

## Opinion on the draft State Social Insurance Budget Act 2020



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## Introduction

This Opinion was prepared in pursuance of the provisions of Art. 6, para 1, item 3 of the Law on Fiscal Council and Automatic Corrective Mechanisms (LFCACM), which requires the Fiscal Council of Bulgaria to prepare a reasoned opinion and recommendations on the draft bill on the state social insurance budget, in the framework of the conciliation procedure of drafts and acts for consideration at a meeting of the Council of Ministers. The Council prepares reasoned opinions and recommendations on all strategic documents relevant to compliance with the numerical fiscal rules.

In fulfilment of its duties, the Fiscal Council prepared this opinion, which includes analysis, evaluation and recommendations on the Draft State Social Insurance Budget Act for 2020, prepared by the National Social Security Institute (NSSI).

## Key Parameters

The planned key parameters of the 2020 budget for the SSI, as well as their modification since 2015, are shown in the table below:

Table 1 Key parameters by years

Parameter \ Year	2015	2016	2017	2018	2019	2020	2020/2019
Average social security income	726	770	821	890	968	1063	+9,8%
Minimum social security income of self-insured persons	420	420	460	510	560	610	+8,9%
Maximum social security income	2600	2600	2600	2 600	3 000	3 000	-
Average of all pensions	320	331,6	345,5	364	386	412,28	+6,81%
Minimum wage	360	420	460	510	560	610	+8,9%
Average annual number of pensioners (thousand people)	2178,9	2185,2	2169,2	2162,9	2154,8	2137,8	-0,79%
Average annual number of pensioners (thousand people)	2753,8	2763,3	2779,8	2790,2	2792,2	2796,3	0,15%

Source: FC according to NSSI data

It is planned to increase the average social security income by 9.8% in nominal terms due to the growth of the minimum wage, the growth of the minimum insurance income for self-insured persons to the level of the MW, as well as the growth of the minimum insurance income for registered farmers and tobacco producers from 400 BGN to 610 BGN.

The level of the maximum social security income is maintained, while the minimum social security income for self-insured persons in 2020 will increase by 8.9% compared to the previous year, which is also the growth of the minimum wage.

The average annual number of insured persons in 2020 will be 0.15% more than in 2019, while the average annual number of pensioners in the country will decrease by 0.8%.

## Key policies

### 2.1 Revenue policies

- The total amount of revenues from social security contributions and transfers from the state budget to cover the shortage of funds for the insurance system for 2020 is amounting to **BGN 12 455,7 million**. They provide an increase in revenue part compared to 2019 at scheduled implementation by BGN **11 759,7 million** the increase is by 6 per cent.
- Revenues from social security contributions (excluding transfers) are projected to be **BGN 8 055 million**. Increase from 2019 target - **BGN 7 473 million**, is **BGN 582 million** or 7 per cent. This is achieved as a result of the envisaged significant increase in the average social security income (9.8 per cent), while the number of insured persons is preserved. An additional revenue from an increase in wages in the budgetary sector and an increase in the minimum wage is also foreseen.
- A transfer from the central/state budget is planned to cover the shortage of funds for the insurance system in the amount of **BGN 4 134 million**.

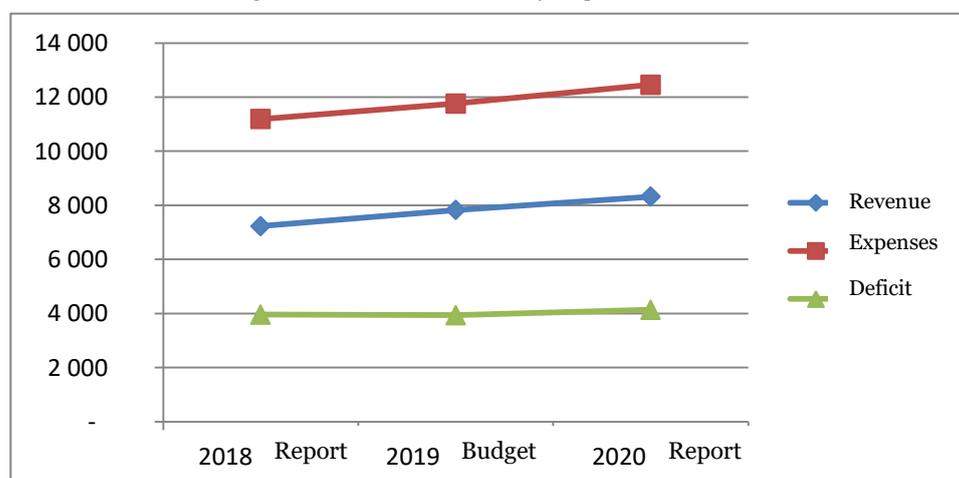
The dynamics of the total amount of contributions and transfers received to cover the shortfall of funds for the period 2018 - 2020 are as follows:

Table 2 Revenue, expenditure and deficit by year

Indicators (thousand BGN)	2018r. Report	2019 r. SSIBA	2020 r. SSIBA	Change from (%)
<b>REVENUES</b>	7 227 609	7 825 627	8 321 423	+6,34%
<b>EXPENSES</b>	11 186 897	11 759 728	12 455 690	+5,92%
<b>DEFICIT</b>	3 959 289	3 934 101	4 134 267	+5,1%
<b>DEFICIT / GDP</b>	3,82%	3,32%	3,26%	-0,06 p.p.

