

## **THE MODIFICATION OF SOCIAL INSURANCE CONTRIBUTION SCHEME AND THEIR IMPACT ON THE NET SALARY AND LIVING LEVEL OF POPULATION**

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*Abstract: Lately, the world is protesting for the dissatisfaction on various plans. These complaints include job insecurity, inequity, low earning, and the fact that the living standard decreases significantly from one year to the next. The New Year 2018 comes with new fiscal changes that caused controversy. The new fiscal changes affect most of the population and the business environment and bring actually a change of the gross wage „presentation” through reorganizing the mandatory social security contributions, gross wage adjustment and the reduction of the income tax. In this paper we will present and analyze the changes foreseen by the wage law in the current year but also in the last 5 years and the impact of these changes on the net income and population living standards.*

*Keywords: social contributions, gross wage, net income, population living standard, Romania.*

### **Passing social security contributions from the employer to the employee – what, how much and who is paying?**

The year 2018 began with the entry into force of some legislative changes in the tax area that sparked controversy and insecurity among employees. One of the main measures aimed at reorganizing the system of compulsory social contributions due to the state, bringing about a change of "presentation" of the gross wage. This reorganization of the system of compulsory social contributions owed to the state has to be analyzed simultaneously with the decrease of the income tax and the increase of the gross salary.

According to the Government Emergency Ordinance no.79 / 2017 for amending and completing the law no. 227/2015 on the Fiscal Code, published in the Official Journal of Romania 885 from 10 November 2017, the number of compulsory social contributions that employers have to pay for their own employees was reduced. Specifically, this year there are only three compulsory social contributions, compared to six, how many were until the end of 2017.

Thus, through the promulgation of new laws, the Social Insurance Contribution and the Health Insurance Contribution will be transferred to the employee and a new contribution entitled Work insurance contribution is introduced, which is supported by the employer only.

The Social Insurance Contribution is due by the employee in the 25% share of the gross salary for normal working conditions. If there are special working conditions, the employer has an additional quota of 4%, and if the employment conditions are specific, the employer has an additional quota of 8%. Specifically, for employees working under normal working conditions, a CAS of 25% is due, but if there are differentiated or special working conditions, it is due a CAS of 29% and 33% respectively. We also notice that the employer owes the social security contribution with the employee only when it comes to differentiated or special working conditions.

Another contribution that is entirely payable by the employee is the Health Insurance Contribution in a 10% share of the gross salary.

The Work Insurance Contribution in a share of 2,25% is exclusively due by the employer and is allocated to five budgets as follows: 15% in the guarantee fund for the payment of wages,

20% in the unemployment insurance budget, 5% in the system insurance for accidents at work and occupational diseases, 40% to the single national health insurance fund for the payment of medical leave and 20% to the state budget, in a separate account.

Just like before, the employer calculates, retains and pays the mandatory social contributions for its employees. Employees have no obligation to do.

