

PENSION REFORM

PART 2

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Continued from issue 4/2005

We live at the time where almost everywhere in Europe the population is ageing and the average age of pensioners is rising. Pensions are therefore being paid out to an ever greater percentage of people. Trust in the pay-as-you-go system of pensions paid out by the state in many countries evaporated long ago and reform is urgently needed. The phrase "pension reform" has become one of the most frequently used in 2004 in Slovakia. Reforming the pension system is probably the most difficult reform of all. In comparison with other reforms its objective is to change the functioning of a complex, ossified and extensive pension system. Each pension reform must count on high transformation costs. Health and education are equally complicated mechanisms, neither of these however have created such high levels of debt for future generations.

Pension reform in Slovakia

A pension fund management company (PFMC) has the right to remuneration for its activity, this being:

- the administration of a pension fund (PF) – max. 0.07% (max. 0.08% for the first three years from the beginning of performing the activity, contained in the

licence for the establishment and activity of the PFMC) of the average monthly net value of assets in the PF for one month (the remuneration includes PFMC's costs relating to the administration of assets in the PF, other than the tax relating to the given assets),

- administration of a personal pension account – 1% of the amount of the monthly contribution.

2004 marked the establishment of PFMCs. There are now eight companies operating in the old-age pension savings market:

Name	Group / Owner (reg'd office)	Description of owner	History, operation abroad	Entry to the SR	Activities in the SR
Ageon, d.s.s., a. s.	Aegon Group Holland	One of the largest insurance companies in the world.	One of the first Dutch insurance companies – more than a 150-year history. It operates in particular in Holland, USA and Great Britain, but also in other countries of the North America, Europe and Asia.	2003	Life assurance.
Allianz Slovenská dôchodková správcovská spoločnosť, a. s.	Allianz Slovenská poisťovňa, a. s. member of the Allianz Group AG Munich	Multinational company, providing financial services.	One of the first German insurance companies – year of establishment 1890. It operates in more than 70 countries of the world.	1919 (SR) 1993 (Allianz)	Allianz SP is the largest insurance company in Slovakia. It offers life and non-life insurance, administers mutual funds.
Credit Suisse Life&Pensions, d.s.s., a. s.	Credit Suisse, Life& Pensions Slovensko, member of the Credit Suisse Group Switzerland	Multinational company, providing financial services.	150 years. It operates in 50 countries of the world.	2002	Life and pension insurance.
ČSOB, d.s.s., a. s.	ČSOB, a. s. owned by KBC Bank Belgium	The third largest financial group in Belgium, providing banking services, life and non-life insurance. ČSOB is the largest bank in the Czech Republic.	KBC Bank was founded in 1998 through the merger of three Belgian financial institutions. It focuses on Belgium and Central Europe. ČSOB has an almost 40-year history, operates in the SR and the Czech Republic.	1999(KBC)	Banking services, life and non-life insurance.



