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A Model for Occupational Pensions Privately Administered for Police and Military Personnel

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Abstract. *In the context of legislation introduced in Romania through Law 1 of 2020 regarding occupational pensions, this paper presents an evaluation of occupational pension system for police and military personnel and takes into consideration privately administered funds that would complement the current system. The paper evaluates the impact of the complementary occupational pension system, focusing on its dual role as both a fiscal instrument for internal financing within Romania and a mechanism for enhancing social and economic security for retired police and military staff. The occupational pension system can diversify funding sources, potentially easing the national public debt burden, while offering a sustainable and adequate retirement income for service members.*

Furthermore, the analysis extends to the occupational pension system's efficacy in fostering workforce stability, particularly post-eligibility for military state pensions. The study addresses the system's potential influence on staff motivation and retention, underpinning its role in maintaining a robust and committed service workforce. This simulation-based study leverages international models and legislative frameworks to corroborate these benefits, providing a nuanced understanding of the occupational pension system's role in the broader context of public service pensions.

Keywords: complementary occupational pension, police and military pension scheme

Introduction

The demographic shifts towards a rapidly aging population present significant challenges to public finance sustainability in Romania and also elsewhere. The old-age dependency ratio, a critical measure of the population aged 65 and over relative to those aged 15-64, is projected to increase from 32% in 2022 to 45% by 2040, reaching a peak of 54.5% by 2050; this demographic trend is

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set to accelerate post-2027, coinciding with the aging of the historically large birth cohorts of 1967 and 1968 into the over 60 years category (Libocor & Mincu, 2024).

In response to these demographic challenges and aligned to the provisions on the reform of the public pensions from Romania's recovery and resilience plan (PNRR), a new law on public pensions[1] was adopted with the aim to ensure equity, predictability, and sustainability within the public pension framework. These measures include the automatic annual indexation of pensions to a weighted average of price and wage inflation, ensuring the predictability of pension systems and the adequacy of retirement incomes. Additionally, a points-based formula for recalculating entitlements aims to address inequities by linking retirement benefits directly to an individual's earnings and contributions throughout their working life.

The financial implications of the public pension recalculations are significant, with the Fiscal Council highlighting a budgetary impact of 0.6% of GDP in 2024, escalating to 1.8% of GDP by 2025, and noting the necessity of a phased approach to the recalculations over several years to mitigate immediate fiscal pressures (Libocor & Mincu, 2024). Such pension growth is concerning given the difficulty of some NATO member-states maintaining the expected 2% of GDP spending on defence. The decision to implement fully recalculated pensions from September 1, 2024, underscores the urgency and commitment to addressing the challenges posed by an aging population, despite the short-term fiscal impacts.

Other provisions of the PNRR aim at reducing expenditures on special pensions systems, which include all the pensions created by special laws which are outside the general public pension system, by aligning them with the contributory principle (*Romania's National* Recovery and *Resilience Plan*, 2023). The new legislative framework[2] was adopted in 2023 and prevents the creation of new categories of special pensions and rationalizes existing ones. Special pensions will be calculated based on the contributory principle, tenure in the profession, and adjustments related to earned income, with a minimum contribution period akin to that of the public pension fund. The reform ensures that no special pension exceeds the income earned during the contribution period, emphasizing fiscal responsibility and equity within the pension system. Such adjustments represent a significant step towards ensuring a fair and sustainable Romanian pension system. Reforms include aligning special pensions more closely with contributions made during an individual's working life, and reduced expenditures for military state pensions, impacting military and police personnel.

Worth mentioning is that the term special pension was coined for usage in the public space and is not found in the text of the law. Legislation does mention however the term "Special Status" referring to both to military personnel and to a series of public officials such as magistrates, prosecutors, etc, with significant contribution to the pension system due to their high incomes. Not all military/policemen benefit from this status and it is counted according to the group and the special working conditions. Regardless if subject to such pensions, their professional carriers have high restrictions in regards to any other activities, being prohibited from carrying out other private activities such as commercial companies, apart from academia.

In Romanian legislation, the categorization of such pensions among which military state pensions is distinct due to the unique characteristics of the difficult occupational nature of military service, which differentiates military pensions from other forms of special pensions. Special

[1] Law no. 360 of November 29, 2023, on the public pension system

[2] Law no. 282 of October 19, 2023, for the amendment and supplementation of certain normative acts in the field of service pensions and Law No. 227/2015 regarding the Fiscal Code

pensions in Romania typically apply to certain public sector employees, such as magistrates or parliamentarians, and are awarded based on specific service conditions, often without a direct correlation to the contributory principle that underpins the general pension system. These pensions are designed to recognize the occupational hazards of the service or to maintain independence and integrity within certain state functions.

