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UKRAINE PENSION REFORM IMPLEMENTATION PROJECT
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Eighteenth Quarterly Report

Ukraine Pension Reform Implementation Project

April 1 – June 30, 2005

Submitted to

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by PADCO, Inc.

Contract No. 121-C-00-00-00834-00

July 2005

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LIST OF ACRONYMS

COM	Cabinet of Ministers of Ukraine
GOU	Government of Ukraine
MoLSP	Ministry of Labour and Social Policy
NPF	Non-State Pension Fund
PFU	Pension Fund of Ukraine
PRI	PADCO Pension Reform Implementation Program
SCRFSM	State Commission for the Regulation of the Financial Services Market
SRO	Self Regulatory Organizations
SSMSC	Securities and Stock Market State Commission
USAID	United States Agency for International Development
VR	Verkhovna Rada (Parliament of Ukraine)

GENERAL INFORMATION

PROJECT IDENTIFICATION

Title:	Ukraine Pension Reform Implementation Project (PRI)
Contractor:	PADCO, Inc.
Subcontractor:	Barents/KPMG
Contract No.:	121-C-00-00-00834-00
Delivery Order No.:	Not applicable

PROJECT PERFORMANCE DATES

Period of Performance:	April 1 to June 30, 2005
Project Start Date:	January 1, 2001
Report Date and Number:	July 2005, Quarterly Report 18
Anticipated Completion Date:	December 31, 2005

PROJECT MANAGEMENT

Project Management

R. Thirkell	Project Manager
J. Benn	Senior Contracts Officer
O. Vasilchenko	Project Director

Key Technical Advisors

Greg McTaggart	Senior Pension Advisor
Roger Vaughan -	Senior Economic Policy Expert

PROJECT DESCRIPTION

The Pension Reform Implementation (PRI) project has as its major activities assistance to the Government of Ukraine (GOU) in finalizing the development of a new pension policy involving both a compulsory public pension system and voluntary private system and supporting the passage of the necessary legislation.

Once this legislation has been passed, the PRI project will have as its major tasks working with the Government to educate the population about the new pension systems, training the staff in the administrative bodies on the new system, enhancing the administrative capacity of the Pension Fund of Ukraine (PFU) and developing the supervisory body needed to oversee the new systems as well as antecedent activities.

PROJECT QUARTERLY REPORT

1. PUBLIC PENSION SYSTEM

(i) Support for Strengthening the Legislative Framework for Pensions

During the quarter under review the Project assisted to MoLSP in drafting amendments to the Law of Ukraine “On Mandatory State Pension Insurance” and provided comments and conclusions to amendments drafted by other persons.

Thus, the PRI experts prepared:

- amendments which took into account implementation issues, including further improvement in the procedure for calculating old age pension benefits; recalculation of pension benefits granted before January 1 2004; greater transparency for Pension Fund performance; regulation of the issue of submitting certificates on the amount of wages where archival documents are not available; entitling entrepreneurs and physical entities, who have chosen a specific taxation mode, to pay additional contributions to the Pension Fund;
- the conclusion to the Draft Law on eliminating the cap on the level of wages (income) on which insurance contributions are paid, which was developed by People’s Deputies of Ukraine B. Gubsky, P. Tolochko, O. Klympush, A. Mokrousov, and S. Pravdenko;
- the conclusion to the draft law, developed by the People’s Deputies of Ukraine O. Yukhnovsky, Ya. Sukhiy, and K. Vashchuk “On Introducing Amendments to Individual Laws of Ukraine on Pension Provision to Employees of Agricultural Enterprises - Payers of Fixed Agricultural Tax”;
- analysis of proposals made by Antonov design plant on introducing changes to the Law of Ukraine “On Mandatory State Pension Insurance” (calculations were made by individual pension cases) as well as conclusions and proposals concerning amendments to the Law related to pensions of civil aviation personnel of test-flight and flight crews;
- the conclusion on proposals made by the Deputies of the Volyn Oblast Rada for the Supreme Rada of Ukraine on social policy and labor issues concerning amendments to the Law of Ukraine “On Fee for Mandatory State Pension Insurance” and the Law of Ukraine “On Mandatory State Pension Insurance”.

Together with the MoLSP the PRI developed a draft law on the pension provision to civil aviation personnel of test-flight and of flight crews.

During the 2st quarter, MoLSP continued reviewing proposals to reform compulsory pensions by drafting the Law “On Mandatory Pension Security of Individual Categories through Professional and Corporate Pension Funds.” This would transfer the liability for paying privileged pensions to private pension funds into which employers would pay contributions..

The MoLSP asked PRI to make actuarial estimates of contribution rates to an occupational or a corporate NPF on behalf of privileged categories. Calculations to be completed in the 3rd quarter. At MoLSP request we also translated the latest version of the draft Law into Russian and English to enable MoLSP to receive comments from ILO experts.

(ii) Continued development of computer systems for PFU

Cooperation with PFU has been slow. As reported earlier, at PFU's request the PRI prepared specifications to establish web-portal to include 4 web-sites: for the PFU, its newly created Training and Development Centre, for 'Pension Courier' newspaper, and the magazine. We finalized specifications with the PFU and conducted a tender. Next steps are on the agenda for the 3rd quarter.

(iii) Introducing of Single Social Contribution

The PRI experts took part in the Round Table "Urgent Issues of Implementing Single Social Contribution in Ukraine", conducted by the MLSP together with the World Bank .

Following the discussion at the Round Table and taking into account that the relevant draft Law had been rejected by the Rada, an Intergovernmental Task Force was created to prepare a new draft. PRI experts were actively involved in the activity of the Task Force and submitted proposals to the draft law on the single social contribution

The PRI experts also took part in the meeting of the Task Force devoted to the presentation of the Interim Report "Unification of the System of Collecting Social Insurance Contributions" under the Japanese grant TF052688 for preparing the Pension Reform and Development of Social Insurance System in Ukraine Project by Paul Bindokas and Jerry Fitspatrik, representatives of NTSP-E Limited Company (Great Britain).

Although the Ministry had at one stage considered the single contribution as part of reforms aimed at simplifying and making more transparent the whole Social Insurance System – perhaps unifying all funds – the draft law now only tackles the issue of consolidating all revenue collection under the Pension Fund – which would also be responsible for maintaining the social insurance fund databases.

(iv) Actuarial Modeling

We continue to work on the Ukraine Pension Long-Term Projection Model. During the reported quarter the following progress had been made:

1) Demonstration of the functionality of the Model was prepared and conducted for the Pension Fund of Ukraine and the Ukrainian Center of Social Reform;
2) Statistical data received from the Ministry of Finance were worked at in order either to use them in the Model or to conduct accuracy testing of the calculations, developed with its help;
3) Demographic data for the Model were received from the Ukrainian Center of Social Reform. A comparative analysis of the Model, developed under the Project, and the Model, developed by the Ukrainian Center of Social Reform, was made;
4) The analysis was made and the exact formula were identified, based on which the calculations in the Model are accomplished;
5) The formula were corrected in compliance with the programs in the texts, which enables to obtain more exact outcomes;
6) Calculations of the series of the input data for the Model were accomplished, which are not calculated at the current moment by the Ukrainian institutions directly and require the calculation beyond the Model;
7) Data, reflecting the actual situation in Ukraine were inputted.

8) The Model was prepared for trying different scenarios of introducing further stages of the pension system reform in Ukraine.

PRI also met again with the Deputy Minister of Finance Matveichuk to assess analytical capacity – data availability and modeling – to support the Cabinet in making estimates of alternative pension policy scenarios. Despite requests for disaggregated data on pensioners and contributors requested by the MinFin, neither the Pension Fund nor the State Tax Administratio0n have supplied information. MinFin indicated that it was planning to increase budget amounts for further subsidies to the PFU in 2006 – based on tax revenues in the first quarter of 2005 that have exceeded expectations. The ability to begin activities of the requested Cabinet level actuarial working group will depend on the receipt of requested data from the PFU and other government agencies.

The PRI experts also advised employees of the Ukrainian Center of Social Reforms who are also developing a pension system model. When both models have received the necessary data, PRI will begin detailed discussions of how to combine actuarial modeling efforts.

(v) Implementation of the Law

PRI provided expert advice to the MoLSP and the PFU on issues related to the implementation of the Law of Ukraine "On Mandatory State Pension Insurance" including:

- Submitted proposals for changes to the draft Decree of the Cabinet of Ministers "On Implementing Part 2 of Article 42 of the Law of Ukraine "On Mandatory State Pension Insurance" and the Procedures for Annual Pension Benefit Increase related to the Previous Year Increase of Average Wages in Ukraine;
- Submitted conclusions on the appeals of Gubar (optimization of wages) and Antonenko (calculating the privileged service record and including the period of service for a fixed period in the Far North in insurance record);
- Submitted conclusions on the Procedure of Calculating Service Period, related to the remark made by the Ministry of Justice while registering the Order of the Ministry of Labor and Social Policy approving this Procedure;
- Submitted conclusions and proposals to the draft letter from the MLSP and the Pension Fund on including the period of living of the spouses of officers, ensigns, warrant officers and military personnel of additional service with their spouses in localities where they could not work;
- Calculations of M. Denysenko's pension case (Kyiv) were made and proposals to revise ways of identifying wages for the calculation of pension benefits for people to whom pension benefits were granted before January 1 2004 and whose pension benefit was calculated based on the wages for 2002-2003, (taking into account the COM Decree, dated November 20 2003, # 1783).

