and accounting separate. This was followed by the legislative calculation of pensions for time served (1926 and 1932) and the established financial balance of the Pension Fund for Time Served, the pensions of members and members of the Union of Artists (1936), disability pensions (1938), and craftsmen (1941). This was also the period of institutionalization of a state-autonomous institution with central management and local bodies with the Law on the Institute of Social Insurance. A characteristic feature of the Social Security Institute is the mixed form of governance between states, employers and workers. Since 1949, with the choice of the planned-centralized system of development of our country, a new stage of social security legislation (Law on Public Insurance) and the creation of the State Institute of Public Insurance (DIOO), in which all . independent insurance funds and funds are united and placed under a single management. In 1951, the Law on Public Insurance was transformed into a separate section (Title III State Public Insurance - DOO) of the Labor Code, with which all insurance funds are nationalized and transferred to the State Budget of the country. The Pensions Act of 1958 regulated the pension insurance of workers and employees, agricultural cooperatives, members of labor and production cooperatives, cultural figures and lawyers, and the established pension insurance system functioned until 1984, when the Main Directorate of Social Insurance (GUSO) was established as a state-public body that implemented a unified policy on short-term insurance and pension affairs under the Committee for Labor and Social Affairs. The territorial bodies of GUSO became the district directorates of Pension Insurance. The established regional departments of social insurance (RUSO) have been functioning as territorial divisions to this day. With the changes of 10.11.1989, when Bulgaria chose the path of development based on the market economy and the construction of a democratic society, a new stage began in the development and functioning of the social insurance system and in particular the pension insurance system, as the subject of research in this publication. Against the background of the construction of a sound system of pension insurance in post-liberation Bulgaria and in the Kingdom of Bulgaria and the sustainability of the State Social Insurance in the conditions of the centralized planned economy, the author seeks an answer to the reasons that led to proclaimed economic growth and the lack of dignified old age and a life-sustaining existence for people of retirement age against the background of the so-called pension reforms, as the goal of his scientific research..

2. MATERIALS AND METHODS

Following the path of democratic and market-oriented development, for 36 years now, Bulgaria has been discussing the question of what happened after November 10, 1989 with the resources accumulated in the Social Insurance Institution to ensure the livelihood of people of retirement age?! The answers in this regard are ambiguous and often "under the radar" with the bitter doubt in whose hands they fall. Perhaps from the perspective of the years in time, an adequate answer can be found, but rather interpreted in a political color. In the years of transition, several transformations occurred in the pension insurance system, with reforms being made in stages, not to say "piecemeal". In retrospect (NSSI, 2015), immediately after the changes, in 1990, the "Professional Qualification and Redirection" fund was created at the State Labor Inspectorate, which marked a new beginning in the insurance system, namely the introduction of unemployment insurance. This moment is of utmost importance, since until November 10, 1989, the concept of unemployment did not exist in the country. With the changes, this phenomenon, unknown until then, is not known, but with the envisaged changes and various plans and programs, it is already established. For the first time in 1991, differentiated pension insurance was introduced depending on the category of work, for the teaching profession and insurance only for occupational accidents and occupational diseases. The Ordinance on Public Insurance for Persons Exercising a Liberal Profession or Trade (1992) regulates the method of pension insurance for these persons, to which those working under "civil contracts" were later added (1993). With the legislative changes in the tax laws of 1994, the foundations of voluntary pension insurance (VPI) were laid as the third pillar in the pension system, entirely based on the principles of the capital-distribution model. With the adoption of the Social Insurance Fund Act (1995), the accumulated funds in the Social Insurance Fund were separated into an independent fund, outside the state budget, whose management was institutionalized in the National Social Security Institute (NSSI). In practice, the NSSI is the legal successor of the GSSI. The amendments to the Pensions Act (1996) marked the beginning of a new approach to calculating pensions, introducing an individual coefficient for the pensioner, calculated as a weighted average of the ratio between the person's social

