



Republic of Bulgaria  
ECONOMIC  
AND SOCIAL COUNCIL

## **O P I N I O N**

on

**DRAFT FOR THE AMENDMENT AND SUPPLEMENT OF  
THE SOCIAL INSURANCE CODE  
(NO 554-01-47, PRESENTED BY A GROUP OF MPS)**

(drawn up at the suggestion of the Chairman of the National Assembly)

Sofia, 28 October 2005

By Letter No 553-08-11 of 29 September 2005 the Chairman of the National Assembly of the Republic of Bulgaria and in accordance with art. 5, (1) and (2) of the Economic and Social Council Act, suggested that the Economic and Social Council would prepare and approve within a month an Opinion on "Draft for amendment and supplement of the Social Insurance Code" (No 554-01-47), proposed by a group of Members of Parliament: Nadezhda Mikhailova, Martin Dimitrov, Philip Dimitrov, Yassen Popvassilev, Maria Kapon, Vanyo Sharkov, Ivan Sotirov, Petar Stoyanov.

The President of the Economic and Social Council has assigned the preparation of the Statement to the Commission on Budget, Finance, Insurance and Social Security.

The Commission on Budget, Finance, Insurance and Social Security, at their sitting on 13 October 2005, gave a hearing to representatives of the Ministry of Labour and Social Policy, Ministry of Finance, National Social Security Institute, Association of the Private Pension Funds and independent experts from the "D.A. Tzenov" Academy of Economics – Svishtov and the Balkan Institute of Labour.

On 20 October 2005 the Commission approved the draft of an Opinion of the Economic and Social Council on a "Draft for the Amendment and Supplement to the Social Insurance Code". Mr. Lyuben Tomov was nominated to be the rapporteur.

The Economic and Social Council approved this Opinion at its Fifteenth Plenary Session, held on 28 October 2005.

## **I. INTRODUCTION**

The system of the state public social security in Bulgaria refers to the so-called contributory scheme of insurance, i.e. one of the main principles of the Bulgarian social insurance system is its funding by contributions on the basis of the labour remunerations of the insured persons paid by themselves and their insurers. This model is also applied in relation with the self-insured but since they work at their own risk and to their account, they do not dispose of an insurer, so they pay the whole amount of the respective contribution themselves.

This principle of financing is one of the most widespread in the countries of Europe. The predominant part of the social insurance systems in the EU member-states including the new ones are founded upon it. In this connection the participation of national budgets when financing the social security is done mainly in the direction of providing funds for the most cost-consuming social insurance sector – the pension insurance. In fact there exist two fundamental approaches to the participation of the national budgets in its funding. The most popular is the provision of subsidies (Belgium, Germany, Greece, Ireland, Austria, and Finland – for the contributory regime of agricultural workers, sailors, and etc.) and/or for guarantee of minimum pension amounts (Spain, Portugal, Italy). The second approach finds expression in taking up the entire costs for the payment however of the non-contributory pension scheme, i.e. based on nationality or duration of stay in the respective territory (Finland, Luxembourg, the United Kingdom).

Constituting the state (the national budget) as an institutional insurer practically is observed only in Luxembourg where one third of the total social insurance contribution and 50 percent of the administrative charges and the social insurance personnel costs are covered by the state. In Finland, which is very often cited in the public space as an example of this approach, the state does not pay social insurance contributions but a portion of the expenditures for the national pension – 29%, plus the needed subsidy for covering deficits and for some specific benefits.

The above stated shows that as a rule under the conditions of an all-out social insurance system, based on the performance of labour activity, the responsibility of the state for the functioning of the system is brought mainly to the support of the costs of this system so that it will be in position to carry out its social functions and use. This is particularly valid in relation with the pension regimes of contributory scheme like a comprehensive and most resource-consuming sector. Attention should be drawn to these facts when discussing new methods when providing funds for the Bulgarian social insurance system since established and experienced solutions are being spoken of.

## **II. REMARKS ON THE DRAFT BILL**

The Economic and Social Council, after carefully getting acquainted and thoroughly analysing and discussing the contents of the draft bill and the arguments thereof, has stated as follows:

