The Bulgarian case.

The legislative reform of the social policy institutions in Bulgaria has been completed with the acceptance of the Compulsory Social Security Code. It has been active since the beginning of the current year. In the middle of the year 2000 the Health System Fund will be in exploitation. It represents the base of the Health Security System. This will be the last step of the radical changes of the institutions of the social field. It process began in 1997.

The result of those changes is the adoption of new rules and procedures throughout which a new social order is been built in the Bulgarian society. The aim of the current article is to analyze this new social order, considering the positions of the main social groups.

We will make an attempt to prove some basic thesis. On one hand, the individual life chances will depend on the individual position of the labour market. This will be thus not only during the active life, but also after it. As a result of this, the groups with lack of chances at the labour market, as a whole, will not be able to take advantage of the changes in the social field. On the other, the different social levels will be determined not only by the social cleavages, but also by the differentiation between the territorial and the specific sectors of the labour market. Yet, the division, determined by the different labour markets, will have larger importance for the public policy, considering the political representation, as well as the occasions for the political intervention and regulation.

Thus a question occurs of whether it is possible by analyzing the legislation of the compulsory social security code and the social security system as a whole, conclusion may be made about the future social order in the country. In our opinion – yes. In the compulsory social security system, relations are institutionalised. It happens between that part of the society, which has incomes out of labour activity and that without such incomes. The effect is to attain certain level of pre-distribution of the incomes, which means that there should also be a pre-distribution of the life positions and chances. The level and the direction of the pre-distribution are determined by the accepted system of principals, rules and procedures. Their analysis provides us with a reason of making forecasts about the future condition of the society.
The Compulsory Social Security System in Bulgaria

The introducing of the social security system begins in 1995. Thus with the legislation of the Social Security Fund (SSF) has been created an independent of the state’s budget fund, governed by the National Social Security Institute (NSSI) and financed by the non-differentiated (common for all social security risks) social security tax.

The budget of the SSF is provided by NSSI and is approved by the Government. Its parameters depend on the main indexes of the state’s budget. The Parliament approves definitively the budget. With its legislation, the amount of the social security taxes is thus determined.

With the same legislation, the non-returnable funds can be erased.

The NSSI is responsible for the right exploitation of the budget of SSF. Its director and deputy are employed by the Parliament. The Supervising Committee, which emphasises on the main directions of the activity of NSSI, approves the projects of the annual budget of the SSF, and controls the activity of the executives is formed on the base of the representation of interests. It has a representative of each of the representing organisations of the employees and employers, and an equal to that number of representatives, appointed by the Government.

First the rotation principle for appointing the director of the Supervising Committee was accepted. This was terminated in 1997 and later regained with the new legislation of the compulsory social security system.

With the legislation of the SSF, the basis of the second pillar in the pension security system is set. A teachers pension security fund is also established. It is under the jurisdiction of NSSI and is financed by a tax, which is the difference between the social security tax for teachers and the common social security tax.

Thus NSSI is dependent on the State’s policy. This dependence is a result of two factors. On the one hand, the method for the appointment of the controlling organs of the Institute guarantees the State’s influence.

The three-party principle does not change this condition in the formation of the Supervising Committee. On the other hand, the economical parameters of the activity of NSSI depend on the macro-economical policy of the State.

The accepted in 1999 legislation for the compulsory social security system does not change the structure of the security system. Thus a brand new system is accepted. It consists of rules for determining of the social security taxes.
1. The three-pillar pension security system has been finalised and introduced. The first pillar is organised in a manner to be able to provide about 40 per cent replacement incomes. The professional social security adds 20 per cent more such incomes. The third pillar – the voluntary social security is exclusively regulated. It has been under the control of the State, not only through the license regime, but also through the obligation for investing of 50 per cent of the accents of the private social security firms in State’s shares. At the same time, the tax relieves which stimulate the voluntary social security are minimal. Only the social security taxes are free of taxes. The activity of the private social security firms is not supported by tax preferences.

The compulsory social security guarantees only the minimal necessities. The expectation is that the pensioner’s incomes will increase, thanks to the other two pillars. The second pillar aims to secure good conditions for retirement for special profession, especially from the public sector. Due to the fact it is compulsory, and the tax is paid by the employer, the perspectives for its development are the same as those of the first pillar. The voluntary security, however, which is expected to attract the occupied and the employing from the private field, is mostly dependent on the investment field, as well as the large scaled economics and profits. This pillar will most probably lack a great importance for the incomes maintenance system.

