THE FINANCIAL - ACCOUNTING IMAGE FOR THE PUBLIC BENEFITS OF RETIREMENT

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ABSTRACT: *Like any field of activity conducted in an organizational framework, the public pensions sector is subjected to multiple transformations. Among these are identified the transformations regarding the structure of the pension system, the characteristics of the pension's components/plans, the compatibility with the pension plans described by the international accounting standards, accounting treatments, etc. Therefore, this paper presents aspects regarding: the role of the public component of the pension system and its place within pension plans, potential risks and how they are assumed, the accounting of how pension funds are formed and used, using as guiding mark the two essential components of any pension plan: contributions and benefits, as well as the nature of the involved entities, aspects regarding the evolution of certain elements that influence the sustainability of the public pension system.*

KEY WORDS: *retirement benefits; accounting; state plans; contributions; benefits; risks; sustainability*

JEL CLASSIFICATION: *M41, H55, H83*

1. INTRODUCTION

In these times of crisis, of extensively publicized social bewilders, it's certainly natural to raise the question regarding the opportunity of taking a step that will approach one of the tetchiest problems of present times - public pensions.

It is certain that any action directed towards shaping the endurance of the pensions system to the vicissitudes of times can't contest the usefulness of public insurances in the life of a society because of the multiple circumstances that can deny even the individuals rich of minimum existential resources. At the same time, we can't neglect the incentive policies for employment, ensuring a minimum wage, and on long term, the policies to improve training and education levels, all these on the background of economic development.

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Starting from these premises and without excluding the „minefield" of the alternative solutions, we considered appropriate to clarify some aspects regarding the position of the public component of pensions within the post-employment benefits, according to the international accounting norms, the main actors involved in ensuring the system's functionality, as well as presenting an image in figures of the current state of this social protection segment for the elderly and others.

The ground for this option is the fact the pension system is an important component of welfare and is the reflector of the economic, political, cultural and demographic evolutions of a country, as well as a result of the intention to reach goals, which will be propelled by finding the best possible solutions to ensure sustainability of the public pensions system on long term, being considered "the stumbling stone of each government in the next 50 years" (Presidency Commission for Social and Demographic Risks Analysis Rapport, http://www.presidency.ro/static/CPARSDR_ raport_extins.pdf, p. 83).

2. RETIREMENT BENEFITS, RISKS AND BEARERS

Undoubtedly that when the human side is mooted, any approach, including the one regarding retirement benefits, gains special significance, especially if the subject includes a large part of the population, and it requires concrete measures to mitigate deficits and to ensure an equitability between generations.

On completion of the active period, in exchange for their work, employees are to receive certain benefits, particularly in the form of pensions, perceived as benefits for retiring from the active life.

Conceptually, benefits represent an earning, a benefit, a profit that somebody has as a result of a situation or an activity.

According to the Romanian Dictionary, pensions represent "the amount of money given monthly to people who retired from the professional activity for age limit, for disability or who lost their sponsor and are unable to work".

The issue of retirement benefits is approached by the International Accounting Standards, namely IAS 19, "Employee Benefits", and IAS 26, "Accounting and Reporting by Retirement benefits plan". In the public sector, this problem is approached by IPSAS 25 "Employee Benefits". The provisions of IPSAS 25 will come into force for the financial statements that cover periods starting from January 1st, 2011 or after this date.

The benefits granted to employees are defined as follows in the mentioned accounting norms: "employee benefits are all the forms of considerations given by an entity in exchange for the service rendered by employees". In the structure of the benefits given to employees are also identified the *post-employment benefits*, namely those benefits that are payable after ending the employment contract, including pensions.

