

# The purchasing power of goods and services of pensioner families during the COVID19 pandemic, 2018-2021

## Abstract

Starting from the normative method, applied in RIQL we will evaluate the real purchasing power of the retired families, more precisely how the income of a person or family covers the essential minimum of goods and services necessary for the subject under discussion. In the time period 1990-2021, the standard of living of the Romanian population was affected in different ways. The incomes of families with children, as well as retired families, could not keep up, sometimes, with the price increases applied to products and services on the market. The incomes and expenses of the population provide a concrete picture of the quality of life of the population and contribute to taking the necessary measures, through socio-economic policies, for the benefit of society members.

**Keywords:** pensioner, social minimum pension, average social insurance pension, decent minimum basket, subsistence minimum basket

Volume 6 Issue 6 - 2022

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**Received:** September 05, 2022 | **Published:** November 17, 2022

## Introduction

Alleviating poverty in a society produces lasting consequences in the sphere of human development. A standard of living lower than a socially acceptable minimum implies a reduction of the individual's independence in the society of which he is a part and his inability to overcome the respective situation, at which point the state must intervene through public policies to help the individual and his family to get out from that situation. Also, not covering the minimum standard of living accepted in the respective society leads to the social exclusion of those people, increasing the risk of falling into poverty.<sup>1-4</sup>

## Income and consumption among pensioner families

An essential chapter in people's existence, consumption requires a thorough analysis as it results from the data of the National Institute of Statistics (NIS). According to the data provided by the NIS regarding Romania's socio-occupational categories, throughout the thirty years of analysis, pensioner families were placed in deciles 2, 3, 4. The characteristic of these pensioner families is that, they live from a single average social insurance pension or from one or two guaranteed minimum pensions (the minimum social pension has been granted since 2010). In the 6th and 7th deciles are the families of pensioners, who live on two state social insurance pensions.

## Social minimum pension, data series, time interval, 2010-2021

Currently, the guaranteed minimum pension has a fixed amount of 640 lei, and from July 1, 2018 it is automatically granted to those who receive less than this amount.

The minimum pension will be granted differently: „The minimum pension is set as a percentage, minimum and maximum, of the gross minimum salary per country guaranteed in payment, depending on the period of contributions achieved, as follows: the minimum percentage is 45%, related to the minimum period of contribution, to which 1% is added for each year of contribution period achieved over 15 years, without exceeding the maximum percentage of 75%“, it is written in the draft law (Law no. 127/2019 on the public pension system, applied from September 1, 2021).<sup>5-9</sup>

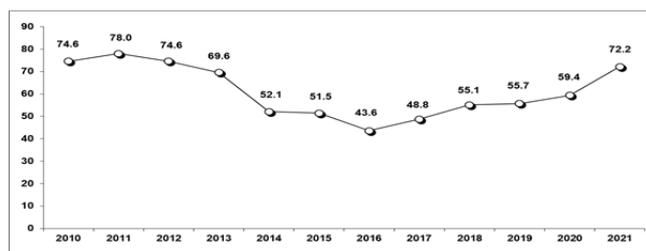
The minimum pension will be determined as follows: it cannot be less than 45% of the minimum gross salary, i.e. 922.5 lei; the maximum will be 75% of the minimum gross salary and, if we refer to its current value, that will mean 1,537.5 lei; it will be established by adding 1% to the above minimum for each year of contributions completed over 15 years, but never exceeding the above maximum. From the fall of 2021, the guaranteed minimum pension will be between 922.5 lei and 1,537.5 lei, for retirees with more than 15 years of contributions (Table 1).

**Table 1** Real minimum pension-year

Year/ Month	October	Real minimum pension
2010		100,0
2011		112,6
2012		107,4
2013		105,3
2014		103,8
2015		120,6
2016		121,1
2017		153,4
2018		181,1
2019		192,7
2020		214,2
2021		248,0

## The ratio between the minimum social pension and the minimum wage

It could be calculated starting from 2010, when this social income was granted to people of the third age, who had no income or was much too small to support themselves. The ratio was high between the years 2010-2013, between 74.6%-78.0%, during the rest of the time interval it was positioned at the value of 50-55%, until the year 2020. The year 2021 marks a return of the ratio at 72.2%, as it was at the beginning of the time frame (Figure 1).