Military state pensions, however, are governed by separate regulations that acknowledge the unique demands, risks, and sacrifices associated with military service. The military occupation involves compulsory mobility, exposure to hazardous conditions, and the requirement to maintain a high level of physical and psychological readiness. These conditions significantly impact the career length and retirement planning of military personnel, justifying a different pension scheme. Military pensions are thus not merely a financial benefit yet a recognition of the extraordinary service conditions and the potential impact on the health and career longevity of military personnel. For example, those with military service experience more physical and mental health issues relative to the general population (Williamson et. al. 2019).

However, under the provisions of PNRR, the military state pensions were included in the category of the special pensions, without considering occupational hazards and risks associated with military service, thus undermining the recognition of the unique conditions faced by military personnel. One of the possible effects is that it could dilute the purpose of military state pensions, which is to compensate for service in conditions that are markedly different from typical public or private sector employment. This could be also a causal factor for the declining rate of recruitment and retention of military and police service, reflected for the past years in the declining rates of competition at military and police schools, as well as the increasing rates of departures, either through resignation of younger personnel or through retirement of the eligible staff, with a peak estimated in 2028[3]. It becomes thus a priority to establish a contributions-based pension system, privately administered, which will complement the military state pensions, in order address the current and future personnel recruitment and economic protection challenges of defence, public order, and national security institutions, as well as to leverage the positive effects of establishing such pension system for the national economy.

Next, this article will take into consideration legal framework for occupational pensions for military and police, their economic impact and our recommendation in regards to the creation of a Pilar IV, privately administrated, complementing the existing military state pensions, have the potential to provide significant economic and social benefits for the participants and for the national economy.

Legal framework on military state pensions

According to the Romanian legal provisions on the military state pensions[4], personnel from the military and police sectors could access the pension at the standard age of 65 years, if they had 25 years of work experience, of which this includes 15 years of active military or police service. Under the conditions of the law, the retirement age can be reduced by a maximum of 13 years, especially for personnel working their entire careers in high-risk occupational conditions. The military state

[3] According to current legal provisions, December 31, 2028, is the deadline for accessing the military state pensions under previous, more favourable conditions, as it is stipulated in Art. XVI from Law no. 282 of October 19, 2023, for the amendment and supplementation of certain normative acts in the field of service pensions and Law No. 227/2015 regarding the Fiscal Code.

[4] Law no. 223 of July 24, 2015, regarding military state pensions.

pensions law was modified in 2023[5], through provisions which added, to the existing limits of the amount for the calculated pension, which were between 65% and 85% of the base salary without a series of entitlements, the increase of the retirement age from 60 to 65 years and a gradual increase of the number of monthly salaries considered towards the calculation of pensions, from the average of salaries in 6 consecutive months from the past 5 years, to the average of salaries from the past 25 years.

Under such limitations, some pension benefits for the extended length of service provisioned by different laws of the military and police personnel, respectively increase of pensions between 10-20% applied to the calculated pension for 15-25 years of active service[6], as well as the benefit between 3-9% for contributions to the supplementary pension or individual contribution to the state budget[7] are rendered void by the ceiling of pension to 85% of the paid salary, without a series of benefits.

Therefore, the continuation of service in the military or police for the personnel eligible for state pensions brings no additional pension benefits and the staff is incentivized to access the pension as soon as they qualify. The police and military organizations are confronted with a situation in which experienced personnel leave the institution as soon as they can access their pension, even though they are highly experienced and could continue their career for at least 5 more years and spend that time developing and training junior staff.

Police and military personnel are paying 25% of their base salary as an individual contribution to the state budget, which is equal to the social insurance quota[8], provisioned by the Fiscal Code. Under the current legal provisions on state military pensions, for most of the personnel eligible to access the pension with full length of service, the payment of the individual contribution to the state budget provides no potential benefit. Even more, while the personnel from state and private sectors who pay 25% of their base salary as social insurance quota have 4.75%, which will gradually increase, potentially to 6%, directed towards their private pension accounts, respectively obligatory pension with private administration Pensions Pillar II, the military and police personnel do not receive such benefit. At the initiation of the Pension Pillar II in Romania the military and police personnel were registered and some of them received for a limited time contributions into their personal accounts, but such transfers were interrupted, and they are practically excluded from this form of saving towards ensuring economic protection at retirement.