A separate place is held by **state plans**. These are established through regulations that refer to all entities, being implemented by the Government. Financing is done through the PAYG (pay-as-you-go) method, meaning current contribution

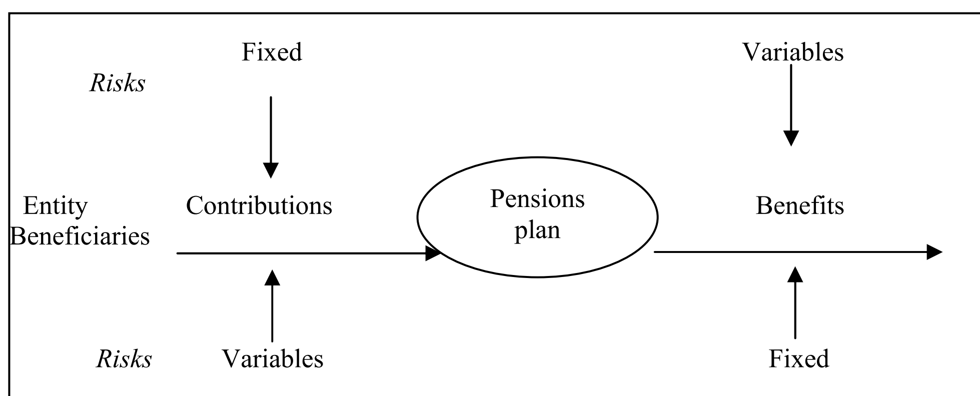
finance the current pensions and future retirement benefits will be paid by future contributions.

State plans may be determined contributions or determined benefits. In the first case, both public and private entities are bound exclusively to paying the contributions. The employee is subjected to the risk of lower benefits compared to the estimates (actuarial risk), but also to the risk of insufficient assets invested to generate the estimated benefits (investment risk).

The risk is a potential danger that may impact the existence or the activity of an organization / institution or of a system. It represents the uncertainty associated to any result. This uncertainty is generated either by the occurrence probability or by the effect of an event in case it happens. The risk occurs when: an event happens for sure, but its result is uncertain; the effect of an event is known, but the occurrence of the event is uncertain; both the event and its effect are uncertain.

„Rebut table presumption" is considered the characterization of the state plan defined as plan of defined benefits. According to it, the entity has the obligation to give employees the agreed benefits and to stand both the actuarial risk and the investment risk. This case requires actuarial assumptions in order to assess expenses and obligations.

The distinction between the two types of plans is presented schematically as follows:



Guidebook for understanding and implementing the International Accounting Standards, 2004, IAS 19 „Employee Benefits", CECCAR Publishing, Bucharest, p. 37

Figure 1. The difference between defined contributions plans and defined benefits plan

As stated a few years ago, the principle of the accounting entity or the management principle of the accounting method may constitute the point of demarcation between the two plans that target retirement benefits.

The two mentioned international accounting standards (IAS 19 and IPSAS 25) approach pension plans only in terms of the entity, and not that of "substance". Through the National Pensions House, the state undertakes the obligation to pay defined retirement benefits, at least in terms of scoring. It is also true that the amounts representing collected contributions (on the public component) are not invested to

"activate" actuarial assumptions, but are used to pay the pensions of the current retirees. In the opinion of the experts, this task was taken over by the Second Pillar, represented by universal pensions.

In terms of the public component of the retirement benefits, it is certain that we may talk about defined plans of contributions at the level of the entities and that the accounting norms put emphasis on the cost covered by the entity and not on the benefit about to be received by the employee. At the level of the public institutions, the issue is nuanced and it could possibly generate controversy.

3. ACCOUNTING INSTRUMENTATIONS

In terms of accounting, plans of state pensions require the participation of the following players: the employing entity (both public and private) and the state, through its institutional structure specific for this activity segment (the pension houses that manage the public system and the Treasury, as "state bank"). The insured represent the active generation, the taxpayers, the backers of the current pensions; and the pensioners are the users of the social insurance fund. In other words, they are the subjects of the intergenerational transfer within the public system of pensions. Interposed between them are the mentioned economic operators, which have the obligation to account all the operations concerning the management of the pensions' fund.

In our opinion, and as it will be seen next, a large part of these operations are limited to recording directly or embellished (by using accounts receivable or obligations convertible to cash in the same accounting period) "the collected revenues and the paid expenses". From a structural point of view, pension plans are related to benefits and contributions, which is why in the presentation of the accounting aspects we'll use as benchmark these two elements.

