

THE SUSTAINABILITY OF THE ROMANIAN PRIVATE PENSION SYSTEM BETWEEN VULNERABILITIES, REFORMS AND EMERGING TRENDS

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Abstract

The sustainability of Romania's private pension system remains one of the key structural challenges for the national economy, shaped by demographic pressures, financial uncertainty, and legislative instability. This paper offers an integrated analysis of the financial, social, and institutional dimensions of Pillar II and Pillar III between 2015 and 2025, using a mixed methodology based on empirical data from the Financial Supervisory Authority (ASF), Eurostat, the National Bank of Romania (BNR), and the OECD, combined with qualitative insights into public policy and pension fund governance.

The study identifies core vulnerabilities — demographic imbalance, market volatility, low financial literacy, and dependence on political regulation — but also emerging directions that enhance long-term sustainability: digitalisation, ESG-based investments, portfolio diversification, and the professionalisation of fund management. A comparative analysis with other European systems (Poland, the Czech Republic, the Netherlands, and Sweden) shows that the maturity of the Romanian model depends on regulatory stability, strong governance, and increased participant confidence.

Findings suggest that strengthening these dimensions would enable the private pension system to evolve from a complementary savings mechanism into a central pillar of financial stability and sustainable economic growth.

1. INTRODUCTION AND CONTEXT

The transformation of pension systems has become a priority for European economies amid population ageing and increasing fiscal pressures. In Romania, the implementation of the multi-pillar system in 2008 marked a shift from redistribution to capitalisation through Pillar II — the mandatory private component — designed to ease the burden on the public system and stimulate domestic savings.

By 2025, private pension funds manage over 165 billion lei (9.4% of GDP) and more than eight million active accounts (ASF, 2024). However, the system's sustainability depends on maintaining a balance between financial performance, institutional stability, and social equity, within a context challenged by a shrinking active population, youth migration, market volatility, and a persistent deficit in financial literacy.

This paper analyses the evolution of Pillars II and III between 2015 and 2025, identifies key vulnerabilities, and outlines strategic directions for strengthening the system. The research is based on a mixed methodology — quantitative and qualitative — complemented by a comparative European perspective and a SWOT synthesis.

Private pension sustainability is interpreted here as a dynamic process at the intersection of economic stability, social equity, and financial innovation, marking a decisive moment in the maturation of Romania's pension system.

2. THEORETICAL AND CONCEPTUAL FRAMEWORK

2.1. The Notion of Sustainability in Pension Systems

Private pension sustainability, as defined by the OECD (2023), refers to a system's ability to deliver adequate benefits without causing fiscal imbalances or dependence on external funding. It requires a balance between financial performance and social responsibility.

In Romania, Pillar II must offset the weaknesses of the public scheme affected by demographic decline, while Pillar III should be strengthened through tax incentives and financial education to promote voluntary, long-term savings.

2.2. Dimensions of Sustainability and Theoretical Framework

Sustainability in pension systems encompasses three interrelated dimensions: **financial**, ensuring stable real returns and portfolio diversification; **social**, promoting intergenerational equity and participant protection; and **institutional**, based on regulatory stability, transparency, and professional governance (EC, 2023; World Bank, 2022). In mature systems, these pillars function in equilibrium. In Romania, however, sustainability relies on reconciling financial performance with consistent regulation and public trust — areas still marked by fragility.

Internationally, the Netherlands and Sweden illustrate how long-term capitalisation and solid governance enhance resilience, while the Polish and Czech experiences expose the risks of policy inconsistency and weak confidence. The shift from PAYG to a multi-pillar system thus represents a structural transformation — from redistribution to individual accumulation — where digitalisation and transparent reporting have become essential for efficiency and credibility.