The Review of Major Provisions of the Law of Ukraine "On Mandatory State Pension Insurance" was updated as May 2005, since amendments were introduced into the Law of Ukraine "On Mandatory State Pension Insurance" by the Law of Ukraine "On Introducing Amendments to the Law of Ukraine "On State Budget for 2005";

(vi) Increases in the minimum pension

On December 23, 2004, the Mandatory State Pension Insurance Law (Art.28) was amended by Parliament, increasing the minimum pension up to the subsistence level established for not-able-to-work individuals. The new number for the minimum subsistence level for not-able-to-work individuals (and therefore the new minimum pension) was set at– 332 UAH for

2005 (incidentally, the Law On State Budget for 2005 stated a lower number -- 300 UAH -- misrepresenting the additional money needed).

A significant portion of the costs of paying the new minimum pension, effective January 1, 2005, is funded from the state budget – the PFU deficit has been variously estimated at between 7 and 18 billion UAH.[1] To address the need to pay the rest of the increased pensions for January-March step by step the GoU established a procedure to pay additional amounts respectively in April-June. According to our information and calls to the hot-line these transfers were made in time.

The amount of insurance contributions to be paid by employers to the Pension Fund has been increased up from 32.0 %to 32.3%. At the same time the amount of unemployment insurance paid by the employer to the Mandatory State Social Insurance Fund decreased from 1.9% to 1.6 % of the actual wage laborers' cost. The amount of additional insurance contributions, which the PFU will receive will cover the inclusion of the unemployment benefit to the service record (except for its lump sum payment to organize entrepreneur's activity by the unemployed).

(vii) Introducing the mandatory accumulation system (2nd pillar)

There has been little active preparation for introducing the mandatory accumulation system in 2007. Due to deficit of the PFU, one of the preconditions to launch the 2nd pillar – a balanced PFU budget – cannot be met. At the same time, government officials have recently reflected their intention to postpone introduction of the 2nd pillar until 2008.

The PRI prepared the conclusion on the draft Decree of the Cabinet of Ministers "On Conducting the Experiment on Creating the Automated System of Mandatory State Pension Insurance Accumulation Fund" and the Plan of Priority Actions for Creating the Automated System of Mandatory State Pension Insurance Accumulation Fund.

We also prepared materials on problems and possibility of implementing Pillar II – mandatory accumulation pension system for the Secretariat of the Administration of the President of Ukraine. At the request of the Secretariat, PRI prepared a paper on the lessons to be learned from the implementation of the 2nd pillar in Kazakhstan. This will be distributed to officials in the Cabinet, the Office of the President, MLSP, MinFin, PFU, and other agencies during the 3rd quarter.

2. PRIVATE PENSION SYSTEM

(i) General Information about the System

By April 20th the DFP collected 1st quarterly reports from PPF with real numbers and not just "0"as it was before. As of April 1st, there were 24 non-state pension funds registered according to the Law on the Non-state Pension Provision -- 18 open, 4 corporate and 2 occupational. Only 11 of these funds were ready to conclude pension contracts and to receive pension contributions on the basis on concluding contracts for fund administration, asset management and custodian services.

[1] The State budget allocated 17.4 billion UAH to the PFU, including 11.9 billion UAH to cover the deficit for paying pensions.

As of April 1st, contributions collected by these new pension funds totaled 3,140,630 UAH, including 2,664,810 UAH received from employers, with a total of 10,505 pension fund members.

(ii) Drafting NPF legislation

During the second quarter of 2005, the Project has been involved in activities in 3 areas:

1. Drafting amendments to the NPF Law

A task force under the leadership of the SCRFSM has been convened to develop amendments to the Law On Non-state Pension Provision that includes a representative of PRI. The task force collected proposals from members, incorporated them into the comparative chart and met twice. The activity of the task force is moving slowly. There was also a parallel process of preparation of several small draft amendments to the NPF Law initiated by different persons and groups. On requests the PRI commented these drafts.

The PRI experts took part in the meeting at SCRFSM and provided comments to the draft amendments to the 2003 Law aimed to allow NPF existing prior to enactment of the Law to continue their functioning without changes in their structure (“Kopeikin initiative”). Our position was not to support proposed approach. Despite the discussion at the meeting the relevant draft Law was registered with the Rada as people’s deputy Ksenia Liapina initiative.

2. Drafting regulations to enforce the NPF Law

Regarding necessary regulations to enforce the NPF Law, the Project is close to finalize and deliver comments and suggestions to the draft Regulation on the procedure of NPF termination.

3. Drafting amendments to acting SCRFSM Regulations to enforce the Law.

SCRFSM already started to reconsider and draft amendments to acting Regulations based on NPF operations. PRI has been involved in this process also. At the SCRFSM request we submitted our comments and proposals to the Regulation on NPF administrators’ activity. The PRI expert also participated in the Tax Administration Working Group regarding draft Tax Code to address private pension issues.

(iii) Establishing the regulator of non-state pension funds (SCRFSM)

During the quarter, collaboration with the SCRFSM has continued on many issues, not limited to pension fund regulation. PRI continued to support the Commission with its IT development, including web-site development and maintenance. In response to the Commission’s request for help with its web site, PRI collaborated with the Commission’s IT experts to prepare specifications for the web-site, conduct a tender and enter into a contract with FinPort Company, the tenderwinner.

PRI helped the Commission implement the notification system for financial services market participants, advised on the work with MS SQL Server, and also trained IT staff. PRI started to help the Commission to develop the analytical part of “Refus Report” and “Finzvit” (Financial reporting) programs. This system has been designed to analyze information collected about different types of financial institutions, but by now it deals only with insurance companies’ data.

The potential merger of 2 regulators has been officially postponed, so we see no obstacles to moving forward in our cooperation with SCRFSM in all areas.

As reported in the 1st quarter, we tested and selected 31 people for two groups (intermediate and advanced levels) for Business English courses. The course was completed in June and, based on final tests, 11 participants received certificates.

In April the PRI invited Aidar Alibaev, the Head of Kazakhstan's National Association of NPFs, to participate in the round table in the World Bank. We used Mr. Alibaev presence in Kyiv to arrange for him to give a half-day workshop for the Commission NPF department, sharing Kazakh experience. The discussion was very useful.

At the request of the SCFRSM, the PRI prepared calculations on the estimated amount of money to be collected by NPF during the next 3 years and the amount of pension assets to be invested in mortgage-backed securities. These calculations were required by the Cabinet of Ministers to decide whether to push for the Mortgage Securities draft Law (if sufficient pension assets would be invested in these instruments).

The PRI included 5 officials from SCFRSM, to participate in the Study Tour to UK-Netherlands (see report in the attachment) and also financed participation of 3 people of the Commission in Annual UAIB Conference in Crimea.

We continue to involve the staff of the Commission in public education activities through which they explain the role of the Commission and interact with services providers regulated by the Commission. This included training events in L'viv and Ternopil. Following our agreements with the Commission, we also invited representatives from its regional offices to attend our training and educational events in L'viv.

(iv) Assistance to the Securities and Stock Market State Commission

Work with the Securities Commission has been limited in response to USAID's instruction not to provide TA until internal conflicts of interests at the Commission were resolved. So, SSMSC staff was involved only in activities the Project provided to other counterparts. This policy limitation prevented the inclusion of SSMSC officials in the Study Tour delegation.

The Project is close to completing the analyses of what is needed to support electronic digital signature implementation in Ukraine, requested earlier by the SSMSC. When it is complete and reflects the comments of market regulators and describes international practice in this area, the analysis will be submitted to both Commissions. PRI also assisted the SSMSC in administering the Docflow system.

(v) Self-Regulatory Organisations (SROs)

The NPF Law provides for self-regulatory organizations (SROs) only in one area – NSP fund administrators. There are two associations of NPF administrators – the Association of Non-State Pension Funds and Pension Fund Administrators (headed by Pyrig) and the Association of Pension Fund Administrators (headed by Sidorenko). Neither meets the requirements for being licensed as an SRO and, until SCRFSM decides which structure to license, we will continue to work with both organizations. At the same time these organizations have not been very active. During the reported quarter, several steps were taken by several NPF administrators (SigmaBleyzer and All-Ukrainian Administrator) to create a new association. We will continue monitoring this situation. Currently, NPF administrators are not required to join an SRO and neither existing associations are strong or well recognized, giving little incentive to join.

PRI paid for the participation of Dmytro Pyrig, President of the Association of Non-State Pension Funds and Pension Fund Administrators, in the ST to the UK and the Netherlands. In response to the request from Pyrig's Association, PRI began assisting the association in preparing the TOR for developing the electronic signature key certification center model. We await the Association comments and proposals to move forward.

Asset management companies are mandated to be members of an SRO. The SRO for asset managers in Ukraine is the UAIB (Ukrainian Association of Investment Business) and PRI is working with it. Two PRI experts took part in the 17th UAIB annual international conference in Crimea in June on Asset Management: New Opportunities for Development.

(vi) Work with Trade Unions and Federation of Employers

During this quarter PRI continued our cooperation with Trade Unions Federation and Federation of Employers. A regional workshop on implementing the voluntary accumulation pension provision (3rd pillar) in cooperation with trade unions and Federation of Employers was held in L'viv. Representatives of both regulators as well as an experienced asset manager and PRI staff delivered speeches and participated in the discussions.