Apart from the impact of the new legislation on military state pensions on the economic welfare and retirement income protection, a series of issues of public concern remain unaddressed. As indicated, they are primarily related to the early departure of highly qualified personnel as soon as they are eligible to access the pension, thus causing a decrease in the quality of public service and general public safety. Also, there are public concerns that the military pensions system does not account for unethical service. Several high-profile cases illustrated by mass-media and civil society organizations have exposed misconduct by high-level military and police officers. With some of these individuals under investigation for corruption or other crimes in connection with

[5] Law no. 282 of October 19, 2023, for the amendment and supplementation of certain normative acts in the field of service pensions and Law No. 227/2015 regarding the Fiscal Code.

[6] Law no. 574 of December 14, 2004, regarding the Honorary Sign "In the Service of the Homeland" for Warrant Officers, Non-Commissioned Officers, Soldiers, and Professional Non-Commissioned Members, and for Civil Servants with Special Status, with Professional Ranks Equivalent to the Ranks of Warrant Officers and Non-Commissioned Officers.

[7] Article 108 from Law no. 223 of 24 July, 2015, regarding military state pensions.

[8] Article 31 from Law no. 223 of 24 July 2015, regarding military state pensions.

service (or convicted for such crimes), these retirees still received their valuable military pensions. Although such cases are isolated, the negative image presented in mass-media damages reputation and undermines public trust towards military and police institutions.

A model of occupational pensions for military and police

The establishment of an occupational pension system for military and police personnel based on personal contributions, privately administered, and complementing the military state pensions, can be achieved under existing national legislation on occupational pensions[9], with significant benefits for the participants, their employers and national economy. The legislation on occupational private pensions introduced in Romania in 2020 through Pension Pilar IV - Occupational Pensions, offers a framework which could be adapted to address the unique needs of military and personnel, providing additional financial security and recognizing the distinct nature of military service. Considering the number of police and military personnel, respectively an approximately 230,000 persons[10] for the year 2023, taking also into account the reported understaffing of the institutions[11], the occupational pensions have potential for increasing the social and economic protection of the military and police personnel, promoting a culture of integrity, and rewarding continuation of active service, as well as contributing to the financial education of general population.

The proposed model for occupational pensions based on personal contributions would combine under Private Pension Pillar IV for military and police personnel the existing characteristics of private pension systems[12] Pillars II and III. In this model, the contributions toward Pension Pillar IV - occupational pensions, would consist in a joint contribution from the employer and employee.

The contribution from the employer will be sourced from individual contribution to the state budget retained from the police and military salaries, mirroring the contribution for Pilar II, which is currently 4.75%, from the social insurance quota of the rest of employed population in Romania. As the individual contribution to the state budget paid by police and military is equal by law with the social insurance quota[13], provisioned by the Fiscal Code, currently 25% of the base salary, such measure will reinstate equity by offering a counter-prestation from the state for a retained contribution, considering the fact that under current legal provisions of the military state pension the instilled ceiling renders void the benefit[14] resulting from the payment of such contribution. Such measure would be aligned with the Constitutional Court Decisions No. 176 of May 6, 2003[15], and No. 1202 of October 5, 2010[16], which clarified that "in accordance with the

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[9] Law No. 1 of January 6, 2020, on occupational pensions, amended and supplemented.

[10] Ministry of Finance, Number of budgetary personnel, https://mfinante.gov.ro/domenii/bugetul-de-stat/numar-salariati-bugetari Accessed 12.02.2024. The average of personnel accounts for several military institutions for which the personnel is not reported to the Ministry of Finance.

[11] Ministry of Internal Affairs, response no. 1676260 from 13.02.2024 on vacancy rate at the request of the authors under the provisions of the Law no. 544 of October 12, 2001, on Free Access to Information of Public Interest.

[12] Law no. 411 of October 18, 2004 (republished) on privately managed pension funds.

[13] Article 31 from Law no. 223 of 24 July 2015, regarding military state pensions.

[14] Article 108 from Law no. 223 of 24 July, 2015, regarding military state pensions.

[15] Decision no. 176 of May 6, 2003, regarding the exception of unconstitutionality of the provisions of Art. 1 of the Government Emergency Ordinance No. 174/2001 on certain measures to improve the funding of higher education.

[16] Decision no. 1,202 of October 5, 2010, regarding the exception of unconstitutionality of the provisions of Art. 3 letters c) and j), Art. 3^1 paragraphs (2)-(4), and Art. 8^1 of Law No. 146/1997 on court stamp duties.

general principles of taxation, any tax levied on individuals or legal entities must be accompanied by a service or work performed directly and immediately by public bodies or institutions."