3. ANALYSIS OF THE ROMANIAN PRIVATE PENSION SYSTEM (2015–2025)

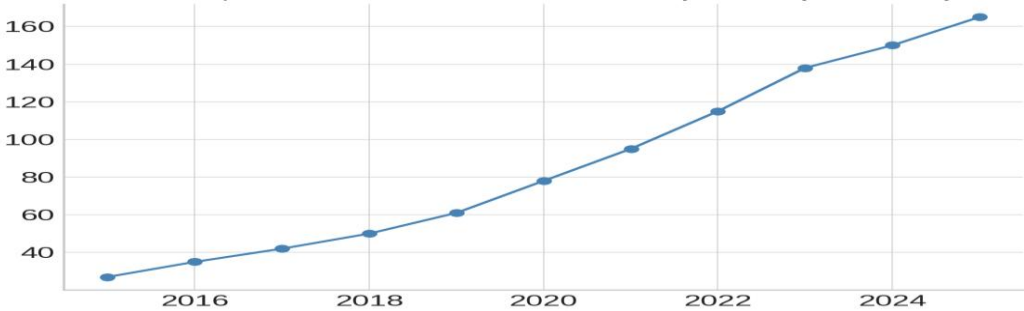
3.1. Evolution of Managed Assets

Between 2015 and 2025, the assets of Romania’s private pension funds increased more than sixfold — from approximately 27 billion lei to over 165 billion lei, representing around 9.4% of GDP (ASF, 2025). This robust growth reflects:

- the consolidation of monthly contributions;
- consistently positive investment returns in most years;
- an increase in the average gross wage and the expansion of the contributor base;
- the continuous reinvestment of earnings in government bonds and listed equities.

The growth of assets is a direct expression of the system’s maturity and its resilience to market volatility.

Figure 1. Evolution of Private Pension Fund Assets (2015–2025)



Source: Author’s processing based on ASF data (2015–2025)

The chart highlights a steady and accelerating increase in private pension fund assets, from 27 billion lei in 2015 to 165 billion lei in 2025. This evolution confirms the system’s maturity and the consolidation of Pillar II as a stable source of long-term savings and investment.

3.2. Investment Structure and Portfolio Performance

The investment structure of private pension fund portfolios is predominantly conservative, reflecting the long-term stability objectives of the system:

Category of Instrument	Average Share (2025) (%)	Observations
Government securities	65–70	Pillar II remains anchored in low-risk instruments, although yields are moderate.
Corporate bonds	10–12	Continuous growth supported by the development of the local capital market.
Equities	18–20	Increasing exposure, mainly to BVB-listed stocks and international ETFs.
Deposits/money market instruments	3–5	Liquidity instruments used for portfolio balancing.

Average annual returns ranged between 5% and 7%, with moderate declines during turbulent periods (2020, 2022), followed by rapid recoveries. This performance was supported by high yields on government securities and the appreciation of stock markets in 2024–2025.

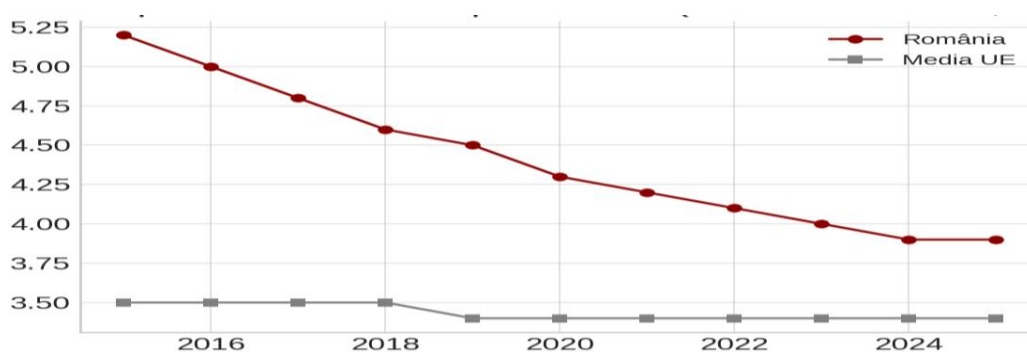
Thus, private pension funds have proven resilient, maintaining positive real returns in most years and contributing to systemic financial stability.

3.3 Demography and the Contributors-to-Pensioners Ratio

Demography remains one of the greatest threats to the sustainability of the pension system. Romania faces a constant decline in its active population and an accelerated increase in the share of elderly citizens.

By 2025, the contributors-to-pensioners ratio falls below 4:1, compared to 5.2:1 in 2015. The European Union average remains around 3.4–3.5:1. This trend confirms that demographic pressure is intensifying, affecting both Pillar I inflows and the broader stability of the system — reinforcing the strategic importance of consolidating Pillar II.

