GMS Flash Alert

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Romania - New Law for Public Pension System

The Romanian Parliament adopted and the Romanian President signed new Law 127/2019,[1] reforming the public pension system.

The new law will repeal and replace the current Law 263/2010 as of 1 September 2021, and includes changes that may have a significant impact on individuals.

WHY THIS MATTERS

The new law changes are important for people who for various reasons have periods during which they did not contribute to a pension in Romania. By September 2021, all the individuals contributing to the pension system in Romania should be aware of the new provisions in order to benefit from the ones that could positively affect them. It is also important for them to know the conditions and penalties for early retirement.

Other significant provisions of the new law affect early retirement for some mothers, and make changes to calculating eligibility for retirement and amount of benefits.

Highlights of What Has Been Changed by Law 127/2019

Retirement pensions will be recalculated. Individual pensions created before the new pension law enters into force will be recalculated within 6 months from September 1, 2021. There is a chance that some pensions will increase. No pension will decrease, because changes will be made to pensions only if the recalculated amount is more favorable.

Early retirement for some mothers. The new pension law provides for an earlier retirement for women who gave birth to at least three children who they raised until the age of 16. Such women can retire six years early, if they meet the minimum contribution period (15 years). This is applicable only on demand and not automatically. For those women with more than three children, the six-year reduction period will be increased by one year for each additional child. This reduction cannot be combined with any other reduction in the retirement age.

The reduction period will also apply for women who adopted children and raised them for a period of at least 13 years.

Early retirement options narrowed. Currently, in Romania there are two types of early retirement: early retirement and partial early retirement. Partial early retirement is obtained with a penalty applicable to the payable amount. The new pension law provides for only a single early retirement option with a penalty.

Starting in September 2021, early retirement will be permitted no earlier than 5 years before reaching the standard retirement age, under the new law. This could be sought by individuals who have established the complete contribution period (i.e. legal seniority of 35 working years), but also by individuals who have exceeded this period with up to 8 years.

When the conditions for old age retirement are met, the early retirement will automatically be converted into a retirement pension. At the same time, the pension will be recalculated – meaning that no penalty will be applicable and the period of contributing during the early retirement period will be considered when calculating the pension amount.

Masters and doctoral studies will contribute to length of work. The new pension law provides that masters and doctoral studies will be taken into account at the age of retirement.

Retirement payments for periods of contributors' choice. Another important change is the retroactive payment of pension contributions. In prior years, retroactive payments of pension contributions were allowed to be made for 5 prior consecutive years. Under the new pension law, it will be possible to choose specific period(s) of up to 5 years from the past, provided that no insurance obligation existed for those periods of time. This possibility will be permanent, not temporary.

Under the new pension law, any individual who has completed a minimum contribution period of at least 10 years can be insured in the public pension system based on a social security contract.

A social security contract may also be concluded for periods of up to 5 years before concluding the contract, if the person has not met the minimum period of contributing to the public pension system, provided that all requirements are met.

The period for which the social security contract is concluded represents the period of contributing to a pension that is taken into consideration when determining the amount of public pension. The contribution basis will be represented by the gross average wage at national level, applicable at the date the insurance contract is concluded.

KPMG NOTE

In place since 2010, the current pension law has been updated periodically, and the new pension law, effective in September 2021, makes several important changes, including some that were subject to other legislative proposals that have not been approved by the Parliament.

We believe the new provisions could have a significant impact in certain situations. For example, individuals who are assigned outside of Romania for a limited period, but in countries with which Romania does not have a bilateral social security agreement, may be able to contribute up to 5 years for any retroactive period of their choice, during which they did not contribute in the past.

FOOTNOTE:

1. Law 127/2019 was published in the Official Journal of Romania, *Monitorul Oficial* no. 563/ 9 July 2019.

Contact us

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