#### Considerations on social security contributions due by employees and employers between 2013 and 2018

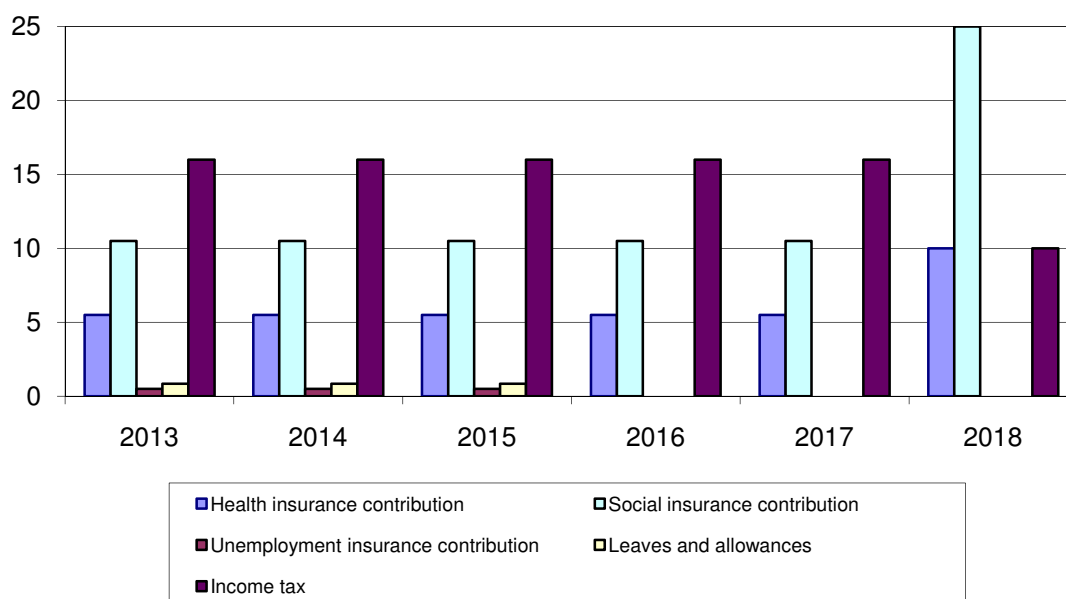
The evolution of the social contributions paid by the employee during 2013-2018 is as follows.

Table 1: Evolution of social contributions due by the employee for the period 2013-2018

Year	Health Insurance Contribution %	Social Insurance Contribution %	Unemployment Insurance Contribution %	Leaves and allowances %	Total Contributions %	Income Tax %
2013	5,5	10,5	0,5	0,85	17,35	16
2014	5,5	10,5	0,5	0,85	17,35	16
2015	5,5	10,5	0,5	0,85	17,35	16
2016	5,5	10,5	0,5	0	16,5	16
2017	5,5	10,5	0,5	0	16,5	16
2018	10	25	0	0	35	10

Source: realized by the author based on the data presented by [www.insse.ro](http://www.insse.ro)

Chart 1: Evolution of social contributions due by the employee in the period 2013-2018



Source: made by the author based on the data in Table 1

The evolution of social contributions due by the **employer** in 2013-2018 is as follows:

Table 2: Evolution of social contributions due by the employer in the period 2013-2018

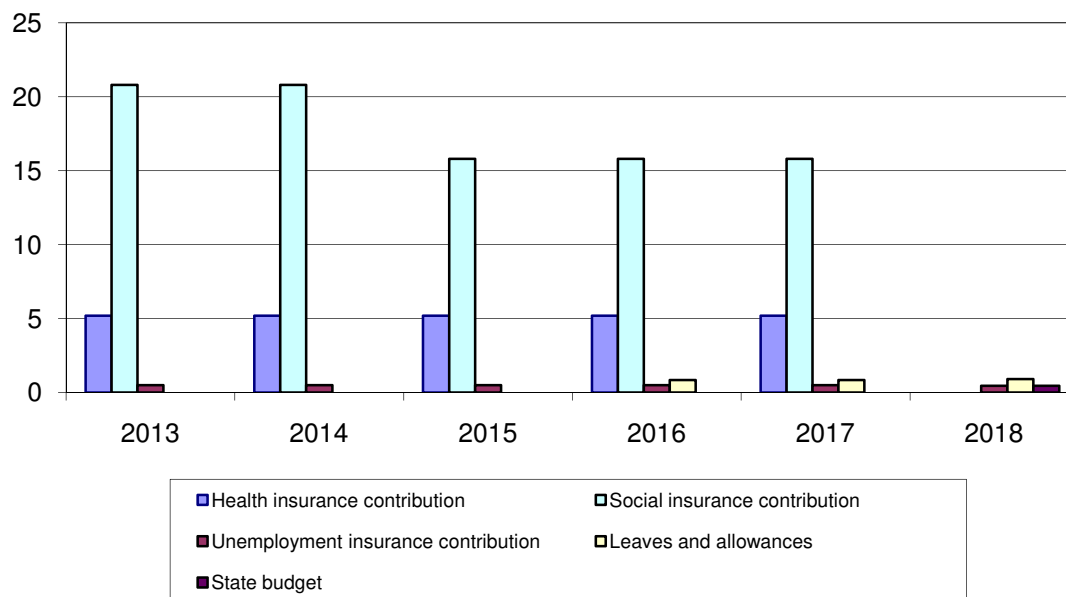
Year	Social Insurance Contribution %	Health Insurance Contribution %	Unemployment Insurance Contribution %	Working accidents and occupational diseases %	Medical leaves and allowances %	Guarantee fund for the payment of wages %	State budget	Total contributions %
2013	0,8	2,5	0,5	0,15	0	0,25		26,9
2014	0,8	2,5	0,5	0,15	0	0,25		26,9
2015	5,8	1,25	0,5	0,15	0	0,25		21,9
2016	5,8	1,25	0,5	0,15	0,85	0,25		22,75
2017	5,8	1,25	0,5	0,15	0,85	0,25		22,75
2018	0	0	0,45	0,125	0,9	0,3375	0,45	2,25