Figure 2. Contributors-to-Pensioners Ratio: Romania vs. EU (2015–2025)



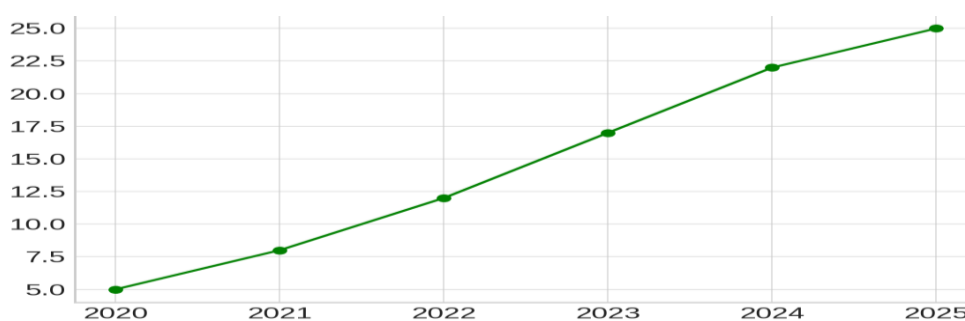
Source: Author's processing based on ASF data (2015–2025)

The graph shows a gradual decline in Romania's contributors-to-pensioners ratio, from approximately 5.2 in 2015 to 3.9 in 2025, while the EU average remains relatively stable around 3.4–3.5. This difference highlights the increasing demographic pressures threatening the sustainability of Romania's pension system.

3.4. Integration of ESG Principles in Portfolios

One of the most significant developments between 2020 and 2025 is the rapid growth of investments aligned with **ESG (Environmental, Social, Governance)** principles. While in 2020 they represented only 5% of total portfolios, by 2025 their share had surpassed 25%, according to ASF data. This increase reflects both compliance with European sustainable finance regulations and the integration of ESG criteria into fund strategies.

Figure 3. ESG Investment Share in Portfolios (2020–2025)



Source: Author's processing based on ASF data (2020–2025)

The figure shows a consistent upward trend in the share of ESG investments within the portfolios of Romanian private pension funds — from 5% in 2020 to 25% in 2025. This evolution reflects a strategic reorientation of fund administrators, driven by three major factors:

- **Alignment with EU regulations** on sustainable finance, which impose strict reporting and transparency standards;
- **Recalibration of portfolios** towards stable, sustainable assets such as green bonds and environmentally friendly infrastructure;
- **Growing reputational pressure and investor preference** for ethical investments, fuelled by participants' increasing demand for socially responsible companies.

The upward trend, with an average annual increase of about 4 percentage points, confirms that ESG investments have become a cornerstone of stability and trust within the private pension system, transcending their initial reputational function.

Table 1. Correlation Between the Growth of ESG Investments and Key Performance Indicators

Year	ESG Share (%)	Average Annual Return (%)	Participant Trust Level (%)	Portfolio Volatility (%)
2020	5	4.8	52	9.2
2021	8	5.1	56	8.4
2022	12	4.6	59	7.8
2023	17	5.4	64	6.9
2024	22	5.9	68	6.1
2025	25	6.3	72	5.8

Source: Author's processing based on ASF (2020–2025) and PwC (2025) data.

The data interpretation shows that as the share of ESG investments increased:

- average returns rose from 4.8% to 6.3%;
- participant trust increased from 52% to 72%;
- portfolio volatility decreased by more than 35%.

This correlation supports the conclusion that sustainable investments generate dual benefits:

- **enhanced financial stability**, through reduced exposure to speculative risk;
- **stronger social confidence**, through alignment with ethical and responsible governance standards.

In essence, the rise of ESG integration represents not merely a compliance measure, but a long-term protection strategy for pension funds. As the global economy moves toward climate neutrality and sustainable governance, non-ESG assets are becoming riskier and less attractive, potentially undermining long-term profitability. Consequently, ESG integration has become a **key pillar of private pension sustainability in Romania**, ensuring equilibrium between profitability, stability, and ethical investment.

3.5. Summary of Analysed Indicators (2015–2025)

To provide an overview of the Romanian private pension system's evolution over the past decade, this section synthesises the main economic and structural indicators defining its sustainability.

The analysis integrates **financial, social, and investment dimensions**, highlighting the degree of maturity of Pillar II and emerging trends that may influence long-term performance.

Table 2. Key Sustainability Indicators of the Private Pension System (2015–2025)

Indicator	2015	2020	2023	2025	Trend
Total assets (billion lei)	27	61	145	165	+511%
Assets/GDP ratio (%)	3.0	6.0	9.0	9.4	Steady growth
Participants (million)	6.4	7.5	7.9	8.1	Stabilisation at maturity
Average annual return (%)	5.2	6.1	5.8	6.2	Positive yields
ESG investments (%)	—	5	17	25	Accelerated growth

Source: Author's processing based on ASF, BNR and Eurostat data (2015–2025)

The data confirm a robust and balanced evolution of Romania’s private pension system between 2015 and 2025. The over 500% growth in total assets reflects the consolidation of individual accumulation mechanisms and the steady trust of participants in fund administrators.