The three pillars of the pension system are financed by three kinds of taxes. In the beginning of the reform, the participation in all three pillars supposes an accumulated pension tax of 50 per cent of the income of professional activity. The problem of the social security system is that it should collect the compulsory taxes and not stimulate the voluntary social security.

2. A differentiated tax for the variety of social security risks and the fund organisation of the social security has been introduced. Regardless that they are controlled by common institutions, three financing funds do exist – for pensions, for labour accident and for decease and maternity, financed by different taxes.

3. The balance, in which the tax is divided between the secured and their employer, has been under change. The tendency is in perspective till the year 2007 that the tax should be divided equally between employers and assured individuals. The tax for labour accidents alone is exclusively on the employer.

The relations amongst the social security funds are legislated – the tax in the pension fund for the unemployed is handed to the unemployment fund.
4. The groups, which have security rights out of the State’s budget, have been restricted. According to the legislation for the compulsory social security, this is only the state’s employees and also some groups of employees in the field of the National Security.

5. All social elements have been overcome in the rules for access to the system. The existing in the former legislation for SSF pension social security relieves have been terminated. They were aimed for larger families and disabled people. Only the privileges of some groups, occupied in the field of the National security are preserved.

6. The term ‘social security income’ has been introduced. It is in the basis of the calculating the taxes and of the social security payments. To the salary thus there are included all professional activity incomes and the permanent extra benefit. The minimal social security income is a minimal salary. The social security income for self-employed persons cannot be lower than two minimal salaries.

7. There is a limit for the social security income equaling 10 minimal salaries. In this way, the high incomes are freed of the system of the compulsory social security.

8. The minimum age for retirement was increased. And thus was increased the necessary for getting full social security rights labour period. As a result of this measure, the clients and the expenses of the compulsory pension security system decrease considerably. The measure is mostly unfavourable for the female representatives of the society.

The tendency is for decrease of the difference amongst the conditions for access to the system for both men and women. Around the year 2007, when the pension system has to be complete, the females will retire at the age of 60. The necessary labour period for gaining full social security rights will be 34 years. The males will retire at 63 years of age and will be expected to have 37 years of labour period. After the age of 65 all assured people will gain social security rights, having 15 years of labour period.

9. There is accepted a rather unfavourable method for determining the social security payments. The amount for pensions for age and over labour period is related with the average social security income for the country at the moment of retirement. The individual pension is determined, concerning the personal social security income
during the period after 1997 and 3 years by choice before. The amount of the social security pension cannot be lower than 115 per cent of the social pension for age.

The accepted method increases the dependence of the social security payments on the labour incomes. At the same time, the effect of its use is the relation process of the expenses of the pension system with its financial possibilities.

Average social security payments:
Type of compensation (per cent of the daily average social security income)
For temporary labour disability – 80 per cent
For temporary labour disability due to a labour accident – 90 per cent
For pregnancy – 90 per cent
For the upbringing of a child – minimal salary

10. The limit range top for the social security payments is terminated. In this way the relation between the contribution in the SSF and its use is stronger. The pre-distribution effect, on the other hand, of the security system is decreased.

11. A social security tax on the social security payment is appointed. The taxes for the pension fund are made for the time of temporary labour disability, accepted as a labour period. In these cases, the tax is equal to the part of the common tax, which is owed by the employer and brought in by him only.

12. Three waiting days were adopted, during which the compensation for temporary labour disability is on the employer.

13. Measures are introduced, which increase the discipline for the payment of the social security taxes. With the social security legislation administrative measures have been taken, which obligate the banks to provide sums for paying labour salaries only provided that there are paid the owing sums to the social security system.

The health security system is not included in the legislation for compulsory social security. The reason for this is not in the existence of different principles in its organisation, but rather in the different structure and in the presence of peculiar actors in the filed of the health. The principles for organising of the health security follow the philosophy, which is in the basis of the reform for social security. In the relations in this filed, however, is present a strong professional group, which changes its organisation. The health security system is a relation between the Health System Fund and the Professional organisation of the physicians and dentists. As a result, the rules
in the social security system are being formed in the process of corporative contracting, and not in the frames of the political and legislative process.