(vii) The Role of Insurance Companies in Pension Provision.

Recently there have been discussions and articles in the mass media on the role of insurance companies in non-state pension provision. The Law on Non-state Pension Provision allows insurance companies only a role in payment of benefits through the sale of annuities. Insurance companies, however, believe they should also be allowed to offer pension funds. Because these issues are not covered by current legislation, insurance companies offer employers a wide range of pension related products that are in the interests of employers rather then employees. Pension schemes offered by insurance companies, for example, do not protect employees from early termination of their labor contracts because they do not own the funds contributed to them by employers. So, policy decisions are needed. In order to clarify the situation several draft amendments to Insurance and NPF Laws have been drafted by the insurance industry and have been discussed by the SCFSMR.. The initial intention of the Commission was to involve in the discussion all Commissioners and representatives of both the insurance and NPF sectors, but this idea was ultimately rejected by the Commission. To help the Commission in this difficult decision making process, the PRI outsourced research on the international experience in insurance company activity in private pensions. The research was passed to all members of the SCFSMR.

PRI also supported the initiative of one the Association of Non-State Pension Funds & Pension Fund Administrators and sponsored the Round Table in the World Bank on the role of insurance companies and NPFs in the non-state pension system on April 14. The event attracted many participants from both industries and the discussion was very tough. Nevertheless the round table was of great interest and participants expressed the desire for more such events.

3. TRAINING AND PUBLIC EDUCATION

PRI activity during this quarter focused on training and public education -- in collaboration with Government counterparts, the National Association of NPF and NPF administrators, the Ukrainian Association of Investment Business, All-Ukrainian Association of Pensioners, Social Reforms Center, the Federation of Employers of Ukraine, and the Federation of Trade Unions of Ukraine. PRI organized joint events and supportied these counterparts with expert advice, methodical literature, booklets, brochures, informational compact discs etc.

The major training event in the reported quarter was the observational study tour to the UK and Netherlands to learn about the operation and regulation of private pensions. The detail report and the list of participants are in the Attachment 2 to this report.

The PRI supported UAIB in conduction of the Annual conference on Asset Management: New Opportunities for Development in Crimea. The Project expert made a presentation on limitations on investing NPF assets: Ukrainian situation and international experience. In general NPF activity and pension assets management section within the Conference attracted a lot of interest among participants.

Detail information about training and public education events, as well as tbrochures, booklets and other printed informational materials, prepared and distributed in the 18th quarter is in the Attachment 1.

We also moved forward with preparation for the 3rd public opinion survey to be conducted during summer 2005. The purpose of this survey is to monitor changes in public opinion with respect to pension reform issues. We conducted tender and started to discuss survey questions with the winner of the tender.

(i) Training

During this quarter the focus of training has been on the voluntary pension system, involving staff from regulators and market participants.

Project experts also trained specialists from the MoLSP at a refresher course, including a presentation on the prospects for implementing the accumulation systems. The Pension demo model was also presented there.

Following the successful 45-hour extensive training course on Accounting, Reporting and Taxation of Non-State Pension Funds for specialists of SCRFSM Department for Supervision of Non-State Pension Funds in the 1st quarter, the PRI received requests from NPF administrators to provide relevant training for them also. In June the PRI, through the Stock Market Development Institute, conducted 3 days training for all licensed NPF administrators. The course was very well received by participants.

PRI staff also conducted special training courses for SCRFSM staff on the use of various computer programs. PRI supported new courses for employers being conducted in conjunction with the Pension Fund’s training division.

In the 2nd quarter, 1,458 people participated in activities sponsored by PRI, bringing the total number of participants in project-sponsored training for more then three years of the Project to over 23,700.

(ii) Public Education

All of the training activities included elements of public education -- listed in Attachment 1 to this report. In addition, specific public education activities included:

- Continued production of the television program on pension reform.
- Participation with CURE in regional Press Club briefings and regional training for journalists.
- Continuous updating of the pension reform web site.
- Commissioning journalists to write articles on pension reform and to publish interviews with key players in leading local newspapers.
- Conducting a seminar in L'viv – for employers and high level local governments' officials from L'viv oblast and all raions.
- Printing 1,000 copies of SCRFSM Report on the Development and State Regulation of the Non-Bank Financial Services Markets in 2004. It was distributed on the Investment Forum ("Mini-Davos") in June.

The population is continuing to use the telephone hotline extensively, with an average of 2,000 calls per week. This quarter the total number of calls was over 17,000. The MoLSP has asked for PRI to continue its support for the hotline in 2005.

The Pension Website was also extensively used. In the 2st quarter, 108,000 people visited the site (compared to 78,000 in previous quarter). Over 537,000 people have visited the site since its inception. Activity on the Forum section was the strongest. PRI provided more than 300 answers to questions raised in the Forum.

The Project continued to sponsor Journalists' club activity hosted by the Ukrainian Stock Market Development Institute. On May 19 the institute hosted a seminar followed by a round table on the practice and directions for the development of non-state pension funds, including representatives of NPF industry and regulators.

At MoLSP's request, the Project started preparing the analytical materials for an annual newsletter "Universal Obligatory State Social Insurance and Pensions in 2004". 5,000 copies of the statistical newsletter will be printed during the summer

PROJECT ACHIEVEMENTS IN QUARTER 18

Close cooperation with all our counterparts and renewed cooperation with PFU are among main achievements of the Project in the reported period.

The round table in the World Bank on the role of insurance companies and NPFs in the non-state pension system, sponsored by the PRI.

Training for accountants of administration companies of NPFs on Accounting, Taxation and Reporting of Non-State Pension Funds.

Study Tour to UK and Netherlands to study NPF operations and regulation for 14 government officials and representatives of non-governmental agencies.

ISSUES OF IMPORTANCE FROM PREVIOUS REPORT(S) THAT REMAIN UNRESOLVED

The Project continues to require data for its actuarial modeling and the PFU continues to postpone providing it. PRI continues refining its actuarial model but will be unable to prepare any useful projections or policy simulations until data are provided.

Changes/revisions of forecasts from previous report and reason/cause

Nil

ACTIVITIES FOR THE NEXT QUARTER

PRI activities during the next quarter will continue in the areas in which it has concentrated during the last quarter.

In addition, the final Pension Conference has been scheduled for September 29 - October 2 in Foros, Crimea. So, during the 3rd quarter the PRI will be actively involved in its preparation.

FORECAST OF PROGRESS AGAINST TANGIBLE RESULTS

The tangible results for the project with comments on their development are:

1. *The 1st pillar's contributions' collection compliance and enforcement activities are increased from 85% in 2000 to 90% in 2003.*

When USAID's senior pension advisor was in Kyiv in June 2003, it was suggested to her that this benchmark be altered because there is no way it can be measured. When employers pay wages they must make pension contributions, but data have not been supplied either by the PFU or the State Tax Administration.

2. *The GOU has developed and improved legislation that establishes and regulates mandatory and voluntary private pension funds and their investment activities.*

SCRFSM has adopted all the major legislation needed to establish the system for regulating NPF activities. There are several regulations the Commission is planning to pass, but the issues to be address are not urgent. Amendments to the Law on Non-state Pension Provision are now being drafted, as well as amending NPF Regulations based on NPFs operations. Work is continuing on drafting other legislation, e.g. to introduce the new system of privileged pensions. PRI is planning to cooperate closely with market participants as well as regulators to address issues after the NPF system starts full operations later in 2005.

3 *Amendments are drafted in other relevant laws and then submitted to Parliament, which create the conditions, and provide the incentives for individual retirement savings.*

As stated above, some amendments are in the process of being drafted. PRI considered possible problems for successful NPF development and prepared amendments to the new Civil Code (enacted January 2004) in order to eliminate obstacles for inheritance of pensions, accumulated at NPF. We submitted draft amendments to the SCRFSM for comments and after that we will take some steps to lobby for them. The Project will track amendments to the Insurance Law and provide comments to address issues that may adversely affect NPF by giving unreasonable and uncompetitive advantages to insurance companies that may not be in the interests of employees and will not provide them with additional retired benefits.

4 *Information technology systems for all GOU pension systems will be in place to ensure the effective and efficient recording, monitoring and regulation of all pensions within Ukraine*

Work continues to help SCRFSM and, to some extent the SSMSC, to develop their IT systems. At the request of the PFU, PRI will continue studying the issue of moving from decentralized to centralized pension calculation.

5. *A regulatory framework that provides for an independent and autonomous regulator, and the rules on reporting, disclosure, conflict of interest, investment standards and limitations, custody and initial and ongoing capital reserve requirements will be functioning.*

Both SCRFSM and SSMSC have passed subordinate legislation to cover the operation of NPFs. The SCRFSM has already started to amend their Regulations to address practical issues.

6. *A private pension industry that is efficient, responsive to members' interests and transparent will exist.*

24 new funds have been registered for operation. Half have begun collecting contributions. As most of these funds are open pension funds established by financial organizations PRI will monitor how responsively and transparently they will operate.

The lack of reliable and safe instruments in which to invest NPF assets is already obvious. In order to overcome this problem there are proposals to amend current legislation to create new investment instruments. Some proposals would be too risky and in the event of default may discredit the idea of NPF. So it is crucial to monitor these processes and give them fair evaluation.