Source: realized by the author based on the data presented by [www.insse.ro](http://www.insse.ro)

In the year 2018, the Work Insurance Contribution incorporates the other four existing social contributions by the end of the year 2017. Specifically, the Work insurance contribution is constituted of the former unemployment contributions, medical leaves, professional risks and wages.

Work Insurance Contribution is due exclusively to the employer, in a share of 2,25% of the gross wage. By the end of the year 2017, the other four existing social contributions were minimum 1,75% and maximum 2,45%, because the one for professional risks varied between 0,15% and 0,85%.

Chart 2: The evolution of social contributions due by the employer in the period 2013-2018



Source: realized by the author based on the data in table 2

We notice that in the analyzed period the amount of the contributions due by the employee is larger than the amount of the contributions due by the employer if we take into account the income tax, the biggest difference being in the year 2018 because of the promulgation of the new law which transfers the CAS and CASS only to the employee, the employer only having to pay the Work Insurance Contribution (CAM).

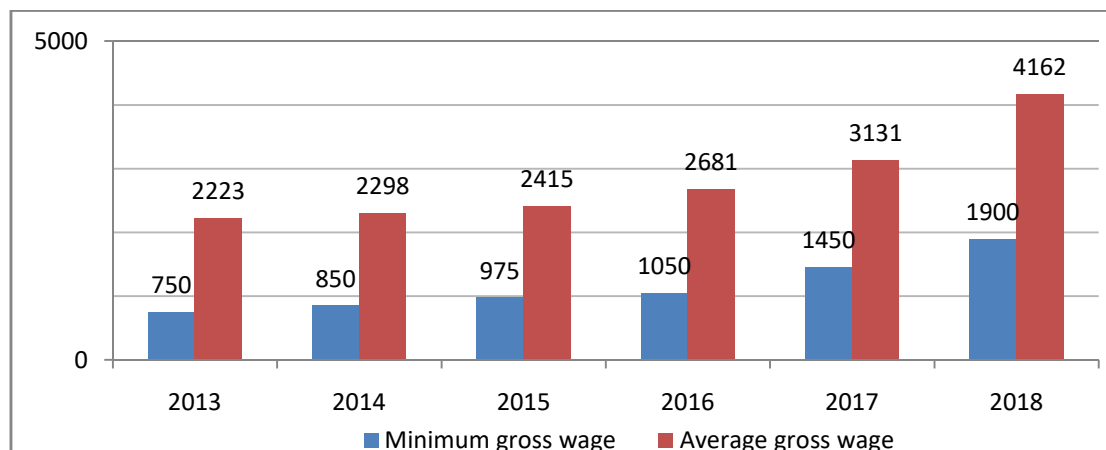
In the year 2018, the total amount of the contributions paid for an employee having normal working conditions is 37,25% from the gross wage comparing to 39,25% for the year 2017. For differentiated or special working conditions, in 2018 the total amount reaches 41, 25% of the gross wage or 45,25% of the gross wage. Also starting with January the 1<sup>st</sup> of 2018 the level of the income tax will be diminished by 37,5% that is from 16% to 10%.