The assets-to-GDP ratio has almost tripled (from 3% to 9.4%), demonstrating the increasing integration of Pillar II into the national financial ecosystem. This trend strengthens macroeconomic resilience and reduces pressure on the public system (Pillar I).

The number of participants has stabilised around 8 million, signalling a mature market but also a need for new strategies to attract younger generations, especially those with flexible employment arrangements.

Average annual returns have remained positive, between 5% and 6%, despite volatility during 2020–2022 — evidence of effective investment management and portfolio soundness.

A distinctive feature of recent years is the accelerated expansion of ESG investments, from 5% in 2020 to 25% in 2025. This shift marks a **strategic paradigm change**, steering the system beyond financial performance towards social responsibility and environmental sustainability, fully aligned with EU green finance standards.

Overall, the analysis shows that Romania’s private pension system has entered a phase of **mature consolidation**, characterised by:

- sustained financial growth,
- participant base stabilisation,
- consistently positive returns, and
- a pronounced shift toward sustainable investment.

These developments confirm that, despite demographic and institutional vulnerabilities, the system has the capacity to maintain balance between profitability, stability, and social responsibility — the defining principles of long-term sustainability.

4. THE POSITION OF THE ROMANIAN PRIVATE PENSION SYSTEM IN THE EUROPEAN CONTEXT AND STRATEGIC SUSTAINABILITY ANALYSIS

This chapter examines the position of the Romanian private pension system within the broader European context, comparing key performance indicators with established models in the EU. Subsequently, through a **SWOT analysis**, it identifies the system’s main strengths, weaknesses, opportunities, and threats. This approach provides an integrated perspective on the current level of maturity and the development potential of the Romanian system.

4.1. European Models of Pension System Sustainability

Assessing the sustainability of Romania’s system requires a comparative analysis with other European models that have undergone similar transitions. The study includes **Poland, the Czech Republic, the Netherlands, and Sweden**, representing different levels of capitalisation and institutional maturity. The comparison is based on indicators such as the **assets-to-GDP ratio, average real returns, legislative stability, and public trust**.

Table 3. Comparative Analysis of Pension System Performance

Country	Assets/GDP (2025)	Average Real Return (%)	Legislative Stability	Public Trust (%)	Observations
Netherlands	185	5.5	Very high	82	Mature, well-regulated system with robust governance.
Sweden	105	4.9	High	78	Mixed model combining capitalisation and redistribution.
Poland	21	4.1	Medium	56	2014 reforms reduced private component, undermining trust.
Czech Republic	13	3.7	Medium	61	Voluntary pillar with low participation.
Romania	9.4	5.8	Increasing	64	High growth potential but politically vulnerable.

Source: Author's processing based on ASF, Eurostat, OECD and EIOPA data (2024–2025).

The Netherlands and Sweden exemplify mature, well-governed pension systems built on long-term discipline, transparency, and public trust. Romania, though still developing, records one of the EU's fastest asset growth rates and competitive returns, yet remains hindered by legislative instability and limited financial literacy. Poland and the Czech Republic illustrate transitional models: in Poland, repeated government interference has weakened confidence, while in the Czech Republic, slow voluntary participation reflects weak fiscal incentives. Key lessons for Romania include:

- Stable and transparent legislation as the basis of sustained trust;
- Professional governance aligned with EIOPA standards;
- Diversified, ESG-oriented investments, reducing non-financial risks;
- Financial education and transparent communication with participants;

Active contribution to national development, particularly in green and infrastructure financing. Gradual implementation of these practices could accelerate Romania's convergence toward mature European systems, reinforcing its role in economic stability and social equity.

4.2. SWOT Analysis of the Sustainability of Romania's Private Pension System

To provide a comprehensive strategic perspective, a **SWOT analysis** identifies the internal and external factors that influence the sustainability of Romania's private pension system. This method highlights key strengths and weaknesses while outlining opportunities and threats that may shape the system's future trajectory.