**Figure 1** Data source: RIQL database. Calculations performed by Dr. Adina Mihailescu, SR.

## The basket for urban and rural pensioners (Table 2)

### Coverage of the minimum consumption basket for pensioner families

The family consisting of two urban pensioners with an income consisting of two minimum social pensions is in a delicate economic situation, managing to cover the survival basket, starting in 2020. As for the decent minimum basket, it is covered only 74% in 2018 and nearly 90% in 2020 and early 2022 (Table 3).

**Table 2** The minimum consumption basket calculated by the normative method in the RIQL, by expenditure chapters for a family of pensioners, October 2021<sup>1</sup>(lei)

No.	Expenditure chapters	Urban		Rural	
		Subsistence Lei %	Decent Lei %	Subsistence Lei %	Decent Lei %
I (1a+1b)	Food, of which:	738.5 52.6	757.3 43.2	1 294.0 100.0	923.6 100.0
1a	Needed to spend	738.5 52.6	757.3 43.2	740.2 57.2	547.7 32.7
1b	Self consumption <sup>2</sup>	-	--	553.8 42.8	1 127.3 67.3
2	Clothing/footwear	70.2 5.0	73.6 4.2	132.0 10.2	194.3 11.6
3	Home equipment	42.1 3.0	68.4 3.9	34.9 2.7	132.3 7.9
4	Transport	--	143.7 8.2	--	95.5 5.7
5	Cultural services	29.5 2.1	35.1 2.0	3.9 0.3	31.8 1.9
6	Personal hygiene	29.5 2.1	35.1 2.0	11.6 0.9	62.0 3.7
7	Clothing and footwear repair and maintenance services	29.5 2.1	35.1 2.0	22.0 1.7	36.8 2.2
8	Housing expenses <sup>3</sup>	351.0 25.0	350.6 20.0	190.2 14.7	177.6 10.6
9	Medicine expenses <sup>4</sup>	113.7 8.1	120.9 6.9	159.2 12.3	172.5 10.3
10	Safety fund	-	133.2 7.6	--	224.5 13.4
Total consumption (1a+1b+2...+10)		1 404 100.0	1 753 100.0	1 294 100.0	1 675 100.0

Data source: RIQL (Calculations performed by Dr. Adina Mihailescu).

<sup>1</sup>The updating of the amounts by expenditure groups was carried out using price growth indices calculated by the National Institute of Statistics.

<sup>2</sup>Self-consumption represents the counter value of vegetable and animal products that rural pensioner households produce and consume in their own household. This self-consumption is not included in the total consumption of the household.

<sup>3</sup>In the housing expenses chapter, postal and telecommunications expenses were also included, respectively stationery expenses.

<sup>4</sup>The National Institute of Statistics values related to the average monthly expenses per household on medicines for human use were entered in the chapter on medicine expenses - Tab.28/p.66 Expenditures for the purchase of non-food goods, by category of households, in quarter. III 2009, Incomes and consumption of the population trim. III 2009, National Institute of Statistics, Bucharest, 2010.

**Table 3** State social insurance pensions /decent minimum basket for two pensioners

Income/Years	Oct-18	Oct-20	Jan-22
2 state social insurance pensions / Decent minimum basket for two pensioners	73.8	89.3	89.7
2 state social insurance pensions / Minimum subsistence basket for two pensioners	92.1	111.5	112.1

The family consisting of two urban pensioners with an income consisting of a minimum social pension is in a serious economic situation covering just over half of the goods and services of the survival basket (52.4%), as of 2018. Regarding this minimum decent basket is covered only 42% in 2018 and just over half 55.8% at the beginning of 2022 (Table 4).