Thus, public or private **entities** use paid workforce to achieve the targeted goals. The national legislation in force regarding the financial-accounting area stipulates the obligation of the employer to monthly contribute to the pension fund created at national level with a certain percentage from the salary of each employee. The social insurance contribution is the main source of the money funds needed to finance the expenses with public pensions and, according to the law, it is payable monthly by the insured (as future pension beneficiaries) and by the employer.

In the last 5 years, the annual budget laws established the following rates of contribution to the social security budget:

Table 1. Contribution rates to the social security budget between 2005 and 2009

<table>
<tr><th>Year</th><th>2005</th><th>2006</th><th>2007</th><th>2008</th><th>2009</th></tr>
<tr><td rowspan="2">The contribution rate of the employees</td><td rowspan="2">9,50</td><td rowspan="2">9,50</td><td rowspan="2">9,50</td><td rowspan="2">9,50</td><td>9,50</td></tr>
<tr><td>10,50</td></tr>
<tr><td rowspan="2">The contribution rate of the employer</td><td rowspan="2">22,00</td><td rowspan="2">19,65</td><td rowspan="2">19,50</td><td>19,50</td><td>18,50</td></tr>
<tr><td>18,00</td><td>20,80</td></tr>
<tr><td rowspan="2">Total</td><td rowspan="2">31,5</td><td rowspan="2">29,15</td><td rowspan="2">29,00</td><td>29,00</td><td>28,00</td></tr>
<tr><td>27,50</td><td>31,30</td></tr>
</table>

Therefore, according to the table's data, with one exception, we can notice the constant input (9.5%) of the insured to the pension fund and the sinuous evolution of the employer's effort in this direction, namely the obligation to contribute with 22% from the wage fund in 2005, 19.5% in 2007 and at the end of 2009, with 20.8%. An isolated analysis of this situation doesn't generate valid conclusions; it must be correlated with the evolution of other indicators, such as: the number of contributors, the number of pensioners, the budget surplus/deficit, etc. Related exclusively to the contributor, it is certain that its effort to support public pension fund grew by over 3% since February 2009.

Correlatively, the accounting image contributions - benefits is as follows:

Contributions
Expenses = Contributions to social insurance (Debts regarding pensions) Debts regarding pensions / Contributions to social insurance = Available assets
Benefits (pension benefits)
- no accounting entries are made

According to the international accounting norms, the **accounting** of the defined contribution plans is done directly, without turning to actuarial hypothesis. Therefore, the entity will highlight a debt and an expense, *with the possibility to recognize an expense in advance* for the situation when the advanced payment of the contribution will generate the mitigation of future payments or the cash refund.

Thus, the entity may include the occurred pension cost in the production cost of the inventories in progress or of the non-current assets, according to the following accounting formula:

Production in progress = Pension liabilities

Even if the recently approved accounting regulations bring closer the accounting environment in our country to the international accounting norms, they stipulate the no offsetting principle. Therefore, any offset between assets and liabilities or between incomes and expenses is prohibited. All account receivables and liabilities must be separately entered in accounting. The possible offsets between claims and liabilities towards the same entity, done by observing the legal regulations, may be recorded only after accounting the associated revenues and expenses.

Therefore, according to regulations, the accounting books will fully record both the expense with the contribution to the social insurance budget and the income from production.

The current accounting norms also stipulate the option of the employer to form provisions for pensions and other similar obligations owed to employees as benefits received at the end of their professional activity. Provisions are recognized based on expenses when: an entity has a current obligation generated by a previous event; it is probable that a resource output is needed to honor that obligation; and a credible estimation of the obligation's value may be achieved.

Provisions for pensions: refer to the amounts that will be paid after the employees have left the entity; their value will be established by taking into account

age, seniority and personnel rotation within the entity; are acknowledged during the working period remained until retirement, when there is a certitude they will be paid in a foreseeable period of time.