7. *Staff of the public pension agency (1st pillar) and the agency or department that shall be responsible for regulating private pension funds (2nd and 3rd pillars) will be trained on PPF's regulation and management, and pension management issues i.e. licensing, enforcement, diversification, asset allocation, performance measurement and attribution.*

Intensive training for staff involved in the 1st pillar on the operation of the new solidarity pension system has been completed. During the next quarter we are planning to conduct 2-days training on NPF activity for MoLSP employees. We also continue to assist both Commissions on central and regional levels to broaden their experience of the operation of accumulation systems and to help them open up dialogue with the market. We sent the SCRFSM and MoLSP representatives to study-tour to Great Britain and Netherlands.

There is recent governmental trend to increase participation of the MoLSP in the NPF policymaking process. As a result we receive more NPF related requests from MoLSP than from SCRFSM and we are ready to provide required assistance. We are trying to involve as much as possible representatives of regulators in our regional programs.

8 *Public understanding of pension reform, private pension funds and voluntary pension contributions will increase from little or no knowledge about pensions to significant knowledge about pension reform as revealed from two public opinion polls, one at the commencement of the program and one in 30 months.*

Two public opinion surveys have been carried out by the Project and we will carry one more shortly – the results will be described at the Annual Conference in the fall.

We continue to conduct regional seminars for employers on NPF operation. In 2005 we conducted 2 - in Kharkiv and L'viv, and scheduled another one for Dnipropetrovsk.

The increasing use of the Pension Hotline indicates that public awareness of pension reform has significantly increased.

PROGRESS AGAINST BENCHMARKS

1. Within six months of the passage and enactment of Non-State Pensions Law and other required legislation, in coordination with relevant USAID/Kyiv projects create and implement a training program for pension fund companies and pension investment managers on how to manage and operate PPF's in an efficient and cost-effective manner that meets the needs of the fund participants;

The law on non-state pensions gave the Regulator 12 months to produce the necessary by-laws and issue licences. In 2005, several funds have already started to collect contributions and obviously to invest them (the Law gives 2 weeks for pension assets to be invested).

PRI is working closely with the market participants and SCRFSM to inform and train them on key issues. We are ready to respond to the industry needs regarding training. Accounting, reporting and taxation course for NPF administrators was very useful. Based on the industry requests we are searching for trainer to train on marketing of NPF services.

2. By the end of the contract ensure that the Non-Banking Financial Regulator has the capacity to regulate non-state pension funds including, but not limited to development of: a) standards and capabilities; b) administration functions and personnel structure; c) standard methods to impose fees; and d) minimum standards;

Active contact is being maintained with SCRFSM and the Project in this area. We received Commission's proposals for cooperation in 2005. The first part of the proposed plan covers technical issues such as preparation of regulatory documents, training and education of staff. The second part of the plan covers IT issues. It is similar to the 2004 plan and on some issues builds on achievements of 2004.

We are working on its implementation. Besides specific NPF topics, Commission staff would like to be trained on project management and other general issues.

3. Within twelve months of the enactment of the Non-State Pensions Law: a) devise regulations for portfolio management; b) develop appropriate standards for asset allocation; c) develop regulations which protect pension assets; and d) advance regulations related to capital adequacy and reserve requirements for private pension fund companies;

The activity on this benchmark has been slow in response to USAID limitations in TA for the Securities Commission. But recently there were some positive signs on the Commission side. So, we hope for progress in the future if the Commission responds to USAID concerns.

4. By the conclusion of the contract, the Contractor will have trained the staff of the private pension regulatory agency (department) on how to conduct private pension scheme financial and management audits. This training should include, but not be limited to, training on pension investment diversification, fiduciary responsibility, investment performance measurement and reporting, avoiding conflicts of interest, compliance and enforcement of pension legislation;

We conducted 45-hours training course on NPF Accounting and Taxation for SCRFSM officials in the 1st quarter. Based on this course we organised a 3-day course for market participants. One day Anna Tarasenko from the Commission lectured and took part in intensive dialog with market participant. We believe this dialog was also useful for the Commission, because they received the industry's perspective on problems. We received positive response from the regulator and the desire to have more training later with focus on practical issues and concrete samples.

We sent 5 SCRFSM representatives to study-tour to Great Britain and Netherlands, so they could see the operation and regulation of NPF industry. Three representative of SCRFSM are involved in actual inspections and audit of NPF.

5. By the conclusion of the contract, the GOU shall have improved administrative efficiency of its pension related IT systems; and developed a national pensioner database (mandatory pension system); and

PRI believes that the administrative efficiency of the GOU's pension related IT systems have significantly improved. PRI's role in this is widely acknowledged in correspondence between the GOU and USAID.

The PFU sought recommendations from PRI on international experience in moving from decentralized pension calculation and payment system to a centralized one. We prepared the questionnaire to be sent to other countries pension regulators and passed it to the PFU.

6. At PFU request we started to move forward with 4 web sites development for the PFU. By the conclusion of the contract, the Contractor will have conducted at least three pension reform conferences (one conference per year) for Ukrainian policy-makers, trade unions, employers and media, which will include sessions focusing on pay-as-you-go system reform; introduction of a mandatory accumulation pillar; and private pension funds regulation, supervision and management

The third international pension conference was held from 21 to 23 October, 2003. The fourth took place in Sudak from October 6 to 8, 2004. The next is scheduled for the end of September 2005 to be held in Foros. We have begun preparations.

ANTICIPATED PROBLEMS

The problem of securing the data needed to model pension systems and fiscal impacts are likely to require coordinated effort with USAID and the World Bank and also high level meetings with the Prime Minister's office and the Cabinet of Ministers.

OPEN OR DEVELOPING ISSUES

GoU measures to deal with the large deficit caused by the increase in the minimum pensions are likely to require rapid response by the PRI team to draft legislation.

ANTICIPATED COORDINATION NEEDS WITH OTHER PROJECTS OR COUNTERPARTS

During the 1st quarter, the Project staff had several meetings with the World Bank and other donor organisations on pension related policy and coordination issues. We do not see problems in coordination and are planning to combine our efforts in several directions – actuary model development, cooperation with NPF industry etc.

FISCAL INFORMATION

Total Invoiced through April 1, 2005	$ 6,550,250
Invoices for April 2-July 1, 2005,	$ 304,049
Total Invoiced Through July 1, 2005	$6,854,299
Total Contract Amount	$ 8,004,736
Contract Balance as of July 1, 2005	$1,150,437

ATTACHMENT 1
SUMMARY OF EDUCATIONAL AND TRAINING ACTIVITIES FOR 2ND QUARTER OF 2005

NUMBER OF PARTICIPANTS TO MARCH 31, 2005	**22,323**
TOTAL THIS QUARTER	**1458**
TOTAL FROM INCEPTION TO JUNE 30, 2005	**23,781**

№	Date	Event	Performers	Number of Participants/ Number of Copies
Educational Activities				
1.	April 4-8	Five-day workshop training of specialists in social protection on pension granting control	MoLSP, PADCO	27
2.	April 6	Presentation of the run-time version of the Actuarial Model in PFU	PADCO, PFU	10
3.	April 14	Roundtable on the Role and Place of NPFs and Insurance Companies in the System of Non-State Pension Provision	PADCO, World Bank, Association of NPF and NPF Administrators	56
4.	April 27	Seminar on the Issues of Collaboration of the Non-State Pension Provision System Entities	PADCO, UAIB	57
5.	April 28	Roundtable on the Problem Issues of the Flying Personnel Pension Provision	MoLSP, PADCO	20
6.	May 19	Meeting of the journalists' club hosted by the Ukrainian Stock Market Development Institute	PADCO USMDI	15
7.	May 20	Meeting of Ternopil Reform Press-Club on the issue of Creation and Development Perspectives of NPFs. Readiness of the Financial Sector for Implementation of Pension	CURE, SSMSC, Association of NPF and NPF Administrators PADCO	25

		Legislation.		
8.	May 20	Youth and Pension Reform Workshop with the 3 -5 year students of Ternopil State Economic University	CURE, SSMSC, Association of NPF and NPF Administrators PADCO	200
9.	May 20	Youth and Pension Reform Workshop, Institute of Economics and Entrepreneurship (students, post-graduate students and lecturers), Ternopil	CURE, SSMSC, Association of NPF and NPF Administrators PADCO	60
10.	May 24	Pension Reform and Activity of Non-State Pension Funds in Ukraine Workshop in Lviv Oblast State Administration for Deputy Heads of Rayon State Administrations, Heads of Rayon Labor and Social Protection Departments as well as representatives of trade unions and employers	PADCO Ukrainian Federation of Employers, Trade Unions Federation of Ukraine	85
11.	May 24	Meeting of Lviv Reform Press Club	SSMSC SCRFSM PADCO	20
12.	May 25	Youth and Pension Reform Workshop with students of the Institute of Banking, Lviv	SSMSC SCRFSM PADCO	60
13.	May 25	Youth and Pension Reform Workshop with students of the Legal Department of Lviv National University named after Ivan Franko	SSMSC SCRFSM PADCO	50
14.	During the quarter	Answering questions via the informational hotline	MoLSP, PFU, SCRFSM PADCO	17,484
15.	During the quarter	Answering on-line questions in Forum Section on www.pension.kiev.ua	PADCO	302
16.	Every week during the quarter	Consultative and technical support of a TV program “Pension Reform: Step by Step” (assistance in preparing topics; announcements on the website www.pension.kiev.ua, creation of a video library)	MoLSP, PADCO	