Name	Group / Owner (reg'd office)	Description of owner	History, operation abroad	Entry to the SR	Activities in the SR
ING, d.s.s., a. s.	ING, Životná poisťovňa, member of ING Group Holland	Multinational company, providing financial services.	150 years, in 60 countries around the world.	1991	Life and pension insurance, savings, mutual funds, banking services.
Prvá dôchodková sporiteľňa, d.s.s., a. s.	Prvá stavebná sporiteľňa, a. s., owned by ErsteBank (Austria), via Slovenská poisťovňa it owns 35%, Bausparkasse Schwabish Hall AG (Germany) 32,5%, Raiffeisen Bausparkasse (Austria) 32,5%.	Erste Bank is the leading retail bank in Central Europe. Slovenská sporiteľňa is the largest bank in Slovakia. Bausparkasse Schwäbisch Hall AG is the largest German building society. Raiffeisen Bausparkasse is the largest Austrian building society.	Erste Bank operates in Austria, the Czech Republic, Slovakia, Hungary and Croatia. Bausparkasse Schwäbisch Hall AG has operated in Germany since 1931, also breaking into the Central Europe market. Raiffeisen Bausparkasse has operated in Austria since 1961, also entering Central Europe.	1992	Building society savings.
Sympatia – Pohoda d.s.s., a. s.	Joint venture of the firms: Vzájomná životná and poisťovňa Sympatia (VŽP), Investičná and dôchodková správcovská spoločnosť a. s. (IDSS), Prvá slovenská investičná skupina (PSIS), Pro Partners, o.c.p. and V Brokers, o.c.p., a. s.	VZP is owned by Trust Banking International Holding (TBIH): a financial company controlled by the Israeli Kardan Group. The other companies are Slovak financial groups.	TBIH group has since the mid 1990's been particularly active in Central and Eastern Europe. IDSS and PSIS were begun at the start of the 1990's in a coupon privatisation, PSIS belongs to the Proxy Finance Group, active in the Czech Republic.	1994 (VŽP) IDSS and PSIS the start of the 1990's	TBIH provides, via VZP, life assurance, via Prvá DDP Tatry-Sympatia, also additional pension insurance. IDSS – collective investment, administration of mutual funds PSIS – belongs to the group owning the leasing company B.O.F., a minority stake in the insurance company Ergo and in the Czech pension fund ABN Amro.
VÚB Generali d.s.s., a. s.	50% of VUB, a.s. is owned by Banca Intesa (Milan, Italy), 50% by Generali poisťovňa, a member of the Generali Group (Trieste, Italy)	Banca Intesa is the largest bank in Italy. The Generali Group is one of the largest insurance companies in Europe.	Banca Intesa was established in 1998 through the merger of three Italian banks, besides Italy it operates in more than 30 other countries around the world. Generali has since 1831 operated in 53 countries on five continents.	1992 (VÚB) 2001 (Intesa) 1997 (Generali)	VUB is the second largest bank in Slovakia, offering also collective investment. Generali, together with VUB, offers life and non-life insurance.

The second pillar of pension security became fully functional on 1 January 2005. The first stage of its operation involved the registration of the first contracts on old-age pension savings in the register of savers administered by the Social Insurance Company. The Social Insurance Company was selected by the architects of the pension reform as the institution to be charged with the collection of contributions to pension savings and their distribution to individual PFMCs. The first contributions to pension funds began to arrive in the second half of March this year. People who are currently involved in the first pillar of pension security have the possibility, up until the end of June 2006, to opt to enter the capitalisation pillar. This decision cannot however then be changed. The capitalisation pillar

Statistics from the register of contracts as at mid February 2005

Contracts accepted	543 370
Contracts registered	501 422
Contracts not accepted	41 948
Duplicate contracts	6 590

Age structure of savers as at mid February 2005

20 to 30 years	44.40 %
30 to 40 years	38.00 %
40 to 50 years	17.25 %
more than 50 years	0.35 %

Source: Social Insurance Company

is mandatory for persons entering the labour market for the first time after 1 January 2005. A PFMC concludes with a natural person a contract on old-age pension savings. Before concluding this contract the



Advantages and disadvantages of remaining exclusively in the 1 st pillar and entering the 2 nd pillar		
	Remaining exclusively in the 1 st pillar (Social Insurance Company) Whole pension from the 1 st pillar (Social Insurance Company)	Division of contributions between the 1 st pillar (Social Insurance Company) and the 2 nd pillar (personal pension account) Pension from two sources (1 st + 2 nd pillar)
ADVANTAGES	Known rate of compensation – currently the rate of compensation, i.e. level of pension to life-long average wages of a person determined in the amount of approx. 50% with 40 years' work.	Higher pensions – in the case of long-term saving and investing higher revenues can be expected from the money on the personal pension account, and thus also a higher pension.
	Pension copies the positive development of the Slovak economy (in the coming 15 years) – pension from the 1 st pillar depends on the development of the Slovak economy which is to be, in the coming 15 years, positive, which will be directly reflected in the level of the pension.	Private property – money on a personal pension account will be private property and will be heritable.
		Safety – the pension will be financed from two independent sources, i.e. from the 1 st pillar + 2 nd pillar, and the reform will be safer.
		Possibility of influencing the pension – possibility to select a PFMC and pension fund, and thus influence the appreciation of money on the account and future pension from the 2 nd pillar.
		Possibility to choose the manner of drawing your pension from several options of drawing the pension from the 2 nd pillar.
		Little political risk – if the state changes the conditions of functioning of the 2 nd pillar, this shall not affect the money on the personal pension account, the state will never be able to touch the money on the private pension account.
DISADVANTAGES	Higher political risk – it is probable that the rules of the 1 st pillar's functioning due, in particular to the demographical problem, may in future change.	Long-term matter – if the period of saving is shorter than 10 years, there will not arise any claim to the pension from the 2 nd pillar.
	Change in the compensation rate – it is probable that the compensation rate from the 1 st pillar will be reduced.	Long-term matter – only in the case of long-term saving and investing will the pension, on an aggregate basis from the 1 st and the 2 nd pillar, be higher than the pension from solely the 1 st pillar.
	Only survivor pensions – in the case of death the surviving relatives will receive only survivor pensions.	Guarantee – during the payment of pensions from a life insurance company (2 nd pillar) the state does not provide any guarantee.