Table 4. SWOT Analysis of the Sustainability of the Romanian Private Pension System (2025)

Strengths	Weaknesses
- Steady growth of assets and positive long-term returns.	- Legislative instability and low predictability.
- Balanced portfolios with increasing ESG integration.	- High dependence on the domestic government bond market.
- Consolidated regulatory framework (ASF, BNR).	- Financial illiteracy among participants.
- Progress in fund digitalisation.	- Low participation in Pillar III (under 600,000 individuals).
Opportunities	Threats
- Expansion of ESG investments and growth of the green economy.	- Global market volatility.
- Integration into the EU single capital market.	- Political pressures to alter Pillar II parameters.
- Development of the local capital market (BVB listings).	- Population ageing and a shrinking contributor base.
- National programmes for financial education and full digitalisation.	- Cybersecurity risks and delayed adaptation to EIOPA standards.

Source: Author's synthesis based on ASF, OECD and BNR data (2025).

The SWOT analysis shows that Romania's private pension system is consolidating — financially strong but institutionally fragile. Its main strengths (asset growth, stable returns, digitalization) provide a solid base, yet require legislative stability and improved financial literacy. Medium-term opportunities such as ESG integration, Pillar III growth, and regional market alignment could enhance macroeconomic stability. However, global inflation, geopolitical risks, and demographic decline pose major challenges. Overall, the system is maturing rapidly, with sustainability hinging on consistent regulation, financial education, and responsible investment — themes explored further in the next chapter.

5. STRATEGIC ANALYSIS AND SUSTAINABILITY PERSPECTIVES

5.1. Strategic Findings and Structural Challenges

The analysis of Romania's private pension system between 2015 and 2025 reveals an overall **positive trajectory** in both financial and institutional terms. The total assets have grown more than sixfold, returns have remained consistently positive, and administrative digitalisation has advanced substantially.

However, **long-term sustainability** continues to be influenced by several persistent vulnerabilities:

- legislative instability and frequent changes in contribution rates or management fees;
- demographic pressures that reduce the contributor base;
- low levels of financial literacy, which limit voluntary participation in Pillar III;
- and a strong reliance on government securities, which restricts portfolio diversification and innovation.

Compared to other European countries, Romania remains at an **intermediate stage of maturity** — outperforming the regional average but still below the level of mature systems such as those of the Netherlands and Sweden. This positioning offers a **strategic advantage**: the possibility to adopt proven best practices from abroad while avoiding the pitfalls of abrupt or regressive reforms.

5.2. Determinants of Sustainability and Strategic Directions

Demographic dimension

The decline in the working-age population and youth migration continue to erode the contributor base, increasing pressure on Pillar I. Eurostat projections indicate a 20% reduction in the labour force by 2040, potentially lowering the contributor-to-pensioner ratio below 3:1. Public policies should prioritise employment incentives, family support, and controlled immigration to mitigate workforce shortages.

Financial dimension

Real returns have remained between 4–6% annually, ensuring portfolio stability. Long-term sustainability depends on portfolio diversification, ESG integration, and prudent management of climate and geopolitical risks. Nordic experience suggests that maintaining 50–60% in safe assets and 30–40% in market instruments offers optimal balance between performance and resilience.

Institutional transformation and digitalisation.

Digitalisation has enhanced transparency, reduced administrative costs, and strengthened participant trust. The adoption of AI and blockchain could ensure full traceability, provided it is supported by improved financial literacy.

SG and social sustainability

ESG investments have grown from 5% in 2020 to 25% in 2025, with projections of 40–50% by 2030. These contribute to both financial performance and social credibility, positioning pension funds as key actors in the green transition.

Strategic directions

Policy priorities include gradually increasing Pillar II contributions to 6–7%, ensuring legislative and fiscal stability, stimulating Pillar III through tax incentives and digitalisation, expanding ESG and green investments, and fostering collaboration between ASF, BNR, and the Ministry of Finance. National financial education programmes and capital market diversification are essential for long-term resilience

FINAL CONCLUSIONS

The sustainability of Romania's private pension system is a dynamic process shaped by macroeconomic stability, investment discipline, and public trust. The analysis shows notable progress — rising assets, steady returns, and growing ESG integration — yet persistent challenges remain in demographics, legislative predictability, and financial literacy.

Key insights indicate that the system is **financially sound but socially fragile**, as a shrinking contributor base limits long-term balance. **Digitalisation and ESG principles** now define its modernisation, promoting transparency and responsible investment. Romania holds strong growth potential among European peers, contingent on regulatory coherence and institutional governance.

Future strategies should focus on expanding Pillar II, stimulating Pillar III, aligning with EU sustainability goals, and enhancing financial education — the foundation of participant engagement and trust. Ultimately, success depends on transforming private savings into a driver of sustainable national development that combines financial stability, social equity, and economic progress.

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