The employees who will voluntarily participate to the occupational pension system will contribute with an amount equal to the employer contribution, respectively 4.75% of the base salary, which will benefit from the fiscal deduction, mirroring the provisions of the private pensions Pillar III. The contributions of the employee will start after the vesting period of 3 years provisioned by law[17] and will continue, on a voluntary basis, until the retirement from active service. The accumulation of employer contributions during the vesting period of 3 years, based on retained individual contribution to the state budget from staff salaries, will be an incentive both for retaining new employees and for joining voluntarily the occupational pension. Supplementary clauses could be inserted to motivate the staff to continue their activity in active service after they attain eligibility to access military state pension. Such measures could refer to the possibility to channel towards their pension account, partially or totally, their financial rewards obtained for extraordinary achievements during active service according to the law, with the benefit of fiscal deduction for the amount transferred, or possibility to continue their contributions, under the same fiscal regime, to the occupational pension from salaried income obtained in private or public sectors after retirement, if they remain in active service at least 5 years after being eligible for retirement.

In order to balance rights with obligations, for promoting a culture of integrity and accountability for military and police staff, pension forfeiture clauses could be inserted into the occupational pension system, based on international best practices (Johnsen & Marcus, 2017; Home Office, 2021). Thus, a staff convicted for corruption, misconduct or any other service-related crime, could lose from the occupational pension entitlement the amount corresponding to the employer's contribution, as well as any fiscal benefits for his own contributions. Also, the occupational pension could be accessed only under the condition that the staff is not subjected to any criminal proceeding.

Positive impact from establishment of such private pension system is expected on organizations human resources planning and social and economic protection of the staff upon retirement. This would be caused primarily by the provision of a supplementary layer of financial stability for retired military and police personnel. Given the demanding and dangerous nature of military and police careers, which are marked by occupational hazards, a supplementary pension could ensure maintaining a decent standard of life. This is particularly important considering the potential physical and psychological impacts of military and police service, which may limit post-service employment opportunities. Other risks are also covered, for example the risk of death because of occupational hazards; in this case the amount accumulated in the personal occupational pension account will be inherited by family, contributing thus to their economic protection.

Additionally, such a pension system could enhance the attractiveness of military and police careers, aiding recruitment and retention efforts. The prospect of additional financial benefits post-service would make military careers more appealing, particularly to younger individuals considering their long-term financial planning and career options. This is crucial for maintaining a robust and capable defence force and police service.

Moreover, complementing the existing military state pensions with an occupational pension scheme would allow for greater personalization and flexibility in retirement planning. Military and personnel could have more control over their financial future, with the ability to

[17] Vesting clause provisioned in Article 3, para tt), Law No. 1 of January 6, 2020, on occupational pensions, amended and supplemented.

contribute towards and benefit from a pension scheme that reflects their specific career path, length of service, and contributions.

Economic impact of the occupational pensions

The potential voluntarily participants of presented occupational pension system could be the personnel from the defence, public order and national security system. It refers to staff with the legal statute of military, police or penitentiary police from three ministers (Ministry of National Defence, Ministry of Internal Affairs and Ministry of Justice) and several militarized services not attached to ministries, respectively the staff who is under the provisions of the military state pension system and who are paying the individual contribution to the state budget instead of the social insurance quota. For 2023 the estimated number of such personnel, based on reported public available data is 230,000 persons[18], which accounts also for a conservative estimation of the staff from several services which have not reported data on their staff. There is potential for the increase of the total number of personnel in the next years, considering that the largest employer of military and police in the area of internal affairs reported a vacancy rate of 21% in November 2023[19].

The employer contribution for each staff, respectively the amount corresponding to 4.75% from the base salaries of the military and police staff, sourced from the individual contribution to the state budget, is conservatively estimated to 11.5% from the minimum monthly gross salary in Romania. The estimation is based on data reported by institutions under the provisions of the law on information for public interest and from existing public information[20]. For comparison, the individual contribution to the Private Pension Pillar II was 8.06% from the minimum gross salary in September 2023[21]. Adding the identical employee contribution, under the proposed model, it will result in an estimated monthly deposit into the individual occupational pension accounts of 23% from the minimum monthly gross salary in Romania, respectively 759 RON for a minimum gross salary of 3,300 RON in November 2023.