17.	During the quarter	Preparing a regular (twice a month) monitoring of press, preparing a review and delivering materials to the partners and publishing them on the site: www.pension.kiev.ua	PADCO	
18.	Twice a month	Preparing a review of international pension news and publishing it in mass media and on the site: www.pension.kiev.ua	PADCO	
19.	April-June	Maintenance of the website: www.pension.kiev.ua	PADCO	
Training Activities				
20.	During the quarter	Business English courses for 2 groups: intermediate and advanced levels for SCRFSM	SCRFSM PADCO	31
21.	April-June	Conducting a series of training workshops for the representatives of HR and Accounting Departments of enterprises, institutions and organizations	Scientific and methodical Center of PFU PADCO	678
22.	June 1-3	Training for accountants of administration companies of NPFs on Accounting, Taxation and Reporting of Non-State Pension Funds	PADCO USMDI	16
23.	During the quarter	Training course on Free BSD 5.4 system administration	SCRFSM PADCO	4
24.	During the quarter	Training for the SCRFSM staff on using the official web-site: www.dfp.gov.ua	SCRFSM PADCO	9
Brochures and Booklets Preparation				
25.	April	Preparation and printing of booklets and other materials for the meeting with the Deputy Heads of Oblast State Administrations on the topical issues of social insurance	PADCO MoLSP	60 copies
26.	May	Preparation and printing of a renewed brochure “New Pension System” with statistical data as of April 1, 2005	PADCO	1,000 copies
27.	May	Preparation and printing of the brochure “Basic Provisions of the Universal Obligatory State Pension Insurance” as of May	PADCO	1,000 copies

		2005		
28.	June	Preparation and printing of the SCRFSM Report On the Development and State Regulation of the Non-Bank Financial Services Markets"	SCRFSM PADCO	1,000 copies
29.	June	Preparation and replication of the visual materials on the issues of the social protection system reform for the high-level meetings (session of the MoLSP Board, Presidential Administration and he Cabinet of Ministers' meeting)	PADCO MoLSP	100 copies
30.	June	Preparation and printing of the methodical manual on the issues of pension provision of individuals from among test-flying and flying personnel of the civil aviation aircrafts	MoLSP PADCO	150 copies
31.	During the quarter	Preparation and distribution of the informational CDs	PADCO	780 copies

ATTACHMENT 2: STUDY TOUR REPORT
(GREAT BRITAIN AND NETHERLANDS, JUNE 20 – JULY 1, 2005)

BACKGROUND

As part of the process of helping Ukraine build a workable and secure voluntary pension system PADCO and USAID organized a study tour for senior officials from the State Commission for the Regulation of the Financial Services Market, the Ministry of Labor and Social Policy, the Cabinet of Ministers of Ukraine, the Parliamentary Committees on Pensioners, Veterans and Invalids and on Banking and Finance Activities. In addition, the group included private sector representatives from the Association of Non-State Pension Funds and the Institute of Stock Market Development, one journalist and two PADCO project staff. A full list of participants is attached as Appendix 1. The tour lasted from June 20^{th} until July 1^{st}, 2005.

Due to the desire to focus on the voluntary pension sector (Ukrainian pillar 3) it was decided to visit both the United Kingdom and the Netherlands since these countries have two of the 5 major voluntary pension systems (the others being the United States, Canada, and Australia). The USAID Mission Director granted a waiver from USAID's training requirements allowing these countries to be visited.

OBJECTIVE OF THE STUDY TOUR

The voluntary pension sector in Ukraine is just beginning. Although the necessary legislation was passed by the Verkovna Rada in July 2003, it was not until the end of 2004 that organizations wanting to create voluntary pension funds were able to receive their licenses from the State Commission for the Regulation of the Financial Services Market. According to the magazine "Finance for Everybody" by June 1, 2005, there were 17 non-state pension funds of which 12 are open funds, one is a professional fund and four are corporate funds. The open NSPFs included almost 19,000 individual pension accounts with total assets of UAH 3,7 million (USD 740,000). These figures are probably understated.

The tour allowed Ukrainian policymakers to meet with people with great experience working in the voluntary pension sector and with the regulatory bodies that ensure the security of the assets and protect the rights of scheme participants. The study tour therefore included meetings with all the categories of participants in the voluntary pension sector – regulators, pension funds, asset managers, administrators, consultants and self-regulatory organizations.

LOGISTICS

The group left Kyiv on Monday June 20 to travel to London. The following meetings were held. They are reported below in greater detail.

Tuesday June 21	The Pensions Regulator
Wednesday June 22 a.m.	BT Pension Fund
Wednesday June 22 p.m.	European Bank for Reconstruction and Development
Thursday June 23 a.m.	Standard Life
Thursday June 23 p.m.	Financial Services Authority
Friday June 24 a.m.	Pensions Management Institute
Friday June 24 p.m.	National Association of Pension Funds
Sunday June 26	Travel to The Netherlands
Monday June 27	The Netherlands Bank
Tuesday June 28 a.m.	ING Group
Tuesday June 28 p.m.	ING Pension Fund
Wednesday June 29	ABP Pension Fund
Thursday June 30 a.m.	Blue Sky Group
Thursday June 30 p.m.	Association of Multi-Employer Pension Funds
Thursday June 30 p.m.	Association of Corporate Pension Funds
Friday July 1	Return to Kyiv

OVERVIEW OF PENSION SYSTEMS

UNITED KINGDOM

The UK has had a long tradition of providing pensions for its citizens – both through relatively generous compulsory state pension system and a very robust system of occupational pensions. However, there has been a very rapid deterioration of both the State pension system and the system of occupational pensions. This has now reached the point of being a minor crisis and the government is in the middle of conducting a major enquiry into the future direction that pension provision should take. This enquiry - referred to as the Turner Commission - is due to report by November 2005.

a. the State pension system. To receive the maximum state pension requires contributions for 44 years. But many people are not continuously employed for this period – particularly women. The basic state pension is a flat amount – which has declined as a percentage of average wage. Successive governments have made changes in the second pillar – it is a mixture of both private and public and the vast majority of citizens have little understanding of what they will get from the second pillar and whether they would be better or worse in the private part of this arrangement. The cost of the compulsory pension system is escalating, mainly due to the increase in life expectancy, and the Government is concerned about the long term fiscal viability.

b. the occupational pension system. The UK has a history of employers providing relatively generous defined benefit schemes to workers. However measures taken by Governments, both Conservative and Labour, have seen a major switch from defined benefit (DB) schemes to defined contributions (DC) schemes, with employers contributing at significantly lower rates than under DB schemes. The impact on the long-term cost of increased life expectancies has also been a major issue but of equal significance are recently introduced accounting rules that require employers to show the liabilities of pension funds (as there now are following poor investment returns) as liabilities on the company's financial accounts. Also the idea of self-provision of pensions has not been taken up by the population despite significant tax incentives. A major influence here has been rapid escalation of housing costs meaning that young couples are spending a great proportion of their available income on financing property purchases. There has also been an erosion of public confidence in the pension system as a whole following the mis-selling of personal pensions and the Maxwell scandal.

THE NETHERLANDS

a. the State pension system By international standards the Netherlands has one of the more generous public pension systems. Nominally there are no contributions paid by employers or employees into the public pension system as the benefits are funded out of taxation revenues. In reality there is a component in the tax rate that can be directly attributable to the cost of the public pension system. Eligibility for a State pension is based on residency from age 16 although the maximum benefit is only achieved after a long period of residency. At the moment there does not appear to be the pressure upon the Dutch public pension system that there is in other countries of Europe although it hard to imagine that increased life expectancy is not going to become an issue sometime in the near future.

b. the occupational pension system The Netherlands has a strong and well developed system of occupational pensions. One of the main reasons for this is that for a long time occupational pensions have been an integral part of labour negotiations between employers and trade unions. Consequently there has been a development of a small number of very large and well managed multi-employer pension funds allowing for the portability of benefits. Those companies which do not participate in the multi-employer funds are generally larger companies which run their own schemes. The Netherlands still has the vast majority of its pension funds of the defined benefit type with nowhere near the trend to move to defined contribution as has been the case. One unique future of the Dutch system which is now being removed was the capacity to use these occupational pension funds as a means of allowing employees to retire from the workforce at a very young age. The average age of retirees has been as low as 61 although the Government is now taking steps to remove the incentive to retire early.

INDIVIDUAL MEETINGS IN THE UNITED KINGDOM

THE PENSIONS REGULATOR

The Pensions Regulator (TPR) is a newly established body responsible for the regulation of occupational pensions (and only occupational pensions -- those offered by financial services organizations are regulated by the Financial Services Authority – see Thursday entry). It came into existence on 6 April 2005 although there was a predecessor body – OPRA – the Occupational Pensions Regulatory Authority.

The Pensions Act 2004 gives the Pensions Regulator three specific objectives:

- to protect the benefits of members of work-based pension schemes;
- to promote good administration of work-based pension schemes; and
- to reduce the risk of situations arising that may lead to claims for compensation from the Pension Protection Fund.

In order to meet these objectives, TPR concentrates on schemes that it identifies as having the greatest risk to the security of members' benefits. It also promotes high standards of scheme administration, and works to ensure that those involved in running pension schemes have the necessary skills and knowledge.