PFMC is obliged to familiarise each person with the status of the pension fund, with the report on the management of each fund of the given PFMC and management of the whole PFMC. The contract on the old-age pension savings must contain:

- information on the PFMC,
- information on the saver,
- the designation of the employer, its identification data,
- name of the pension fund,
- the undertaking to administer the saver's personal pension account,
- date and place of concluding the contract,
- declaration of the PFMC on the fulfilment of obligations with regard to the provision of necessary information prior to the signing of the contract with the saver,
- the signatures of both parties.

The third pillar – additional pension saving – is represented in the Slovak Republic by additional pension fund management companies. The operation of these components of pension security is currently also

undergoing wholesale transformation. In the course of 2005 all the existing additional pension fund management company to date must be transformed to additional pension fund management companies (APFMCs). The change will naturally concern only the name, the more substantial change is that occurring to the overall system of these companies' operation. Simply said, today's APFMCs will start to resemble pension funds abroad. Clients' property will be strictly separated from the property of the asset management company and the appreciation of money will depend on the chosen manner of investment, and thus also on the situation on the domestic and foreign financial markets.

The new law which has brought the changes to the system of voluntary pension savings though logically maintains the rights and claims of the current benefit schedules and contracts. This means that those who have already concluded contracts can continue in saving on their existing account, which will remain their property, and they should not notice any change.



Third pillar – Additional pension fund management companies

Name of APFMC	DDP Stabilita	Prvá DDP Tatry-Sympatia	Pokoj DDP	DDP Credit Suisse Life & Pensions	ING DDP
Administrator	DDP Stabilita	VSP Tatry, a. s., Bratislava	Tatra banka, a. s., Bratislava	Credit Suisse Life & Pensions Slovensko, a.s., Bratislava	ING Bank N.V. – Slovak branch bank
Group (seat)	DDP Stabilita (Košice)	Kardan Group (Holland formerly Israel)	Raiffeisen Zentral Bank Oesterreich (Vienna, Austria)	Credit Suisse Group (Zürich, Switzerland)	ING Group (Holland)
Description of group	The company deals exclusively with additional pension insurance.	The owner of VSP Tatry Trust Banking is International Holding (TBIH): a financial company controlled by the Israeli Kardan Group.	Tatra banka is the third largest bank in Slovakia. It belongs to the Austrian financial group RZB.	Multinational group provides financial services.	Multinational group provides financial services.
Operation abroad	no	The group has, since the mid 1990's, been active particularly in Central and Eastern Europe.	The group has been operating for more than 75 years. It focuses on Central and Eastern Europe. It operates in most European countries, in the USA and Asia.	The group has been operating for approx 150 years in 50 countries of the world.	150 years in 60 countries around the world.
Entry to SR	1997	1997	1998	1999	2004
Depository	Slovenská sporiteľňa	VÚB	Tatra banka	ČSOB	ING Bank N.V. – Slovak branch
Founders	VSŽ, Železiarne Podbrezová, OFZ Istebné, Kovohuty Krompachy, Železnice SR, DMD Holding, ZSNP Žiar nad Hronom	Slovenský plynárenský priemysel, VSP Tatry, Finech, a. s.	Slovnaft, a.s. Bratislava, Kappa Štúrovo, a. s., Doprastav, a. s. Bratislava	–	ING Životná poisťovňa, a. s. ING Management Services, s. r. o.