Using as benchmark the reported annual average yield of 7.82% for the period 2008-2023 of the Private Pension Pillar II[22], it results that for an occupational pension participant, for a career of 25 years, with monthly contributions, of which the first three years under the vesting clause with a monthly contribution from employer only of 379.5 RON and the rest of 22 years with a joint employer-employee monthly contribution of 759 RON, the total accumulated amount would be 611,001.04 RON, respectively 122,824.16 EUR per participant[23] and for all the potential 230,000

[18] Ministry of Finance, Number of budgetary personnel, https://mfinante.gov.ro/domenii/bugetul-de-stat/numar-salariati-bugetari Accessed 12.02.2024. The average of personnel accounts for several military institutions for which the personnel is not reported to the Ministry of Finance.

[19] Ministry of Internal Affairs, response no. 1676260 from 13.02.2024 on vacancy rate at the request of the authors under the provisions of the Law no. 544 of October 12, 2001, on Free Access to Information of Public Interest

[20] Data collected by the authors from a sample of military and police institutions under the provisions of the Law no. 544 of October 12, 2001, on Free Access to Information of Public Interest

[21] Financial Supervisory Authority, Raportul privind evoluția sistemului de pensii private în primele nouă luni ale anului 2023, p. 24, https://asfromania.ro/uploads /articole/attachments/65c0f96868bdb 06279 5108.pdf

[22] Association for the pensions privately administrated in Romania, Pillar II of private pensions, record yield of 17.9% in 2023. Romanians have over 25 billion euros in their personal accounts, January 8, 2024, https://apapr.ro/pilonul-ii-de-pensii-private-randament-record-de-179-in-2023-romanii-au-peste-25-de-miliarde-de-euro-in-conturile-personale/

[23] Reference currency exchange rate 1 EUR = 4,9746 RON, Foreign exchange rates as of December 29, 2023, communicated by the National Bank of Romania, for the purpose of preparing the financial statements for the year 2023 by all entities covered by the Accounting Law No. 82/1991, republished, https://mfinante.gov.ro/cursurile-pietei-valutare

beneficiaries resulting in 28.25 billion EUR. This estimation does not account for the future increases of the salaries of military and police, which are, to a certain degree, correlated with the national minimum gross monthly salary, neither for the depreciation of the national currency towards euro.

$$FV = P \times \left(\frac{(1+r)^n - 1}{r}\right)$$

Where future value of an annuity (FV) is:
P = monthly contribution
r = monthly interest rate (annual yield / 12)
n = total number of contributions (months)

Model 1. 25-year contribution with an annual return of 7.82%[24]

Number of contribution months	Monthly contribution	Contributors	Accumulated contribution (RON)	Accumulated contribution and interest after 25 years (RON)	Accumulated contribution and interest after 15 ani (RON)	Accumulated contribution and interest after 25 years (EUR)	Accumulated contribution and interest after 15 ANI	Details
36	379.5	Employer only - vesting	15,341.56	80,399.76	37,867.05	16,162.05	7,612.08	The vesting clause, in the first 3 years only the employer contributes.
264	759	Employer and employee	530,601.29	530,601.29	180,310.38	106,662.10	106,662.10	
TOTAL				**611,001.04**	**218,177.43**	**122,824.16**	**43,858.29**	

Source: Authors based on multiple sources.

[24] 1 EUR = 4,9746 RON ; 7.82% is the average annual yield of Pillar 2 in the period 2008-2023. See https://apapr.ro/pilonul-ii-de-pensii-private-randament-record-de-179-in-2023-romanii-au-peste-25-de-miliarde-de-euro-in-conturile-personale/

Model 2. 25-year contribution with an annual return of 5%

Number of contribution months	Monthly contribution	Type of contribution	Accumulated contribution (RON)	Accumulated contribution and interest after 25 years (RON)	Accumulated contribution and interest after 15 ani (RON)	Accumulated contribution and interest after 25 years (EUR)	Accumulated contribution and interest after 15 ANI (EUR)	Details.
36	379.5	Employer only - vesting	14,706.89	43,021.49	26,411.46	8,648.23	5,309.26	The vesting clause, in the first 3 years only the employer contributes.
264	759	Employer and employee	363,829.69	363,829.69	149,343.67	73,137.48	30,021.24	
TOTAL				**406,851.18**	**175,755.13**	**81,785.71**	**35,330.51**	

Source: Authors based on multiple sources.

Model 3. Contribution for 25 years with an annual yield of 9.03%[25]

Number of contribution months	Monthly contribution	Contributors	Accumulated contribution (RON)	Accumulated contribution and interest after 25 years (RON)	Accumulated contribution and interest after 15 ani (RON)	Accumulated contribution and interest after 25 years (EUR)	Accumulated contribution and interest after 15 ANI (EUR)	Details
36	379.5	Employer only - vesting	15,624.55	104,669.42	44,091.99	21,040.77	8,863.42	The vesting clause, in the first 3 years only the employer contributes.
264	759	Employer and employee	629,055.29	629,055.29	196,012.13	126,453.44	39,402.59	
TOTAL				**733,724.71**	**240,104.12**	**147,494.21**	**48,266.02**	

Source: Authors based on multiple sources.