Source: FC according to NSSI data

Fig.2.Share of social security expenditure in GDP

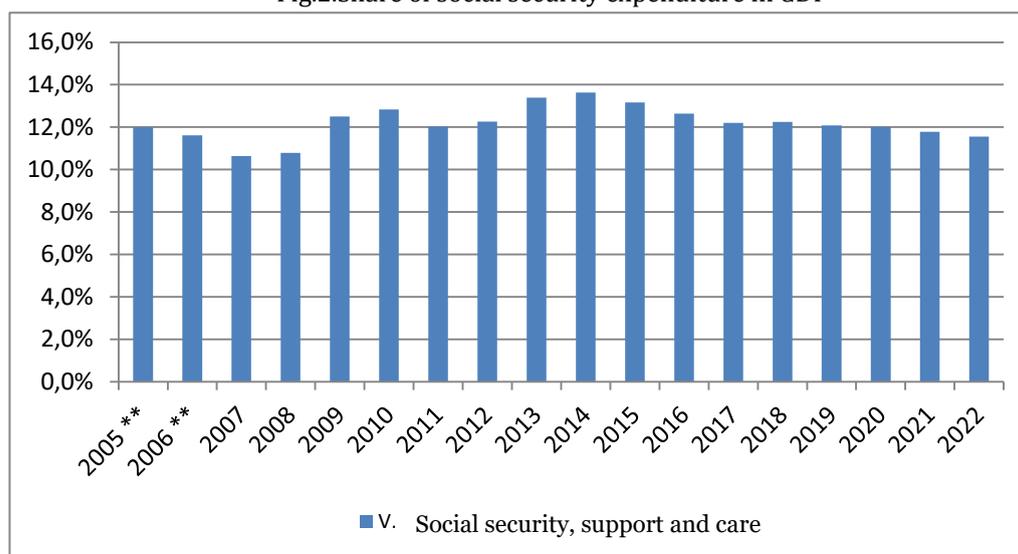


Source: FC according to NSSI data

The data in Table 2 and Chart 1 show that the persistent tendency for co-financing of social security by the state budget continues. As a share of GDP it is observed a **reducing of the system deficit and the size of the transfer** respectively from the state budget to cover it. The budget deficit widens by around 5% in the draft budget, compared to the 2019 budget.

Consolidated expenditure on the Social Security, Assistance and Care function in the CFP has decreased as a share of GDP since 2014. For 2020, they are 12% and are expected to decline in 2021 and 2022.

Fig.2.Share of social security expenditure in GDP



Source: FC according to NSSI data

## 2.2 Cost policy

The costs of the social security system for 2020 amounted to BGN 12 455 690 thousand, which is almost BGN 700 million more than 2019. As a share of GDP, they fall from 9.9% to 9.8%.

The total expenditure planned for pensions for 2020 is **BGN 10 576, 6 million** against **BGN 9 988, 2 million** for 2019, i.e. 5.9% more. This year, the expectations are for BGN 140 million less spending on pensions, i.e. a non-performance of pension costs is likely to be reported. The increase in pension costs is driven by the nominal increase in the amount of pensions, as the number of pensioners is expected to decrease by 0.8% as a result of the increase in the required age. The dynamics of pension expenditure by year is shown in Table 3.

Table3 Expenditure on pensions by years, BGN million

	2015	2016	2017	2018	2019	2020	2020/2015
pension expenses	8 381,20	8 680,00	8 975,8	9 454,40	9 988,2	9 847,5	1,175

Source: FC according to NSSI data

## 2.3. Cost policies include the following changes:

- The average pension rate of a pensioner in 2020 is projected to reach BGN 412, 28 at the planned average for 2019 - BGN 386, 3, i.e. an increase of 6.8

percent. The increase in the average amount is a result of a policy of indexing pensions of 6.7 percent. With an expected inflation of 2.1%, the real increase in retirement income will amount to 5.8%.

- Despite these positive trends, serious changes occur in the structure of pensions received by their size.
- The expected gross income replacement rate for 2020 is reduced - from 39.9 per cent to 38.8 per cent, and the net ratio is expected to be 50 per cent (against 51.4 per cent in 2019).

**In recent years, there has been a downward trend in the share of total pension expenditure relative to GDP.** Expenditure on pensions in 2020 is expected to be around 8.34 per cent of GDP compared to 9.2 in 2015.

**The downward trend in the funds paid for temporary disability benefits continues.** They are expected to reach BGN 632.8 million at the expense of the Social Security Agency for 2020, increasing by 11% compared to the previous year (Table.4). These funds do not include the funds paid by employers for the first 3 days.