Provisions must be revised or adjusted at the deadline of each balance sheet, thus reflecting the most accurate current estimation. Their value is established by experts in the field.

Against these reports, we naturally raise a question about the practical implementation of the legal stipulations regarding provisions, as long as the defined contribution plans have severance at the level of the work consuming entities.

Given the national pension system, the pensions of the employees are paid by the state budget, not by employers.

"In the category of benefits are included only the benefits covered by the entity" (IAS 19). Thus, in this context, we consider inadequate the creation of provisions because the acknowledgement conditions are not met. A more "realistic" circumstance to create provisions for pensions is represented by the possibility to increase in time the percentage applicable to wages regarding the contribution of the employers to the pension fund.

The **public treasury** is the second player involved in ensuring the functioning of the state plans. It represents an integrated and unitary system through which the state ensures the running of budgetary operations, collecting and making payments regarding public funds, including collecting the social insurance contribution that supply public pensions funds and the payment of retirement benefits to the post-active generation. These are components of the financial execution of the public sector.

The public treasury contributes to obtaining information regarding the execution of the consolidated general budget's components and it represents the base of the informational system from the first to the last level of the national economy.

The accounting of the public treasury is organized and functions on the petty cash principle, the phrase specific to cash accounting being operable, namely collected contributions (revenues) - paid expenses:

Contributions
Petty cash (corresponding account of the Treasury) = Incomes of the „pension fund"
Benefits
Expenses (social pension benefits) = Corresponding account of the Treasury

Thus, at the level of the public Treasury are activated two defining elements for a retirement benefits plan, namely contributions and benefits. The obtained information contributes to achieving control over collecting revenues, as well as over financing expenses with pensions of the pension houses.

Pension Houses administrate and manage the public pension system. Therefore, they keep records of taxpayers, of the social insurance contributions; they establish the amount of the individual social insurance benefits and they make the payments, they certify the contribution period and the score for each insured, they ensure the budget execution, its accounting, etc.

In terms of the legal framework, at the level of the public institutions in general, therefore for pension houses also, the accrual model was implemented because general accounting, the component of public accounting, is based on the "principle of observing rights and obligations, which will reflect the evolution of the financial and patrimonial statements".

Next, we'll present the accounting model of the operations that target public contributions and benefits for pensions, in terms of the pension houses:

Contributions
Claims of the social insurance budget = Income from contributions Availabilities of the social insurance budget = Claims of the social insurance budget
Benefits
Social insurance expenses = Social debts - pensions Social debts - pensions = Financing from the social insurance budget

Apparently, accrual accounting seems to be implemented for the public component of the pension system. But what happens in reality? If we speak in terms of the time factor, we can assess the following:

→ the accounting of claims is done according to accrual accounting;

→ for obligations, we can talk only about a trimming of the cash accounting, because the obligation towards the retirees was created long before retiring, namely from the moment the pension benefits become legitimate. According to the legal framework, the pensions become legitimate, meaning they are not conditioned by future employments after meeting the legal conditions regarding the contribution period.

The presented issues lead us to conclude that after accepting the accounting model based on commitments, the public component of the pension system still has to beat the perception of commitment in its real meaning, so that the informing of users is accurate, as well as relevant.

Regarding the defined benefits plans, we mention only that the entity must use the actuarial hypothesis to credibly estimate the value of the benefits owed to employees in exchange for the provided services.

We can't say there is a hierarchy of the players involved in managing the pension system because each has a contribution in ensuring the functioning of the mechanism called public pensions. Therefore, providing the financial resources necessary to pension houses for the payment of pensions is also possible due to the contributions of the employers through the public treasury.

In terms of the accounting component, we notice the implementation of the accrual accounting, as well as of the cash accounting, but also a hybrid form of accounting at pension houses, putting the social insurance contribution in a double position, as expense of the economic entity, and as income for the pension fund, as well as the possibility to improve the accounting information by valuing the real meaning of liability.