[25] Contribution for 25 years with an annual yield of 7.82%, annual salary increase for military and police officers by 3.05%, depreciation of RON/EUR by -1.84% annually. 1 EUR = 4,9746 RON; Salariu minim 2006-2023 - Calculation of the authors for the minimum yearly gross wage growth rate between 2006-2024, based on primary data provided by the Direcţia Generală Regională a Finanţelor Publice; Minimum national base gross salary, https://static.anaf.ro/static/10/Craiova/Dolj/sal_min_2023_161222.pdf ; Annual depreciation of RONvs EUR 2005-2023. National Bank of Romania https://www.bnr.ro/StatisticsReportHTML.aspx?icid=800&table=705&column

Considering the historical average yearly growth rate of the minimum gross wage in Romania was 12.20%[26], based on data from 2006-2023, on a conservative estimation we could consider that only a quarter will be transferred as yearly growth of military and police salaries, therefore 3.05% yearly. Applying also an average depreciation of the national currency towards euro of -1.84%, based on historical data from 2005-2023[27], the total contribution of each participant for 25 years, under the three years vesting clause, would be 733,724.71 RON, respectively a projected value for individual account of 134,370 EUR and for 230,000 participants amounting to 33.92 billion EUR. For a contribution of 15 years, under the three years vesting clause, the individual account would accumulate 240,104.12 RON, respectively a projected value of 48,266.02 EUR and for 230,000 participants amounting to 11.10 billion EUR, which will be 43% of the value to the net assets managed by Pensions Pillar II after 15 years of activity which had 25.50 billion EUR at the end of 2023[28] and 11 times higher than corresponding value of Pensions Pillar III after 15 years of activity which had 953 million EUR at the end of 2023[29].

The main benefit for national economy of establishing an occupational pension system for military and police will be the financing of public deficits. Generally, the pension funds play a substantial role in financing public deficits by purchasing government securities. This is relevant for Romania, where private pensions investments are subjected to prudential regulatory framework, requesting the allocation towards state bonds. Thus, occupational pensions have a crucial function for maintaining fiscal balance and ensuring that governments can provide financing for the public services without resorting to excessive borrowing from volatile external markets. The acquisition of state bonds by pension funds not only provides a stable source of financing but also contributes to a balanced mix of domestic and foreign investors in the public debt market (Davis, 1996).

Secondarily, the occupational pensions for a sizeable number of personnel, respectively 230,000 persons with potential to increase with 10-20%, considering the current understaffing of police and military, contributes to the market stabilization in times of crisis. Pension funds have emerged as critical stabilizers in financial markets, especially during periods of economic turmoil. Comparative studies (Han et al., 2018) documented that "the presence of some strategic asset allocation index may help stabilise financial markets, while the counter-cyclical behaviour by institutional investors seems to be good for the stability of financial markets and the economy in long-run". Thus, the presence and operational maturity of pension funds can significantly dampen the adverse impacts of rapid capital withdrawal by non-resident institutional investors.

The involvement of pension funds in equity markets, particularly through investments in stock exchanges, significantly influences economic development. By holding a substantial portion of freely traded shares and providing a significant fraction of market liquidity, pension funds

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[26] Calculation of the authors for the minimum yearly gross wage growth rate between 2006-2024, based on primary data provided by the Direcţia Generală Regională a Finanţelor Publice, Minimum national base gross salary, https://static.anaf.ro/static/10/Craiova/Dolj/sal_min_2023_161222.pdf

[27] National Bank of Romania, Cursul de schimb al pieţei valutare - serii anuale 2005-2023, https://www.bnr.ro/StatisticsReportHTML.aspx?icid=800&table=705&column

[28] Association for the pensions privately administrated in Romania, Pillar II of private pensions, record yield of 17.9% in 2023. Romanians have over 25 billion euros in their personal accounts, January 8, 2024 https://apapr.ro/pilonul-ii-de-pensii-private-randament-record-de-179-in-2023-romanii-au-peste-25-de-miliarde-de-euro-in-conturile-personale/

[29] Association for the pensions privately administrated in Romania, Pillar III of voluntary pensions attracted a record number of new clients in 2023 and is approaching 1 billion euros under management, January 10, 2024, https://apapr.ro/pilonul-iii-de-pensii-facultative-a-atras-un-numar-record-de-noi-clienti-in-2023-si-se-apropie-de-1-miliard-de-euro-in-administrare/

underpin the growth and financing of domestic companies. For instance, in certain economies, pension funds account for a major share of stock market capitalization and trading volumes, thereby facilitating corporate access to capital for expansion and development projects. Research demonstrates that pension fund investments in financial markets contribute to economic development at national level (Morina & Grima, 2021), thereby promoting economic growth and capital market efficiency.