security income and the social security income for the country. In 1997, the first autonomous budget of the Social Security Fund (Law on the Budget of the Social Security Fund) was adopted. This also marked the beginning of professional retirement schemes - the Teachers' Pension Fund, managed by the National Social Security Fund, unemployment insurance, employment promotion and support, professional qualification and retraining through the specialized fund "Professional Qualification and Unemployment", managed by the National Employment Service. Since 1999, the Supplementary Voluntary Pension Insurance has been put into legal form with the adoption of the Supplementary Voluntary Pension Insurance Act. It regulates the activities of private pension funds, which completes the third pillar of the pension system. The licensing and supervision of Pension Insurance Companies (PICs), which carry out the activity of supplementary pension insurance, is carried out through the established State Agency for Insurance Supervision. With the adoption of the Code of Mandatory Public Insurance - PSSI (2000), the fund organization of PSSI is regulated, which includes the Pension Fund, the Occupational Accident and Occupational Disease Fund and the General Illness Fund. This places the organization of PSSI, which includes insurance for old age, general illness, occupational accident, occupational disease, maternity, death and supplementary mandatory pension insurance as the first (on the principles of the cost-covering model (Pay-as-you-go model)) and second pillar (on the principles of the capital model) of the pension insurance system. In 2003, the Social Security Code (SSC) amended and supplemented the PSSI, which united the three pillars of the pension system in our country and their institutionalization. A characteristic feature of the CSR is that it is combined with the Law on Additional Voluntary Unification, as a single regulatory act regulates the activities of the SOA, additional mandatory pension insurance, voluntary pension insurance and additional voluntary unemployment and professional qualification insurance. A specialized fund “Guaranteed Claims of Workers and Employees” was also created, institutionalized by the National Social Security Institute with the adoption of the Law on Guaranteed Claims of Workers and Employees in the Event of Employer Bankruptcy (2004) regulating the conditions under which the right of workers and employees to guaranteed claims arises. This law and the creation of the specialized fund were caused by the fact that a number of employers and owners of companies in the 1990s and the first years of the 21st century did not pay accrued wages and did not contribute accrued social and health insurance contributions to workers and employees, as in the event of bankruptcy and insolvency, these claims and obligations to the insurance funds remained unsettled. The purpose of this fund, which is entirely at the expense of the employers, is to serve to guarantee claims that have arisen, the settlement of which is at risk. The amendments and additions to the CSR of 2006 introduced voluntary pension insurance under occupational schemes and their administration through a VPF to a given PIC. The creation of a "Silver Fund" under the Law on the State Fund for Guaranteeing the Sustainability of the State Pension System (2008) is considered a revolutionary step in ensuring the sustainability of the insurance system, the purpose of which is to accumulate, invest and transfer additional funds to the budget of the Pension Fund. The essential point is that the transfer of funds from the guarantee fund to the Pension Fund in the CSR is possible no earlier than 10 years from the entry into force of the law. In 2010, the amendments to the CSR allowed the transfer of accumulated funds to the Universal Pension Fund for additional mandatory pension insurance for the third category of labor in the Pension Fund in the CSR, which violated the capital model of pension insurance. Against the background of this retrospection, with the help of historical, systemic, managerial, analytical methods and statistical and forecasting tools, an answer should be given to the validity of the arguments "for" and "against" the next pension reform in Bulgaria in support of the defensibleness of the goal of the author's scientific research in this publication.

3. RESULTS

The retrospective of the regulatory framework in pension insurance after 1989 gives us reason to outline the stages in pension reforms from 1990 to the present in response to the question of whether a new pension reform is necessary against the background of the deepening financial instability of the pension system in our country. The first reform period can be defined as the period 1990 - 1995, a distinctive feature of which is that "both post-socialist forms of insurance and some new forms typical of countries with a developed market economy coexisted." (Hristoskov, Y., B. Petkov, St. Dimitrov, 2021). The reason for such a general conclusion is the existing shortcomings of the pension system from the centrally planned economy and partially transferred to the first in the legislative framework in the first years of the transition to a market economy. It is these shortcomings that have given rise to the financial deficit in the pension system, a significant shift of the insurance burden onto employers, which has led to low collection of insurance contributions and a deepening of the financial instability of the Social Security Funds. The legislative changes were intended to overcome these shortcomings, but the general impression is that they have rather worsened. To this should be added the deepening unfavorable demographic picture in the country, which significantly changes the ratio between persons of working age and those of retirement age. The period 1996-2000 is outlined as the second stage of more serious reforms in the pension system, during which an