4. A FEW NUMERICAL ASPECTS REGARDING RETIREMENT BENEFITS AND THEIR ASSOCIATED ELEMENTS

The dependency level and the sustainability of the public pension system in the last five years can be assessed by comparing the number of employees with the number of retirees. In the table below can be seen the evolution of these indicators in the last 5 years, as well as the ratio that shows the dependency level:

Table 2. The evolution of the number of employees and retirees between 2005 and 2009

YEAR	2005	2006	2007	2008	2009
Number of employees -1	4501,2	4575,0	4717,2	4738,6	4367,7
Number of retirees - 2	4610,6	4633,0	4643,5	4665,8	4719,3
Ratio 1/2	0,976	0,987	1,015	1,015	0,925

The data table shows that, in addition to the sinuous evolution of the dependency ratio, its aggravation in 2009 proves the critical state of the public component of pensions. Even in 2007 and 2008, when the employees - retirees ratio is improper, the fact that a taxpayer carries the financial burden for a pensioner is an overwhelming reality.

Another indicator considered relevant for the current state of the pension system is the ratio between the gross average salary and the monthly average pension. According to statistics, the situation in the last five years was as follows:

Table 3.The monthly average pension - average salary ratio between 2005 and 2009

YEAR	2005	2006	2007	2008	2009
Monthly average pension	289	336	399	593	711
Net average wage	746	866	1042	1309	1381
Monthly average pension / Average wage ratio	0,387	0,387	0,382	0,453	0,514

Related to the third millennium, concepts like welfare state, decent standard of living, increasing life expectancy, etc. are used. The measures adopted in recent years, regarding the value of the pension point, lead to bringing the pension level to approximately half of the net average salary. Is it sufficient to talk about welfare and a decent standard of living irrespective of individual savings? At what costs has this been done?

By trying to answer the second question, we mention that in the first month of 2010, the social insurance budget deficit was 807 million lei, while in 2009 it was 958 million lei. In January, however, there was no transfer from the state budget to the pensions' budget, while in 2009 the subventions were 6.4 billion lei, and in 2008, it was 1.37 billion lei. The presented data are raising a new question: is this type of public pension insurance mechanism sustainable on long term? Certainly not.

In a report published at the end of March by the European Commission, Romania is seen as one of the countries with the biggest risk of collapse of the public

pension system, and the consequences would be more serious than the ones of the current economic crisis. Furthermore, Romania is in one of the most difficult situation in the European Union, and the pension system will be the touch stone of each government from now on.

5. CONCLUSIONS

State plans, considered from the perspective of the entities, and defined contribution plans are the basic component of the retirement benefits system in Romania.

One may speak of an organizational triad in obtaining information about the public pension system, namely employers-taxpayers, public and private entities, the state's cashier - the public Treasury and the pension houses, on whose shoulders lays the responsibility of efficiently managing the retirement benefits.

Also, considering the accounting dimension, we notice the cohabitation of cash accounting with accrual accounting and the need to reconsider the commitment at the level of the pension houses, in terms of acknowledging the obligation towards current contributors - future retirees, from the moment it is generated. Such an approach could contribute to improving accounting information and could be an argument for the decisions regarding the public component of the pension system.

A problem that shouldn't be neglected and is present in any system of social protection is the extent to which it manages to reduce poverty and inequality between various categories of population with maximum efficiency (by directing transfers only towards the people who have the right to receive them). Therefore, the principle of uniqueness of the public pension system should find practical application for all the categories of active population (including magistrates, parliamentarians, military personnel, etc.).

We believe that from the set of measures for recovery and for ensuring the sustainability of the public pension system, the contributor entity was neglected. People insist on the private pension plans and on the effects of their late implementation, but they don't insist on the extremely important role that the entity may have in showing appreciation towards employees by introducing pension plans for the enterprise. They represent a way to soften the impact of the regression of the public pension system and a way to appreciate the contribution and the effort of the human resource in achieving the objectives of the organization.

In the end, we accede to the recent statement that "... waiting for disasters to occur is a dangerous strategy. Now it is time to act in order to protect our future" (Gheorghe, www.acad.ro/pro_pri/doc/st_b02.doc).

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