Beyond their immediate economic contributions, pension funds are instrumental in managing long-term risks, including those associated with aging populations and retirement security. By pooling savings and investing in a diversified portfolio of assets, pension funds mitigate individual investment risks and provide a stable source of retirement income. This risk management function is crucial for economic stability, as it addresses the demographic challenges of aging societies and reduces reliance on public pension systems. The pivotal role of pension funds is underscored by their capacity to manage long-term risks and their status as substantial providers of savings products to the populace, highlighting the critical function of pension funds in enhancing financial stability and ensuring security across extended periods, as well as their systemic importance in the economic landscape (Bijlsma et al., 2014).

Introducing occupational pension funds for police and military personnel can significantly elevate their financial literacy, in line with the priorities of the National Strategy for Financial Education 2023-2030[30]. This initiative not only helps individuals navigate the complexities of a digitally evolving financial market and avoid costly errors but also underscores the value of specialized guidance in challenging financial scenarios. Emphasizing savings for retirement becomes crucial against the backdrop of demographic shifts and the pivot to defined contribution plans, demanding a comprehensive understanding of investment risks and opportunities.

Another positive economic effect is the fact that the participants to the occupational pension system would be able to transfer in, according to the current provisions of the national law[31] transposing EU Regulations on social security, their accumulated contributions towards pension while working for institutions and agencies of the European Union. Increasingly, the police, but also military staff, either prior their active service, but also during active service, have stages of work in various EU institutions and agencies, during which they pay social insurance contributions towards pension. If they can't complete 10 years of service for the EU in order to qualify for pension, such entitlements have to be channelled into one of the pension systems where participant is registered. Transferring in their contributions from EU to the military state pension system, has very limited benefits for the participant due to a lack of an investment strategy and perspectives for growth, therefore the participant is incentivized to leave the accumulated entitlement into the EU system in order to benefit from the asset management strategy and, eventually, to seek actively to increase his length of service towards 10 years through other employment with the EU institutions and agencies. Conversely, allowing the option of a national occupational pension system, will incentivize the participant to transfer in all his contributions accumulate under EU system in order to have a better control over them and also because there no restrictions on transfer out, with a superior value due to its growth over time, if there are perspectives for other employment with the EU institutions and agencies. Thus, through setting up

[30] Romanian Government, National Strategy for Financial Education 2023-2030, public consultation version, https://www.edu.ro/sites/default/files/SNEF_proiect_2023.pdf

[31] Emergency Ordinance no.86 of August 11, 2021, regarding the transfer of the penssion rights of the functionairs and agents of the European Union

the occupational pension system, conditions are established for facilitating an influx of external funding into the system, beneficial for the national economy, but also with significant reputational benefits for Romanian private pension system.

Lastly, as a particular characteristic of the social and economic context in Romania, it is likely that the introduction of occupational pensions for military and police will produce a *contagion effect* towards other professional categories, in the sense that the awareness on such type of private pensions and the associated benefits will increase and there will be requests for similar private occupational pension funds, tailored for other professions. This was already the case with the military state pensions which had their benefits extended towards other professional categories, such as magistrates, parliamentary civil servants, diplomats, public auditors, civilian aeronautics personnel and others. Thus, the successful implementation of occupational pensions for military and police is likely to inspire other professional categories to advocate for similar pension arrangements, leading to a positive contagion effect that broadens the adoption of occupational pensions across various public and private sectors. This adaptation promises substantial socio-economic benefits, including increased national savings rates, reduced fiscal pressure on state pensions, and stimulated financial market development, all contributing to social stability and diminished poverty risks among the elderly. This evolution reflects a strategic response to Romania's changing economic and demographic landscape, suggesting that occupational pensions could support a more robust, sustainable, and equitable pension framework with significant positive implications for both individuals and the national economy.

Conclusions and recommendations

The article introduces an innovative model for occupational pensions specifically designed for military and police personnel in Romania, based on existing legislative framework of the occupational pensions, Private Pension Pillar IV. The proposed system is characterized by a collaborative funding approach, where both employers and employees contribute towards the occupational pension.