Problems of the Social Security System

1. The low incomes in the country are the main challenge before the social security. The average salary is about LEVA 180 (USD 90), and between 35 and 40 per cent of the occupied receive a salary of LEVA 71 (USD 35), which is the minimal salary. At the same time, the salary is with the highest relative portion in the incomes of the Bulgarian families – average of 40.1 per cent. The incomes from the professional activity, not as a part of the salary do not go over 3.2 per cent and from the business activity - not over 4.3 per cent. This data dates the year 1998. The last two portions increase slowly, but not temporary.

2. The unfavourable balance between the employed and unemployed people extra increases the finance misbalance of the social security. The average age of the Bulgarian citizens is 39.4 years of age (1998). The long-lasting tendency in the 1990s is a decrease of the portion of the individuals who are under the labour age and increase of those over it. The statistical forecasts are that the aging of the population will continue. The influence of the unfavourable demographic structure is speeding up due to the great number of unemployed population. The owed, in case of unemployment, taxes to the pension fund are calculated on the basis of the received compensation and they are far too low.

3. Also the accepted social security systeme increases to a large extend the price of the labour. This leads to unfavourable consequences for the preserving of the labour legislation. A great part of the employed population, most of all in the private sector, is assured on the basis of the minimal salary. Thus a vicious circle occurs, in which the social security taxes cannot be decreased, because of the low incomes, and the incomes remain low, because of the social security taxes. The Government released the idea for an increase of the minimal salary, but it was not supported by the international financial institutions.

4. The unfavourable investment environment, which restricts the development of the voluntary social security, is a factor, which blocks the optimal functioning of the social security system as a whole.
Social Consequences of the Reform in the Social Security System

1. **Consequences for the female groups:** Because of the change in the conditions for access to the pension system, women are the most uncompensated by the reform. The perspective is that the average portion of women with full social security rights will decrease, because of the condition for a labour period of 34 years.

2. **The consequences on the socially poor groups:** The socially poor groups are excludes from the Social Security system. Special programmes are created for them, financed mostly by the State’s budget. The direct effect of this tradition is a decrease of the social transfers, meant for the socially poor groups.

3. **Consequences for the youngsters:** That group has many disadvantages, mainly because of the increased retirement age, which also increases the competition at the labour market. This thus increases the risk of a larger unemployment, which itself decreases their chances to gain full social security rights.

4. **Consequences for the retired people:** A main result of the new changes in the pension security is the increase of the incomes for about 30 per cent of the participants in the programme. This is because of the termination of the maximum pension and the introducing of the extra pension in case a husband has passed away. The effect of the new system is the change of the type of the leveling amongst the users of the programme. It will transfer the main differences of the labour market. As a tendency more important will the leveling by the sectors in the economical sphere, than in that of professional and social differences. At the same time, the leveling amongst the users becomes deeper. This will be thus mainly, because of the second and third pillars of the pension system, where will be directed those from the private sector. This effect will be realised, however, also in the compulsory scheme, where tendencies are accepted, which increase the meaning of the individual contribution to the fund for the determination of the social security payments. The leveling amongst the pensioners will go deeper on a large scale. With increase of the age, real incomes will be reduced, because the pension is related to the average salary at the moment of retirement. The increase of the incomes in the country will reflect on those who receive pension right at the moment of the increase, and not on the whole group.
5. **Consequences for the active population:** As a whole the active population is uncompensated in the social security system. A consequence could be the reducing of the real incomes of the employed. Losing are those who receive income for professional activity but beside their salary.

6. **Consequences for the employers:** The employers are also on the losing side, because of the increased labour price. This is a consequence not that much of the increase of the social security tax, but of the measures against those who owe the system. The Code is a part of a normative creation of a strictly regulated labour market. This is rather against the interests of the employers. To some extent this tendency keeps away foreign investment, which is, at least at present, attracted by the low paid labour.

7. **Consequences for the administration in the social sphere:** As a comparative overview, it appears that the greatest advantage of the new social security system is gained by its administration, because of the introducing of the clear rules and the creation of sufficient mechanisms for control over the system.

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With the new compulsory Social Security Code, there is a controlled system for the support of profits at the social security risk. There isn’t a social group, which is favoured by the social security reform. At the same time, we don’t observe a serious resistance against its execution and the explanation is not only in the lack of information or in the limited access to the political power. The reform is a part of the process of rationalisation of the bureaucratic sphere. In this sense it corresponds to the civil interest, despite its clear contradiction with the social interests.