attempt was made to place social security legislation and pension reform on a strategic framework basis. The positive aspects were manifested in the separation of the independence of the Social Security Fund by separating it from the state budget and the creation of the first autonomous budget of the Social Security Fund. During this period, the foundations of voluntary pension insurance on the principles of the capital model were also laid. With the adoption of the CPP, the fund organization of the CPP with its branches was restored - the Pension Fund, the General Illness and Maternity Fund, the Occupational Accident and Occupational Disease Fund. A specialized fund was also created - Professional Qualification and Unemployment Fund. The additional mandatory pension insurance in the Universal Pension Fund (UPF) was also regulated. The greatest contribution at this stage is the laying of the foundations of the three-pillar model of pension insurance, the independence of the CPP funds, institutionalized by the National Social Security Institute, the introduction of an individual coefficient for the pensioner when calculating pensions. However, the legislative changes in this period. As a real stage in the insurance reforms, the period 2000-2010 can be justified, during which the pension insurance system was placed on a "new philosophical framework of social security and gradual erosion of the model" (Hristoskov, Y., B. Petkov, St. Dimitrov, 2021). During this period, the three-pillar pension model was established - the Pension Fund (first pillar, operating on a cost-covering model), additional mandatory pension insurance in Universal (for the third category of labor) and Professional pension funds (for the second and first categories of labor) for those born after 31.12.1959 (second pension pillar, operating on a capital-covering model) and voluntary pension insurance in the VPF at a given PIC under individual accounts and a professional scheme (third pillar, operating on a capital-covering model). The “Silver Fund” was also created, the purpose of which is to guarantee the financial sustainability of the state pension system by accumulating, investing and transferring additional funds to the budget of the Pension Fund. Although the creation of this mixed model of the pension system is considered a revolution in pension insurance, it can hardly be said that the pension reform achieved financial stability. Moreover, with the changes in the CSR of 2010, a breakthrough was made in the pension reform, allowing the transfer of the accumulated funds in the Pension Fund to the Pension Fund, which led to a violation of the principles of the capital-based model of the pension system. The next stage in the pension reform can be considered the period 2011-2024, when at first glance the impression is that favorable conditions have been created for the sustainability - financial, legislative, market - of the pension system in our country. On the one hand, in this period, the increase in the retirement age was held back in certain years, in the period 2016-2018, an increase in the social security contribution to the Pension Fund by 1% was undertaken, retirement options were introduced under Art. 69, which increased the number of persons with early retirement in the structures of the Security and Defense sector, who were given the opportunity to continue working in the same positions, with the same privileges, and the large share of persons whose status is exempt from paying social security contributions was maintained. All this not only stabilized the pension sustainability of the pension system, but on the contrary increased the financial shortfall of the Pension Fund, increased the budget transfer to supplement this shortfall, and worsened the main indicators - employment rate and gross dependency ratio against the background of macroeconomic indicators in a relatively stable labor market (NSSI, 2024). And here the question rightly arises: is a new reform of the pension system inevitable?!

4. DISCUSSIONS

In the search for arguments "for" and "against" a new pension reform, the answer is unequivocal. It is not only necessary, but also inevitable. At what cost are the discussions in this direction? The forecasts in this direction for the future state of the pension system are not at all in favor of pensioners. The inevitability of a more drastic reform is dictated by the deepening demographic crisis and the increase in the number of people of retirement age, by the negative effects of the slowdown in economic growth in our country as a result of the circumstances that have arisen over the past 5 years - Covid -19, the special military operation in Ukraine, the military actions in the Gaza Strip. The increasing number of early retirees, the receipt of pensions in the country by Bulgarians permanently residing abroad, the still large number of pensioners under Art. 69. The number of civil servants is also increasing, the high incomes of deputies, the significant increase in the incomes of those employed in the Security and Defense sector, the persistent trend of increasing the amounts in the budget of the judiciary and the prosecutor's office. All of these persons, despite the increase in their incomes, are exempt from paying social security contributions to pension funds under the pretext that their employer is the state. With such a purely political decision, a significant part of these persons are of retirement age, receive salaries at the expense of taxpayers and pensions within the maximum amount without any social security contribution. In practice, one of the basic principles of CSR is violated - justice, which contributes to the growth of inequality. Moreover, through the redistributive functions of the budget, double taxation of taxpayers occurs, who, through their social security contributions and tax payments in favor of the budget, pay the salaries and pensions of the specified category of persons exempt from pension insurance. In practice, 2/3 of working taxpayers and insured persons support and pay the pensions of 1/3 exempt from pension insurance. Last but

not least, it is necessary to strengthen the control of those employed in the gray economy sector who do not pay or pay a minimum amount of pension insurance. All these are the arguments in favor of a new pension insurance reform, as the beginning has been made, but it is necessary to put the prepared roadmap and the actions contained in it for the creation of an effective pension system for public discussion, but not on the basis of only increasing the retirement age, increasing the insurance burden, indexing only with the percentage of the inflation index and eliminating the Swiss rule. The discussions are ahead and hopefully they will be economically justified, not politically.

5. CONCLUSIONS

In summary of the research, without claims to be comprehensive due to the limited volume of the publication, the arguments for the inevitability of a new pension reform are justified by the need to create a new pension model with strengthening the voluntary principle, observing the principle of justice, overcoming the unequal situation and a dignified life for people of retirement age. And this is possible to achieve by taking into account the proposals of experts and specialists in this field without giving precedence to the political element to the detriment of pensioners and with broad public discussion.

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