People now receiving pensions from the third pillar thus need not worry about their money. Benefits will be paid out up until the end according to the agreed plans. In the third pillar the tax motivation (although lower by half) not only remains unchanged, as it has been to date, but tax relief schemes will, as of this year, relate not only to savings in additional pension fund

management companies, but provided, that set conditions are met (length of savings at least 10 years and the drawing of contributions at earliest after the 55th year of life), also other products on financial market. Voluntary pension saving will thus be a tax deductible expense also in the case of investing in mutual funds, life assurance policies, securities or appropriate types of bank deposits.

Today's additional pension fund management com-

Annual yield

Company	1997	1998	1999	2000	2001	2002	2003
DDP Stabilita	–	11.76 %	14.11 %	9.46 %	6.03 %	7.71 %	5.55 %
Prvá DDP Tatry-Sympatia	19.50 %	9.50 %	13.10 %	4.80 %	4.80 %	4.00 %	2.90 %
DDP Credit Suisse Life & Pensions	–	–	14.02 %	6.00 %	8.66 %	5.30 %	4.40 %
Pokoj DDP	–	11.50 %	5.10 %	7.80 %	4.80 %	5.10 %	2.50 %
Inflation	6.40 %	5.60 %	14.10 %	8.40 %	6.50 %	3.40 %	9.30 %

Source: INEKO

panies (APFMCs) have more than 600,000 savers and pay out various forms of pensions to almost 107,000 clients. A key attribute from the client's point of view is how an APFMC can appreciate his/her deposit. This information is provided by a comparison of revenues which the APFMC credited to its policyholders in individual years. This concerns "net" revenues, i.e. revenue less administration costs charged by the APFMC.

The Slovak market for additional pension fund

Assets (in SKK mill.)

Company	1997	1998	1999	2000	2001	2002	2003
DDP Stabilita	–	212	399	730	1 183	1 853	2 513
Prvá DDP Tatry-Sympatia	73	551	1 217	2 009	3 016	4 356	5 816
DDP Credit Suisse Life & Pensions	–	–	31	140	315	513	830
Pokoj DDP	–	84	132	191	452	1 190	2 209
Total	73	847	1 779	3 070	4 966	7 912	11 368

Number of policyholders

Company	1997	1998	1999	2000	2001	2002	2003
DDP Stabilita	–	–	23 499	53 429	73 671	102 431	116 666
Prvá DDP Tatry-Sympatia	26 886	68 562	84 169	105 026	157 954	237 978	294 058
DDP Credit Suisse Life & Pensions	–	–	4 570	13 937	22 286	33 844	52 050
Pokoj DDP	–	4 548	7 756	10 235	26 505	80 147	127 264
Total	26 886	73 110	119 994	182 627	280 416	454 400	590 038

Source: INEKO

management is developing fast, the proof of which is given in the following tables, comparing the development in the volume of assets in the administration of APFMCs, as well as the number of their policyholders.

The appreciation of the deposit of policy holders depends greatly on the investment strategy of individual APFMCs. The following tables give information on the investment structure for all APFMCs.

Investment structure of individual APFMCs:

DDP Credit Suisse Life & Pensions	2001	2002	2003
Accounts at banks and bank products	68 %	27 %	56 %
Treasury bonds	17 %	55 %	28 %
Bonds accepted on the main Bratislava Stock Exchange market (mortgage bonds, bank bonds)	11 %	16 %	12 %
Foreign securities	0 %	0 %	3 %
Shares, mutual fund certificates	4 %	2 %	1 %

Pokoj DDP	2002	2003
Mortgage bonds, treasury bonds	44 %	55 %
Mutual fund certificates	16 %	15 %
Treasury bills	7 %	11 %
Current and term accounts at banks	18 %	10 %
Foreign securities	15 %	9 %

DDP Stabilita	2003
Treasury bonds in Slovak koruna	20 %
Depository bills of exchange	50 %
Treasury bonds in a foreign currency	9 %
Term deposits	8 %
Other securities in Slovak koruna	8 %
Other securities in a foreign currency	5 %

Prvá DDP Tatry-Sympatia	2003
Treasury bonds and bills	51.09 %
Current accounts and term deposits	23.71 %
Foreign securities	8.72 %
Real estate	7.83 %
Corporate bonds	7.28 %
Loans	0.74 %
Mutual fund certificates	0.37 %
Other assets	0.27 %

Source: INEKO

To be continued in issue 6/2005