1. The presented draft bill points to an amendment in the current social insurance legislation that will change the financing model of the State Social Insurance (SSI). It is offered that the percentage allocation of the social insurance contribution for the SSI should include the state as an insurer equal to the employers with whom the state shares 35 percent of the total contribution. The contribution payment for the insured exercising hired labour is fixed to 30% while for the self-insured it is 65%.
2. The draft bill does not offer a balanced solution when reducing the social insurance contributions, as far as the participation of the employers is cut down by 12.4%, further reduced requirements to the social insurance burden have not been envisaged to the account of the hired employee in comparison with the year 2005.
3. The main idea in the motives to the draft bill is the existence of grey economy, violations of the labour and social insurance legislation, as well as the widespread of corruption, are generated mostly due to the amounts of the social insurance contributions. In this relation it is stated that the adoption of the new distribution of the social insurance contribution “will simultaneously bring about the reduction of the shady economy and better conditions for doing business in Bulgaria”.
4. The motives do not offer sound arguments and examples to confirm the reasoning and theses presented. Social insurance has not been considered as a complex of relations and institutions. The many-sided effects of the new financial approach have not been studied and identified; neither long-term estimates were made, which would have given sufficiently true and reliable idea of the dimensions for the additional loading of the national budget, the business results and the insured persons. The extra sources specified for financing are not the result of professional and serious estimates so they will give way to any logic or mathematical follow-up.
5. The concrete regulatory texts, proposed alongside the draft bill, are incomplete and do not exhaust the idea of its authors, derived from the motives. Moreover, they are inapplicable and non-operating because:
  - regulations referring to the social insurance contributions, their allocation, including by funds, deadlines for payment, obligations of the insurers and the insured, and etc. are available not only in the texts, subject of the draft bill, but also they are to be found in many places in the Social Insurance Code;
  - it is not clarified how and whether the state will perform financial functions also towards the second pillar of the pension insurance, for which the payments represent a portion of the consolidated contribution to the SSI;
  - the estimates regarding the reduction of the insurance burden do not correspond to the changes proposed in the Social Insurance Code (the draft bill does not envisage revocation of the independent engagement of the insurers – employers to the “Accident at Work and Occupational Disease” Fund, to the Fund for guarantee of the receivables of the employees in bankruptcy of the employer, as well as a change in the distribution of the health insurance contributions);
  - a technology is not provided for the participation of the state in the contributions payment for the self-insured persons for whom there is a specific approach when determining both the amount of the insurance income and the insurance scope, respectively the contribution amount;

- the normative regulation of control and responsibility for meeting the obligations related with the payment of the insurance contributions pertaining to any new participant in the process and etc. has been neglected.

### **III. ASSESSMENT AND ARGUMENTATION**

Led by the above-stated findings, following the consultations held with representatives of expert and scientific circles, as well as after studying the European practices and data, the Economic and Social Council considers that:

- The Draft bill for amendment and supplement of the Social Insurance Code No 554-01-47, presented by Nadezhda Mikhailova and a group of MPs, has proposed an idea generated by noble and positive goals for the improvement of the conditions for a more accelerated economic prosperity.
- A new approach is offered when financing the state social insurance, which deeply affects adopted principles, public and institutional interests and relationships that can be subject to reconsideration and successfully changed only if present in advance a relatively complete public consensus. Such one was not sought for and reached in relation with the philosophy and solutions in the draft.
- The involvement of the national budget in the manner proposed in the draft is a too serious and many-folded solution, which demands thorough professional analyses, estimates and forecasts, whose results should receive the public approval. For the purposes of the draft such developments have not been made, respectively there are no results presented.
- The forthcoming European integration as well as the already operative commitments of our country, including those pertaining to the Open coordination method in the pensions area and future of the social protection systems, presupposes that all new measures and policies undertaken with respect to the insurance relations should be in harmony with common goals, principles and values approved and established at high European level. The draft discussed is not accompanied by an assessment subject to the European dimension.
- The proposed regulatory change does not rest on preliminary studied, measured and publicly adopted findings and conclusions and it is not based on serious and well-grounded estimates. There are no solid proofs for the endurance to the additional financial loading, neither guarantees for healthy public finances.
- The offered concrete regulatory texts characterize with fragmented and non-systematic nature, lacking enough precision and thoroughness because of which they are inoperative and inapplicable.

### **IV. CONCLUSION**

The Economic and Social Council informs the National Assembly of the Republic of Bulgaria:

1. The Council does not support the Draft for amendment and supplement to the Social Insurance Code No 554-01-47, presented by Nadezhda Mikhailova and group of MPs.

2. With a view to the further development of the line Bulgaria pursues for the reduction of the tax-insurance burden as one of the instruments for improving the business environment and raising the potential for economic growth, the Council will initiate further studying and developing new ideas in this direction.

3. By involving all participants in the insurance process, the institutions, scientific and expert circles, the Council will prepare, organize and hold a public debate. The purpose is to find well-grounded, publicly acceptable and perspective responses of financial, economic, demographic and social nature, originated by the idea for the involvement of the state as an institutional insurer.

4. On the basis of this debate new solutions can be sought for a more active participation of the state – via increased subsidizing, setting up of special funds for its financing and others – in order to achieve sustainability of the system and adequacy of the pensions.

The Council is convinced that the economic development and the social prosperity can and have to run in parallel. Both, however, can exist provided sound public funding. The preservation and development of the insurance system capacity in order to operate in accordance with its functions at present and in the future is a factor for the economic successes, which has been proved in the historical development of the European societies. Therefore, any decision that directly or indirectly refers to this system should be the result of very thorough and many an aspect analyses and forecasts regarding the future demographic process, future public finances, future potentials of economy – in the light of the social values and goals.