**Table 4** State social insurance pensions /decent minimum basket for two pensioners

Income/Years	Oct-18	Oct-20	Jan-22
1 minimum social pension/ Decent minimum basket for two pensioners	41.9	49.3	55.8
1 minimum social pension/ Minimum subsistence basket for two pensioners	52.4	61.5	69.7

Starting from the normative method, applied in RIQL (Mihailescu A., 2001, 2002), we will evaluate the real purchasing power of the population, more precisely how the income of a person or family covers the essential minimum of goods and services necessary for the subject under discussion. In the time period 1990-2021, the standard of living of the Romanian population was affected in different ways. The incomes of families with children, as well as retired families, could not keep up, sometimes, with the price increases applied to

products and services on the market. The incomes and expenses of the population provide a concrete picture of the quality of life of the population and contribute to taking the necessary measures, through socio-economic policies, for the benefit of society members.<sup>10</sup>

In the following we will analyze different family typologies, to identify which segments of the population are in difficulty and during which periods of time, in order to be able to provide the necessary support for survival.

### Inactive couple: The family consists of two pensioners living in the urban environment Incomes

- 1) Only one member of the family is a beneficiary of the net average state social insurance pension.

- 2) Both retirees are beneficiaries of pensions at the level of the average net state social insurance pension.
- 3) One pensioner receives the average pension net of state social insurance, and the other pensioner is a beneficiary of the minimum social pension.<sup>11-14</sup>
- 4) The family in question is a beneficiary of two minimum social pensions.

### Costs

- 5) The minimum necessary expenses of two elderly persons calculated by the normative method in RIQL are included.

### Time period 1990-2021, October

(Table 5)

**Table 5** The purchasing power of a retired family, 1990-2021

Income/Year	1990	1995	2000	2005	2010	2015	2020	2021
<b>I. Income</b>								
1. Average pension net of state social insurance	1 602	88 108	937 170	267	739	886	1 590	1 601*
2. Minimum social pension	-	-	-	-	350	400	704	1 004
<b>II. Expenses</b>								
3. Decent minimum basket for two pensioners	2 373	236 603	2 965 900	702	1 281	1 415	1 623	1 753
4. Minimum subsistence basket for two pensioners	1 673	166 791	2 060 545	522	1 024	1 131	1 300	1 404
<b>III. The purchasing power of a retired family</b>								
I/3	67.5	37.2	31.6	38	57.7	62.6	98	91.3
I/4	95.8	52.8	45.5	51.1	72.2	78.3	122.3	114
I+I/3	135	74.5	63.2	76.1	115.4	125.2	195.9	182.7
I+I/4	191.5	105.7	91	102.3	144.3	156.7	244.6	228.1
I+2/3	-	-	-	-	85	90.9	141.3	148.6
I+2/4	-	-	-	-	106.3	113.7	176.5	185.5

\*The value of the average net monthly state social insurance pension is at the level of September 2021.

### Conclusions on the analyzed case: the family composed of two pensioners from the urban environment

Throughout the analyzed time interval 1990-2021, the family income composed only of an average net state social insurance pension, could not cover the minimum decent living basket of a family of two pensioners in the urban environment, and the minimum basket of subsistence only in the last years 2020 (122.3%) and 2021 (114%).

If we refer to the income consisting of two net average state social insurance pensions obtained by the family, the minimum decent basket is fully covered, only in 1990 (135%) and in the years 2010 - 2021; critical situation in covering subsistence needs for two pensioners was the year 2000 (91.0%), when the family still needed 9% to cover all the goods and services included in this basket.<sup>15-17</sup>

The income of the family of two pensioners, one of whom paid with the average net state social insurance pension, and the other with the minimum social pension could cover the minimum decent consumption basket, only in 2020 and 2021; the minimum subsistence basket being covered for the entire time period 1990 - 2021.<sup>18-20</sup>

### Acknowledgments

None.

### Conflicts of interest

There are no conflicting interests declared by the authors.

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