### **The evolution of the minimum and average gross wage in the period 2013 - 2018**

The so called fiscal revolution starting from the first day of the year 2018 also includes an increase of the minimum gross wage from 1.450 lei (aprox.310 euro) to 1.900 lei (aprox.407 euro) monthly. In these conditions, the net minimum wage will increase from 1,065 lei to 1,162 lei. Thus, an increase of 450 lei of the minimum wage determined actually an increase of the net wage by approximately 97 lei.

Regarding the evolution of the minimum and average gross wage in Romania, in the period 2013- 2018 is illustrated in the following chart:

Chart 3: The evolution of the minimum and average gross wage in Romania, period 2013- 2018



Source: realized by the author based on the data presented by [www.insse.ro](http://www.insse.ro)

According to the chart above we can notice a continuous increase of the minimum and average gross wage for the employees in the analyzed period of time. We will analyze next the evolution of the net income.

Table 3: The evolution of the net wage according to the minimum gross wage in the period 2013-2018

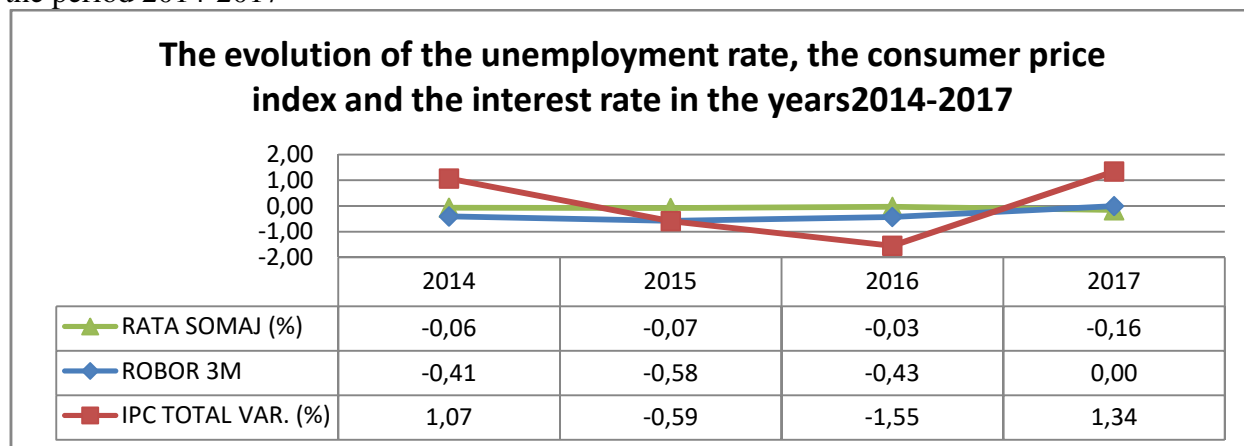
Year	Gross wage	Health Insurance Contribution	Social Insurance Contribution	Unemployment	Leaves and allowances	Deduction	Taxable salary	Income tax	Net wage	Evolution of the net wage
2013	50	14	79	4	6	250	703	95	61	-
2014	50	74	89	4	7	250	534	27	30	69
2015	75	45	102	5	8	250	565	98	17	87
2016	75	45	102	5	0	300	145	28	32	15
2017	450	08	152	7	0	300	119	46	065	333
2018	900	901	475	0	0	510	257	37	162	97