The Regulator's principal aim is to prevent problems from developing. Where possible, it will provide support and advice to trustees (the Rada in UA), administrators, employers and others where potential problems are identified.

The Act provides the Regulator with a wide range of powers in addition to those that were available to its predecessor – Opra. The Regulaotr intendsto these powers flexibly, reasonably and appropriately, with the aim of putting things right and keeping schemes on the right track for the long term. It has three basic powers:

- Investigating schemes: gathering information to help identify and monitor risks.
- Putting things right: what it can do when problems have been identified.
- Acting against avoidance: how it will ensure that employers do not sidestep their pension obligations.

Investigating schemes

Data is collected through the scheme return. Reports of significant breaches of the law will also be received from 'whistleblowers' (scheme particpants and service providers e.g. administrator, custodian, or auditor) and reports of notifiable events from trustees and employers.

Trustees or scheme managers are also responsible promptly notifying of changes to 'registrable' information such as the scheme's address, details of trustees, or the types of benefit provided.

Scheme funding*:* This applies to defined benefit schemes- the Regulator expects to receive reports where a scheme is unable to comply fully with the new scheme funding framework. If a scheme has a shortfall, it expects to receive scheme funding information.

Documents and other information: In addition, the Regulator can demand documents or other information from trustees and employers, among others but this information must be relevant to its work as a regulator.

Putting things right

Where the Regulator decides that action must be taken to protect the security of members' benefits, it has a range of options available. The action it takes will depend on the circumstances of the problem. These are some examples of the regulatory action it can take take:

- It can issue an improvement notice to individuals or companies, or a third party notice, requiring specific action to be taken within a certain time.
- It can take action, on behalf of a scheme, to recover unpaid contributions from the employer if the due date for payment has passed.

- Where wind-up is pending and it believes that members' interests may be at risk, it can issue a freezing order. This order temporarily halts all activity within the scheme, so that the Regulator can investigate concerns and encourage negotiations.
- It can disqualify trustees it does not consider to be fit and proper persons for the role.
- Where breaches have occurred, it can impose fines.
- It can prosecute certain offences in the criminal courts.

Acting against avoidance

The Regulator has powers to act where it believes that an employer is deliberately attempting to avoid their pension obligations, leaving the Pension Protection Fund to pick up their pension liabilities. To protect the benefits of scheme members, and to reduce the Pension Protection Fund's exposure to claims for compensation, the Regulator may issue any of the following:

- **Contribution notices**. This allows a direction that, where there is a deliberate attempt to avoid a statutory debt, those involved must pay an amount up to the full statutory debt either to the scheme or to the board of the Pension Protection Fund.
- **Financial support directions**. These require financial support to be put in place for an underfunded scheme where it is concluded that the sponsoring employer is either a service company or is insufficiently resourced.
- **Restoration orders**. If there has been a transaction at an undervalue involving the scheme's assets, the Regulator can take action to have the assets (or their equivalent value) restored to the scheme.

Collecting data

In order to meet its objectives, the Pensions Regulator requires detailed, accurate and up-to-date information about all pension schemes. The main sources of information are:

Scheme return: One of the Pensions Regulator's powers is to require all schemes to complete a regular scheme return. This provides a wide range of information about schemes, including details of membership, sponsoring employers, trustees, advisers, administration, funding and investment. All schemes except the smallest will have to complete a return every year.

Reports from 'whistleblowers: Reports about breaches of the law relating to pension schemes are an important source of information for the regulator. The duty to report significant breaches - often referred to as 'whistleblowing' - applies to a wide range of people, including trustees (and their advisers and service providers), employers, and a scheme's administrators and professional advisers. The Pensions Regulator has issued a code of practice on the duty to report breaches of the law.

Scheme funding: If there has been a failure to comply with the new scheme funding framework then, depending on the nature of the failure, the trustees or scheme actuary are required to report this. If a scheme has a funding shortfall at its latest actuarial valuation, the trustees are required to forward certain documents, including the latest recovery plan and schedule of contributions.

Notifiable events: Employers and trustees have to tell the Regulator without delay about certain 'notifiable' events. These are specific events, relating to a scheme or an employer, which are likely to have a major impact on the security of members' benefits -- for example, a significant reduction in scheme membership.

ASSESSING RISK

The Pensions Regulator's core activity is identifying and reducing risks in occupational pension schemes. The data it collects about schemes gives it the information needed both to assess the level of risk in individual schemes and to identify trends in the industry as a whole.

What is a risk?

Any situation that may significantly reduce or prevent payment of the benefits due to members will be considered a risk, for example:

- inadequate funding;

- incomplete or inaccurate record-keeping;
- lack of knowledge or understanding on the part of trustees about their role and duties; or
- possible dishonesty or fraud.

Establishing a risk profile

When assessing a scheme's level of risk, the Regulaotr considers two factors:

- How *likely* is it that an event will occur that will affect the security of members' benefits?
- What would be the *impact* of the event, given the nature, size and status of the scheme and the employer?

The relationship with a scheme depends largely on the risk profile identified. The Regulator will closely monitor schemes found to have a high level of risk, while schemes at lower risk will attract less regulatory intervention. Where the potential impact of a risk is very high - for example, because the scheme has a very large membership – the Regulator will maintain a close relationship with trustees. The Regulator will review risk profiles - and the corresponding level of regulatory intervention - as and when it receives new information about schemes.

GUIDANCE AND CODES OF PRACTICE

An important aspect of the regulator's work is to publish guidance for the regulated community. In particular, the Pensions Act 2004 requires it to issue codes of practice on a range of subjects. These codes:

- provide practical guidelines for trustees, employers, administrators and others on complying with the requirements of pensions law; and
- set out the standards of conduct and practice that are expected.

The codes are not statements of the law, and there is no penalty for not complying with them. However, where someone has not followed the provisions of a code, it is expected that they are be able to demonstrate that they have still met the underlying legal requirements.

TRUSTEE LEARNING

The Pensions Act 2004 introduces requirements for trustees to have sufficient knowledge and understanding of pensions and trust law, occupational scheme funding and scheme investment. Trustees are also required to be conversant with certain documents relating to their scheme, such as the trust deed, rules, statements of funding and investment principles, and other policy documents. This comes into force in April 2006.

PENSION PROTECTION FUND

The Pensions Regulator is responsible for the day to day operation of the Pension Protection Fund. This is a public body established by Pensions Act 2004. It is a compensation scheme for members of eligible defined benefit pension schemes where the sponsoring employer becomes insolvent and the scheme is underfunded. The costs of the fund will be met, in part, by levies which the Pensions Regulator will collect. The two bodies will work closely to monitor high-risk schemes and minimise calls for compensation. There are anti-avoidance powers to ensure that employers do not take advantage of the compensation scheme.

FINANCING THE REGULATOR AND THE PENSION PROTECTION FUND

All registered pension schemes pay a levy to fund the Pensions Regulator. Most schemes that provide any defined benefit pension arrangements must pay a levy to a compensation scheme called the Pension Protection Fund. At this point of time the Government has not announced the level of charges to be paid by schemes.

BT PENSION FUND

THE MEETING WAS HOSTED BY

Colin Hartridge-Price, *Secretary and Chief Pensions Officer*

Chris Symonds, *Deputy Secretary*

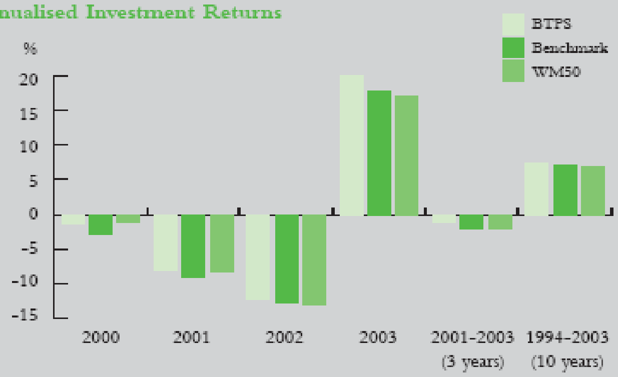
BT – the trade name of British Telecom is the public company that arose out of the privatisation of the British telephone system. Its Ukrainian equivalent would be Ukrtelecom. The BT pension fund is the largest pension fund in the United Kingdom. There are in fact two BT pension funds. This is increasingly the practice for large corporations in the UK and highlights the change from defined benefits to defined contributions that is occurring in the country.

The first chart relates to the BT pension fund (a defined benefit scheme) which was closed to new members on 31 March 2001. The second chart shows what is happening in the replacement scheme, the BT Retirement Plan, a defined contribution scheme.