Economically, the establishment of an occupational pension system for military and police personnel is posited to significantly benefit the Romanian economy, with initial estimations indicating, under same timeline and average annual returns, respectively after 15 years of contributions, net assets of occupational pensions up to 43% from Private Pensions Pillar II and 11 times higher than Private Pensions Pillar III. By contributing to the financing of public deficits through investments in government securities and equity markets, pension funds are expected to play a vital role in stimulating economic growth and development. These funds also contribute to market liquidity and the financing of domestic companies, thereby underpinning economic stability and growth. Furthermore, by pooling savings and investing in a diversified asset portfolio, the pension funds mitigate individual investment risks and provide a stable retirement income source. This function is particularly important in addressing demographic challenges and reducing reliance on the public pension system. The article underscores the potential of the occupational pension system to enhance financial literacy among its participants and facilitate the integration of contributions with EU social security regulations, thereby attracting external funding and elevating the Romanian private pension system's reputation on an international scale.

The essence of this model lies in its potential to provide a significant layer of financial stability for retirees from the critical and hazardous professions, considering the recent changes of the national legislation on military state pensions which removed some existing benefits and potentially disincentivised the personnel to continue their active service and to access early retirement. In such context, the proposed model aims to address, in a complementary manner with existing military pension system, the unique challenges faced by military and police personnel, including the occupational hazards and the potential physical and psychological impacts that may limit employment opportunities post-service. By ensuring a complementary private pension, the model seeks to maintain a decent standard of living for retirees, further extending economic protection to their families through inheritance of the pension funds in cases of occupational-related fatalities.

The model not only focuses on enhancing the welfare of military and police staff but also on improving the attractiveness and retention within these careers. By offering additional financial benefits for post-service life, the scheme is anticipated to make military and police careers more appealing, especially to the younger demographic who are in the early stages of their career planning. This aspect is crucial for sustaining a robust, capable defence force and police service, ensuring that these sectors remain competitive and appealing in the long-term job market, especially under existing very challenging regional security environment. The inclusion of occupational pensions is thus seen as a strategic move to bolster recruitment and encourage long-term commitment among personnel, addressing both immediate and future workforce needs.

Further enriching the proposed pension model is the introduction of mechanisms for greater personalization and flexibility in retirement planning. This approach allows military and police personnel to have more control over their financial futures, tailoring their pension contributions to align with individual career paths, lengths of service, and overall contributions. A notable feature of the model is the integration of pension forfeiture clauses, designed to promote a culture of integrity and accountability among the forces. These clauses, based on international best practices, add a layer of ethical governance to the pension scheme, ensuring that benefits are aligned with service conduct and contributions.

In order to refine and adapt the proposed model to the national context, as well as to ensure it meets the needs of the professional categories and has a positive impact on the national economy, further research is needed.

Primarily, it is essential to engage relevant stakeholders, through collaboration with social partners, including trade unions and professional organizations, employers, industry partners, and other relevant entities, to gather diverse perspectives and ensure the model meets the needs of the participants and it is legally and economically viable. In this context, the legal and social dimensions need to be further explored to identify and address any potential barriers to implementing the proposed occupational pension model, as well as to evaluate the social implications of the model, including its impact on workforce recruitment and retention, as well as on the social security system.

Further research is also required for evaluating the occupational pension system's impact on national economy. The analysis should concentrate on key economic indicators, including its role in financing public deficits, contributions to economic development, and strategies for managing long-term demographic risks. Such analysis will provide critical insights into the system's efficacy and sustainability within the broader economic framework, enabling a nuanced understanding of its potential benefits and challenges.

Also, additional research effort is needed regarding integrity and financial literacy. Thus, the model could benefit from a detailed review of the existing systems of occupational pensions in other countries, particularly those with forfeiture clauses for promoting integrity and accountability, to identify best practices that can be adapted to the Romanian context. Regarding financial literacy, it is essential to investigate ways to enhance financial literacy among military and police personnel, aligning with the National Strategy for Financial Education 2023-2030, to ensure they fully understand and can maximize the benefits of the occupational pension system.

The occupational pensions for military and police, privately administrated, complementing the existing military state pensions, have the potential to provide significant economic and social benefits for the participants and for the national economy, particularly considering the demographic and regional security challenges. The proposed model needs to be further refined, especially though engagement of relevant stakeholders, and subjected to public scrutiny and debate, in order to ensure an adequate balance between social and economic protection, considerations of professional restrictions and occupational hazards, general public interest and societal benefits.

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