Source: realized by the author

#### The impact of the wage changes on the main economic indicators in Romania

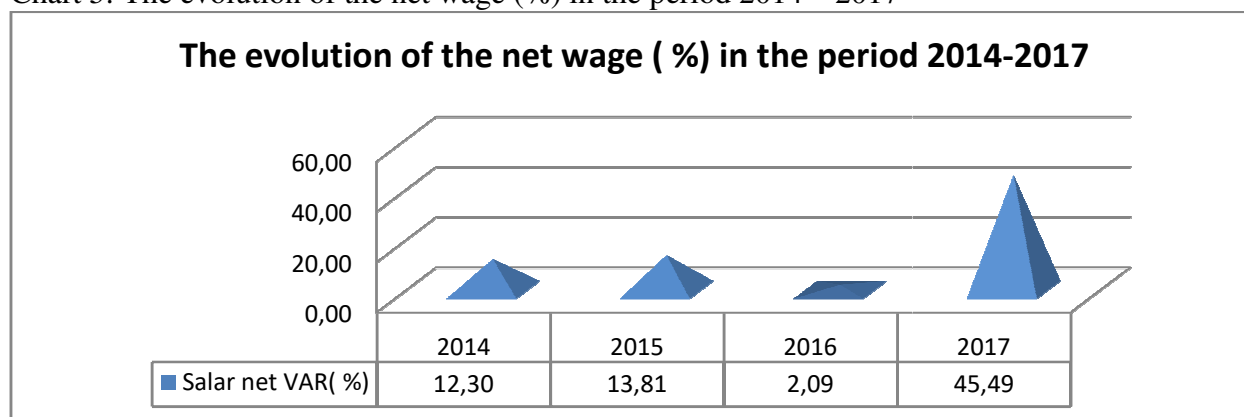
The main economic indicators in Romania taken into account are: The consumer price index, the unemployment rate and the rate of interest. These three indicators are represented in the following chart which shows their evolution in the period 2014-2017.

Chart 4: The evolution of the unemployment rate, the consumer price index and the interest rate in the period 2014-2017



Source: realized by the author based on the data presented by [www.insse.ro](http://www.insse.ro)

Chart 5: The evolution of the net wage (%) in the period 2014 – 2017



Source: realized by the author based on the calculations in table 3

From the analysis of the two graphs above, we notice that in 2014, when net wage increased by 12.3% compared to 2013, CPI increased as people consumed more. The unemployment rate has fallen by 0.06% as the higher the working cost the working population has decided to hire. The ROBOR has decreased, which has resulted in a better living for the population because its interest rates have fallen.

In 2015, when net wages grew by 13.81%, all rates have fallen, which means that although people have a higher income, they chose to save on consumption.

The year 2016 brought a 2.09% net wage increase, which led to a decline in the three indicator ratios, the explanation being the same as in the previous year.

In 2017, when the net income increased by 45.49%, the unemployment rate decreased by 0.16%, the decrease was 5 times higher than in the previous year, people consumed more by 1.34% and the interest did not change because it was considered to be bearable for the society.

The standard of living has improved over these years, but by the 2018 amendment it appears to be suffering because, although there are still no annual statistics, food, non-food and service prices are rising and the interest rate has also risen .

## CONCLUSIONS

The fiscal revolution started on the first day of 2018 sparked controversy and generated insecurity among employees.

Amendments to Government Emergency Ordinance no.79 / 2017 for amending and completing the law no. 227/2015 on the Fiscal Code, published in the Official Journal of Romania 885 from 10 November 2017, affects most of the active population but also the business environment by reorganizing the system of mandatory social security contributions, gross wage adjustment and reduction of the income tax.

Starting January 1, 2018 in Romania, the minimum wage increased by 450 lei and reached 1,900 lei, but the net salary did not register a similar increase. This is due to the transfer of the Pension (CAS) and Health Benefits (CASS) totally to the employees and the 10% reduction of the income tax.

Regarding the impact of these changes on the main economic indicators in Romania, we can see that the standard of living has improved over the last few years, but by the modification of the 2018 amendment it seems to be suffering because although there are still no annual statistics on the prices of the products food, non-food and services are rising and the interest rate has also risen.

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