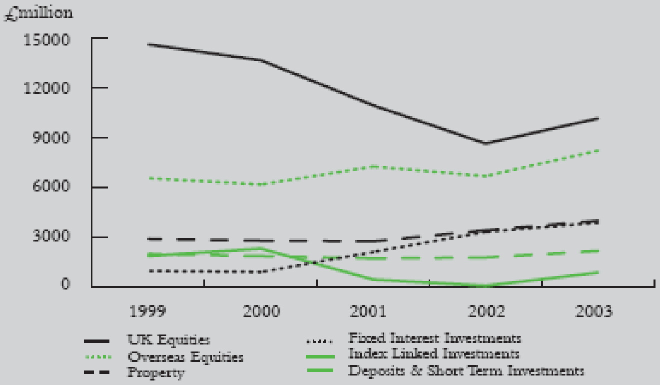
Scheme Facts
2003

Value of Fund

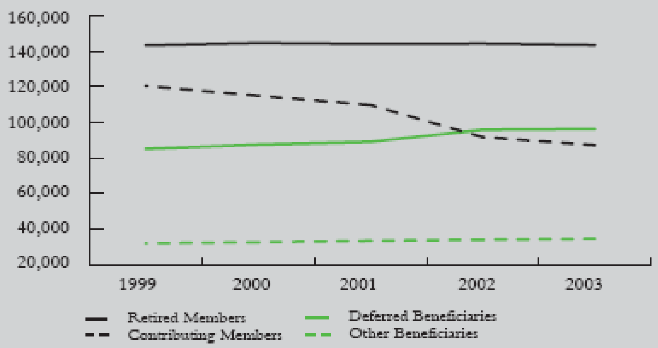
Annualised Investment Returns



Value of Investments



Membership



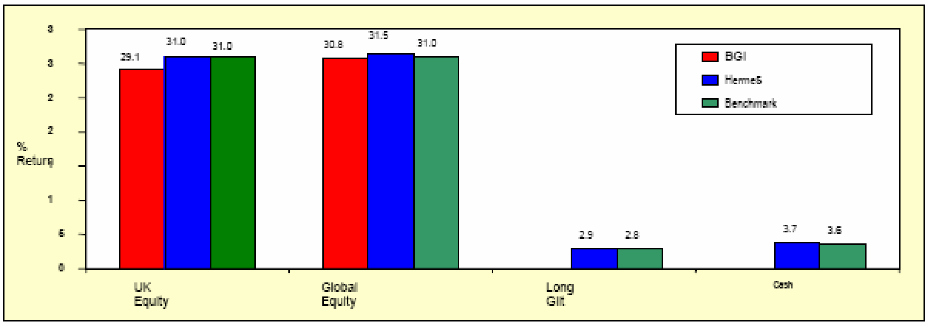
Details of the current membership of the Plan are given below:

Active Members

	2004	***2003***
Active members at the start of the year	3,923	*3,167*
New entrants in the year	2,176	*2,176*
Transfers out	-	*(531)*
Optant Outs with contribution refunds	(181)	*(197)*
Members leaving with contribution refunds	(270)	*(685)*
Members leaving with preserved benefits	(65)	*(7)*
Retirements	(1)	-
Death in Service	(1)	-
Active members at the end of the year	5,581	*3,923*

Fund Performance Summary

The chart below shows the performance of the Plan's funds for the year ended 31 March 2004.



Distribution of investments

The distribution of the Plan's investments at 31 March 2004 is set out below:

Fund	BGI	Hermes	Total
	£	£	£
UK Equity Fund	350,449	2,379,663	2,730,112
Global Equity	9,012,295	11,918,502	20,930,797
Gilts Fund	-	1,044,812	1,044,812
Cash Fund	-	1,115,827	1,115,827
Cashawaiting investment	5	-	5
Cash held	6,724	-	6,724
Total	**£9,369,473**	**£16,458,804**	**£25,828,277**

Basis of investment managers' fees

The Investment Managers are remunerated on the value of the investments held. The charges are calculated on the 23rd of each month and is 1/12th of the annual charge, as follows:

Fund	**Annual charge**
Barclays Funds	0.45% of the total value of units held
Hermes other than Global Equity Fund	0.10% of the total value of units held
Hermes Global Equity Fund	0.16% of the total value of units held

EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

THE MEETING WAS HOSTED BY

Jonathan Woollett, *Director, Non-Bank Financial Institutions*

Vladimir Klechtchev, *Associate Banker, Financial Insrtitutions*

STANDARD LIFE

THE MEETING WAS HOSTED BY

Neil McPherson, *Head of European Business Development & Money Market Funds*

Tim Banks, *Head of Business Development*

Thomas M. Ross, *Actuary*

Standard Life is one of the UK's largest financial services groups with 8% of the UK market. In the UK it tends to sell its products through financial intermediaries with over 1 in 10 products sold by financial intermediaries being a Standard Life product.

Worldwide the group has assets under management of 108 billion pounds and provides financial services to over 7 million people. It has 6 key areas of operation – life insurance and pensions in the UK, a bank, health insurance, an asset management company, a large operation in Canada and further operations in Germany, Spain, China, India, Austria, Ireland and Hong Kong

FINANCIAL SERVICES AUTHORITY (FSA)

THE MEETING WAS HOSTED BY

Lieselotte Burdorf-Cook, *International relations, International Strategy and Policy Co-ordination Finance, Strategy and Risk*

Andrew Shrimpton, *Manager, Asset Management Sector*

Milton Cartwright

The FSA is the predominant regulator of financial services in the United Kingdom – regulating all financial services except employer-sponsored pension schemes which are the responsibility of the Pensions Regulator. The FSA is responsible for all pension products sold by banks and insurance companies, asset management companies (including those used by employer sponsored schemes) and the annuities provided by banks and insurance companies. It does not oversee pensions provided by employer sponsored schemes.

The FSA has been given a wide range of rule-making, investigatory and enforcement powers in order to meet its statutory objectives of promote efficient, orderly and fair markets and to help retail consumers achieve a fair deal. Since the FSA is financed by a levy on the industry it must use its resources efficiently and effectively. The non-executive committee of the Board is required, among other things, to oversee the allocation of resources and to report to the Treasury every year. The Treasury is able to commission value-for-money reviews of the FSA's operations.

A firm's senior management is responsible for its activities and for ensuring that its business complies with regulatory requirements. This principle is designed to guard against unnecessary intrusion by the regulator into firms' business. The FSA holds senior management responsible for risk management and controls.

Proportionality

The restrictions the FSA imposes on the industry must be proportionate to the benefits that are expected to result from those restrictions. In making judgements in this area, the FSA must take into account the costs to firms and consumers. Its main techniques include cost benefit analysis of proposed regulatory requirements.

The FSA attempts to encourage innovation by avoiding unreasonable barriers to entry or not restricting existing market participants from launching new financial products and services.

Competition

The FSA tries to facilitate competition among the firms it regulates -- avoiding unnecessary regulatory barriers to entry or business expansion. Competition and innovation considerations play a key role in its cost-benefit analysis work. Under the Financial Services and Markets Act, the Treasury, the Office of Fair Trading and the Competition Commission all have roles to play in reviewing the impact of the FSA's rules and practices on competition. The FSA has adopted a risk-based approach.

PENSIONS MANAGEMENT INSTITUTE (PMI)

The Pensions Management Institute (PMI) was formed in 1976 to promote professionalism among those involved in providing pension services. It is an independent, non political organization which establishes, maintains and improves professional standards in every aspect of pension scheme management and consultancy. PMI offers a range of other qualifications and certificates for administrators, trustees, international benefit specialists and those for whom pensions is just part of their work.

The PMI is a non lobbying professional body but it works with Government and other bodies in the financial sector to ensure that the views of its members are put forward in a sound and impartial manner. Against the backdrop of significant changes in pensions, the PMI recently undertook a major review of its operations. This included extensive market research, inviting the views of over a thousand people in the pensions arena. The results highlighted the needs of the wider pensions community, who want relevant qualifications and information to help them in their work. PMI aims to address these issues by:

- Providing more extensive services and support to assist in raising standards for everybody working in or connected with pensions.
- Broadening the Institute's horizons to include companies and individuals not previously able to access its support and services.
- The objectives of the Institute are set out in detail in its Memorandum and Articles of Association. They include:
  - the provision of tuition and examination facilities leading to a nationally recognised qualification which embraces all aspects of the law and practice relating to the management of schemes
  - the provision of a professional body for its members, together with a range of services normally associated with such a body
  - the encouragement of the exchange of ideas, information and advice on all aspects of the management of pensions schemes.

The Institute is controlled by a Council of sixteen Fellows (the highest level of membership – there are also Associates, Ordinary Members and Student Members) who are elected by Institute Members. Some Council Members stand down each year so there is a constant flow of new people with fresh ideas and approaches. This ensures that the Institute adapts to changes in the pensions field.

NATIONAL ASSOICATION OF PENSION FUNDS (NAPF)

THE MEETING WAS HOSTED BY

Brian Kilpatrick, *Policy advisor: Investment*

Ken Maclntyre, *Pensions Policy Analyst*

David Gould, *Company Secretary*

The National Association of Pension Funds is the principal UK body representing the interests of the employer-sponsored pensions movement. Its members include large and small companies, local authorities and public agencies. Members provide pension schemes for over 10 million employees and pay benefits to 5 million people in retirement, and account for more than £600 billion of pension fund assets. NAPF members also include providors of professional services to pension funds -- consultancies, actuaries, legal, trustees, administrators, IT and investment services.

The NAPF lobbies to reduce red tape and to represent members' interests among politicians, the media and beyond. It also offers a range of services, conferences, training courses and information services, including NAPF written guidance on a variety of topical issues. The NAPF's primary objective is to ensure that the fiscal and legislative environment encourages occupational pension provision to flourish. To achieve this objective, the NAPF represents the views of its members through close liaison with Government ministers, the Treasury and the Department of Work and Pensions, officials, regulators, professional bodies and the media.