Table 4 Amounts paid by the NSSI

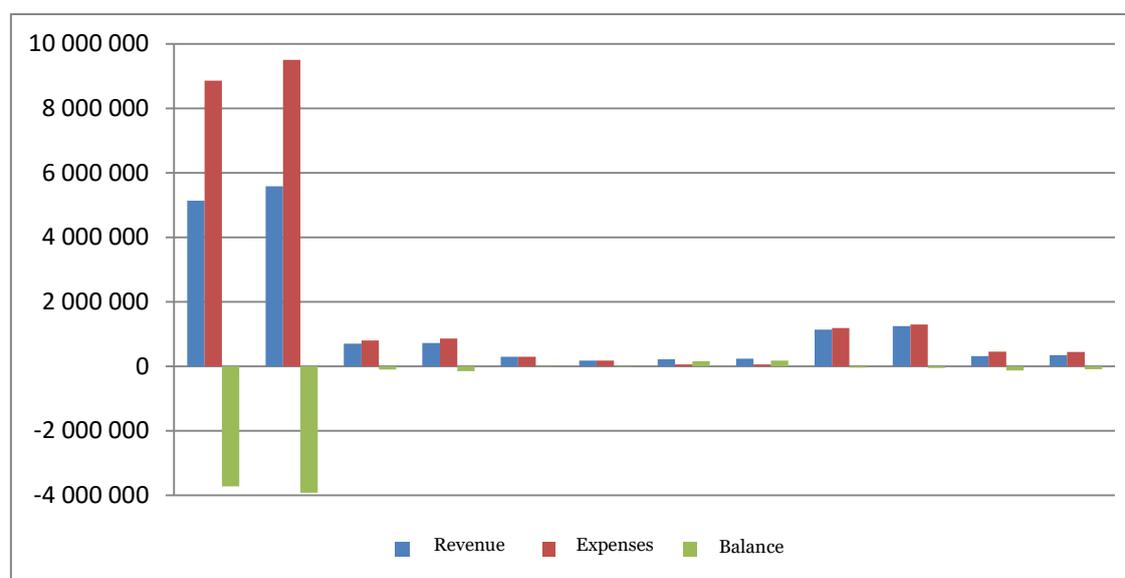
	2015	2016	2017	2018	2019	2020	2020/2015
amounts paid, BGN	390 822 122	445 920 019	486 175 066	536 840 000	570 500 000	632 800 000	61,92%

Source: FC according to NSSI data

For 2020, benefits are foreseen for 18 234.1 thousand days, compared to 14 549.6 thousand days for 2019 (25% more). It is not clear what causes such a huge increase in the days for which benefits will be paid. At the same time, the NSSI funds needed to pay benefits increased by BGN 63 million or 11%.

The change in the parameters in the different funds of the State Social Insurance is shown in the figure below.

Fig. 3. Revenue, expenses and budget balance for 2019 and 2020



Source: FC according to NSSI data

More than 3/4 of SSI's consolidated expenditures are from the Pensions Fund. Traditionally, the balance of this fund is negative, but in 2020 the deficit is expected to widen by nearly BGN 200 million (5% more than the 2019 deficit). Expenditure on Non-employment pensions fund is reduced by 40%.

A minimum decrease (2.5%) was also included in the expenditures for the Unemployment Fund, but due to the higher expected growth of its revenues (by 9%), the deficit decreased by 30%. These projections are in line with expectations of reducing the unemployment rate to 4.1%.

Expenditure under the General Sickness and Maternity Fund in 2020 increased by BGN 109 million or 9%, with revenues increasing at almost the same rate.

The NSSI budget accurately balances the other SSI funds, as a result of which the SSI's consolidated budget is balanced for 2020. Maintaining a balanced social security budget is possible thanks to the transfer from the state budget to cover the shortfall. This transfer for 2020 increases by 5% and reaches BGN 4 134 267 thousand, which is 3.26% of GDP. The transfer covers 1/3 of the costs of the social security system.

## Key findings

- The SSI 2020 budget is balanced.
- Revenues and expenses increase by about 6%, with revenues growing at a slightly faster pace than expenses.
- Revenues cover 2/3 of the expenses, and the rest of the expenses are financed by transfer from the state budget.
- Transfers to cover shortages increase by 5% in 2020 compared to the planned transfer in the SSIBA for the year 2019.
- The share of total pension expenditure in GDP decreases (to 8,34% for 2020).
- The negative trend of increasing funds, which are paid for temporary disability benefits continues.

## Conclusion

**The Fiscal Council expresses its positive opinion on the Draft Consolidated Budget for State Social Insurance and approves the proposed measures and policies.**

**The proposed project is realistic and meets all the criteria for stability in social security for 2020.**

**CHAIRPERSON OF THE FISCAL COUNCIL**

**PROF. Dr. BORIS GROZDANOV**