Members receive concise information through NAPF News, Pensions World, policy documents, a wide range of publications and special updates on topical issues as well as the ability to access a web-site. Headquartered in London, it has 16 regional groups throughout the UK. This provides further opportunities for networking and professional development. Most groups hold 3 to 4 meetings a year, discuss current pensions issues and exchange ideas. The NAPF hosts the most authoritative and prestigious events in the UK pensions calendar including the country's largest pensions exhibition held at the NAPF Annual Conference.

THE NETHERLANDS

NATIONAL BANK OF NETHERLANDS

THE MEETING WAS HOSTED BY

L.van Daalen,

Jacquiline Lommen.

The Dutch financial sector is large -- serving millions of customers. Together, Dutch banks, insurance companies and pension funds have six times as much on their balance sheets as the country's total annual economic production, expressed in euros. Dutch financial institutions rank 2, 3, and 6 among Europe's pension funds, banks and insurance companies.

In 2004, the Nederlandsche Bank (DNB) and the Pensions and Insurance Supervisory Authority of the Netherlands (Pensioen- & Verzekeringskamer / PVK) merged. In the past, supervision in the Netherlands had been industry based with each of the two supervisory bodies supervising different categories of financial institutions -- DNB supervising credit institutions and the PVK pension funds and insurance companies. This allocation had become steadily less appropriate as, financial institutions merged into larger organizations with both banking and insurance arms.

Parliament overhauled supervision in early 2002 allocating responsibilities along functional lines. This means that supervision of the Dutch financial sector is now divided between ‘prudential supervision’ (monitoring the health of financial institutions and the financial sector – the responsibility of the Central Bank) and ‘conduct of business supervision’ (assessing the actions of players in the financial markets – the responsibility of the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten). It not only covers institutions’ actions on the financial markets and exchanges, but also for example, their communication with customers.

Supervision of pension funds

In the Netherlands, employers are not permitted to self-administer the pensions of their employees and are required to contract with an insurer or create a pension fund. The Nederlandsche Bank (DNB) reviews the rules and regulations of this fund, but does not have the right to approve or object to the fund itself. However, the fund is obliged to take DNB’s comments into account. Most supervisory activities are focused on the question of whether a pension fund has sufficient capital in relation to the risk profile of its investments. If a pension fund gets into difficulties, DNB can take action much the same way it can with respect to insurers, using one or more of the following instruments:

- fines and cease and desist orders under penalty;
- issuing a ‘direction’ telling an institution what to do, for instance to change its investment policy;
- taking control of an institution’s investment portfolio;
- requiring, in the case of solvency problems, submission of a restoration and financing plan;
- forcing an institution into receivership and appointing a receiver;
- withdrawal of an institution’s license.

Supervision of insurers

To go into business as an insurer, a company needs to obtain a license from the Nederlandsche Bank (DNB). In reviewing a licensing application, DNB looks at matters such as the nature and size of the risk inherent in the prospective insurance activities and the (required) solvency of the company.

In addition to financial, actuarial and insurance-related risks, an insurer may also run competitor risk and risks inherent in demographic developments. All these risks need to be reflected in a company’s strategy. In addition, its administrative organization, including IT systems and the expertise of its staff, must satisfy certain quality standards. Finally, the company’s managers and directors must be competent and reliable.

Subsequent supervision covers factors such as solvency, the quality of the investment portfolio and the operating result. DNB also carries out research on specific subjects, such as investment in derivatives. Despite high-quality management and proper supervision, an insurer may still get into difficulties if, for example, its investments are not spread in accordance with statutory regulations, or if it is no longer able to meet solvency requirements.

ING GROUP

THE MEETING WAS HOSTED BY

Kees Tuijnman

Jan Nijssen

Harry Hooijmans

Sako Zeverijn

The ING Group is a multinational, multifaceted financial services group operating in all the world’s major financial markets. It provides services in the area of banking, insurance and pensions. By assets it is the 15th largest financial services group in the world – the seventh largest in Europe. ING has been active in expanding into the countries of Central and Eastern Europe and into the Russian Federation.

ING has identified pension services as a major area for future growth and it is moving aggressively into Central and Eastern Europe.

ABP PENSION FUND

THE MEETING WAS HOSTED BY

Ton Leukel, *Manager Investor Relations*

ABP is one of the biggest pension funds in the world (debatably the second or third biggest depending upon exchange rates). ABP is the pension fund for employers and employees in service of the Dutch government and the educational sector. All of its 2,4, million customers have the assurance of income security against disability or death and will receive a pension on reaching the appropriate age. The statistic relating to the fund are:

4,317 affiliated employers
1,113,000 contributors in active service
761,000 former contributors with deferred benefits
697,000 persons currently in receipt of a pension
168 billion euros pension capital
of which 55% is inequities and alternative investments
43% is fixed income investments
2% is in other investments

Annually it makes

5.2 billion euros in pension payments
595,000 telephone calls with employees
52,000 telephone calls with employers
has 950,000 hits on its web-site
distributes 1,250,000 pension statements
produces 1,170,000 pension specifications
and made 6,800 visits to employers

BLUE SKY GROUP

THE MEETING WAS HOSTED BY

Wilfred Klaassen, *Manager External Affairs*

Ramon Tol, *Fund ManagerEquities*

The Blue Sky Group is an independent, professional organization dedicated to advising and supporting pension funds and their participants. As an independent service provider, it carries out all the activities associated with managing a pension fund.

It focuses on all the elements forming part of the responsibility of a pension fund's management. Aspects that are necessary to be able to properly carry out the activities associated with managing a pension fund.

The Blue Sky Group service concept provides different modules composed of specific services that support the elements of running a pension fund (determining policy, decision-making, administration and communications). The modules are grouped around pension service (consisting of pension administration and advice), management support and investment management. The pension service is mainly concerned with the administration and implementation of pension schemes, i.e. managing the administration of the participants, distribution of pension payments and providing advice and information on individual situations to participants and pensioners. This service also involves providing technical advice on pensions, covering matters such as the fiscal assessment of schemes, financing agreements, conditions of employment relating to pensions and changes to schemes necessary because of new legislation or collective labor agreements.

The management support service covers the entire range of preparatory and support services in formulating policy and coordinating activities for a pension fund's board of trustees. This concerns both advice and the actual administration of policy. Blue Sky Group also conducts Asset Liability Management studies for clients. ALM studies can help clients determine the appropriate investment mix based on the development of the liabilities and the chosen financing structure and indexation level.

Blue Sky Group Investment Management develops and implements a client's investment policy. The focus is on strategic investment management as this ultimately determines the long term returns. The Asset/Liability Management studies ensure sure that an optimal asset allocation fits the fund's liabilities.

The Company provides the full range of services to KLM Royal Dutch Airlines and a number of its subsidiaries together with a number of other corporate pension funds. The total number of participants is around 50,000 with assets of over 8 billion Euros.

DUTCH ASSOCIATION OF INDUSTRY-WIDE PENSION FUNDS

DUTCH ASSOCIATION OF CORPORATE PENSION FUNDS

THE MEETING WAS HOSTED BY

Mila Hoekstra, *Senior Policy Advisor OPF*
Karin Bitter, *Deputy Director VB*

List of Participants of the Observational Tour on Pension Reform Issues in Great Britain and the Netherlands

	Institution	Name	Position
1	State Commission for Regulation of Financial Services Markets of Ukraine	Tetiana Zakharash	Deputy Director, Department of Supervision over Non-State Pension Funds
2		Tetyana Shevkun	Head of the Unit of the Reporting Analysis of Non-State Pension Funds, Department of Supervision over Non-State Pension Funds
3		Igor Fedorenko	Deputy Head of the Unit of Methodology of Non-State Pension Provision and Life Insurance, Department of State Regulation and Financial Services Markets Development
4		Oleksandr Polishchuk	Senior Expert of the Unit of Methodology of Non-State Pension Provision and Life Insurance, Department of State Regulation and Financial Services Markets Development
5		Anna Tarasenko	Division Head, Non-State Pension Funds Analysis and Licensing Division, Department of the Supervision over Non-State Pension Funds
6	Ministry of Labour and Social Policy of Ukraine	Vadym Shkurin	Head of the Minister’s Office
7		Olena Karare	Senior Expert of the Administration of the pension reforming, Department of the Non-State Pension Provision
8		Valentyna Kudin	Deputy Head of the Pension Reforming Department
9	Verkhovna Rada, Finance and Banking Committee	Hanna Dudnyk	Senior Consultant of the Committee Secretariat
10	Verkhovna Rada, Pensioners, Veterans and Disabled Committee	Vasyl Nadraha	People’s Deputy of Ukraine, Head of the Sub-Committee on Pensioners and Pension Cover Funds
11	Cabinet of Ministers of Ukraine	Maryna Lazebna	Senior Expert, Strategy for Social Relations Reforming Department
12	Ukrainian Stock Markets Development Institute	Dmytro Leonov	Rector
13	National Association of Non-State Pension Funds and Administrators of Non-State Pension Funds of Ukraine	Dmytro Pyrig	President
14	Mass media	Nataliya Yatsenko	Journalist, “Mirror of the Week” weekly newspaper
15	Interpreter	Oksana Zavalna	Interpreter
16	PADCO	Olena Vasilchenko	Project Director
17	PADCO	Roger Vaughan	Senior Economics Expert