Global Experience In Pension Reform

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This document on developments in the pension sector in the period ending November 1, 2014 has been prepared by the staff of the USAID Financial Sector Development Project. The interpretation of articles in the media is made by the Project’s professional pension experts. Links are provided so that individuals can read relevant articles in full.
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## EUROPEAN COMMISSION MEMO

"Revision of the Occupational Pension Funds Directive – frequently asked questions"

Brussels, 27 March 2014
The European Commission supports and complements the Member States' policies in the fields of social inclusion and social protection.

The **Europe 2020 strategy** for smart, sustainable and inclusive growth sets **targets** to lift at least 20 million people out of poverty and social exclusion and to increase employment of the population aged 20-64 to 75%. The **flagship initiatives** of the Europe 2020 strategy, including the **Platform against Poverty and Social Exclusion** and the **Agenda for New Skills and Jobs**, support efforts to reach these targets.

Through its **Social Investment Package**, the Commission provides guidance to Member States to modernise their welfare systems towards social investment throughout life.

The package complements:
- the **Employment Package**, which sets out the way forward for a job rich recovery,
- the **White Paper on Pensions**, presenting a strategy for adequate, sustainable and safe pensions,
- the **Youth Employment Package**, which deals specifically with the situation of young people.

**Policy framework**

The **European Semester** provides the framework for **steering and monitoring EU countries' economic and social reforms** to reach the **Europe 2020 targets**. The challenges and proposed solutions are reflected in the **Country-specific Recommendations**.

As social policies are an integral part of the Europe 2020 Strategy, the Commission also supports EU countries' efforts to address their social challenges through the actions foreseen in the **Platform against Poverty and Social Exclusion** and **Social Investment Package** as well as the EU funds, in particular the **European Social Fund**.

**Political cooperation**

The Commission works together with EU countries through the **Social Protection Committee** using the **Open Method of Co-ordination** in the areas of social inclusion, health care and long-term care and pensions (social OMC).

The social OMC is a **voluntary process** for political cooperation based on agreeing common objectives and measuring progress towards these goals using common objectives and measuring progress towards these goals using common indicators. The process also involves close co-operation with stakeholders, including Social Partners and civil society.

**Social investment**

**Definition**

Social investment is about investing in people. It means policies designed to strengthen people’s skills and capacities and support them to participate fully in employment and social life. Key policy areas include education, quality childcare, healthcare, training, job-search assistance and rehabilitation.

**Challenges**

Europe is facing enormous challenges:
- **Economic crisis** – unemployment and poverty and social exclusion levels have reached record highs. They are a huge drain on Europe’s human resources at a time when public budgets are under pressure.
Demographic changes – the working-age population in Europe is shrinking, while the proportion of older people is growing. Solutions must be found to ensure sustainable and adequate social protection systems.

Policy response

The Commission’s Social Investment Package (SIP):

- guides EU countries in using their social budgets more efficiently and effectively to ensure adequate and sustainable social protection;
- seeks to strengthen people’s current and future capacities, and improve their opportunities to participate in society and the labour market;
- focuses on integrated packages of benefits and services that help people throughout their lives and achieve lasting positive social outcomes;
- stresses prevention rather than cure, by reducing the need for benefits. That way, when people do need support, society can afford to help;
- calls for investing in children and young people to increase their opportunities in life.

Who benefits?

- **Children and young people** – early support to break the inter-generational transmission of disadvantage and address the severe youth unemployment problem
- **Jobseekers** – integrated and more accessible support for finding work, such as skills development
- **Women** – more equal opportunities, better access to the labour market and thus better social protection, notably in retirement
- **Older people** – more opportunities for active participation in society and the economy
- **Disabled people** – support for independent living and adapted workplaces
- **Homeless people** – help with reintegration into society and work
- **Employers** – a larger, healthier and more skilled workforce
- **Our societies** – higher productivity, higher employment, better health and social inclusion, more prosperity and a better life for all.


**Pensions**

Definition

Pension systems allow people to enjoy a well-deserved retirement after their working life. They are the main source of income for about a quarter of the population, providing good protection against poverty to the majority of older Europeans.

Challenges

With the share of older people in Europe’s population rising fast and low levels of employment, pension systems will find it increasingly difficult to deliver adequate social protection at a reasonable cost.

Being so important for the well-being of Europeans and the sustainability of public finances, pension systems are regarded as a matter of common concern in the EU. The failure of one EU country to reform its pension system can have serious repercussions on others.
Policy responses

In its policy paper An agenda for adequate, safe and sustainable pensions, the Commission sets out the options for national action and EU support, focusing in particular on the need to enable and encourage people to stay in work longer and to save more for their retirement through supplementary pension schemes.

One important policy goal of the EU is to ensure that people are not prevented from acquiring adequate pension rights when they move to live and work in another EU country. Social security coordination plays an important role in this regard. The Commission has also proposed legislation to ensure that mobile workers are not prevented from earning and keeping occupational pension rights.

Sources: http://ec.europa.eu/social/main.jsp?catId=752

Social security coordination

The rules on social security coordination do not replace national systems with a single European one. All countries are free to decide who is to be insured under their legislation, which benefits are granted and under what conditions. The EU provides common rules to protect your social security rights when moving within Europe (EU 28 + Iceland, Liechtenstein, Norway and Switzerland).

Who do these rules apply to?

- Nationals of the EU, Iceland, Liechtenstein, Norway or Switzerland who are or have been insured in one of these countries, and their family members.
- Stateless persons or refugees residing in the EU, Iceland, Liechtenstein, Norway or Switzerland, who are or have been insured in one of these countries, and their family members.
- Nationals of non-EU countries, legally residing in the territory of the EU, who have moved between these countries, and their family members.

The four main principles

1. You are covered by the legislation of one country at a time so you only pay contributions in one country. The decision on which country’s legislation applies to you will be made by the social security institutions. You cannot choose. Find out which rules apply to you

2. You have the same rights and obligations as the nationals of the country where you are covered. This is known as the principle of equal treatment or non-discrimination.

3. When you claim a benefit, your previous periods of insurance, work or residence in other countries are taken into account if necessary.

4. If you are entitled to a cash benefit from one country, you may generally receive it even if you are living in a different country. This is known as the principle of exportability.

Sources: http://ec.europa.eu/social/main.jsp?catId=850&langId=en

ESMA appoints new members to management board

The European Securities and Markets Authority has elected three new members to its management board to replace outgoing members whose term will expire in October.

The candidates who will serve a term of two and a half years beginning on 1 November are Central Bank of Ireland deputy governor of financial regulation Cyril Roux, AMF chairman Gerard Rameix and KNF managing director of capital market supervision Marek Szuszkiewicz.

The outgoing members are Jean Guill from the Commission de Surveillance du Secteur Financier of Luxembourg and Julie Galbo of Denmark’s Finanstilsynet.
ESMA is an independent EU Authority that was established on 1 January 2011 and works closely with the other European Supervisory Authorities responsible for banking (EBA), and insurance and occupational pensions (EIOPA), and the European Systemic Risk Board (ESRB).

ESMA’s mission is to enhance the protection of investors and promote stable and well-functioning financial markets in the European Union (EU).

As an independent institution, ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.

**COUNTRY CASES**

**The Republic of Belarus**

**Lukashenko: Retirement Age Should Have Been Raised Yesterday**

Lukashenko believes that the retirement age in the country should have been raised long before. According to Interfax, he stated that at the press-conference in Minsk on 17 October 2014.

“The retirement age in Belarus should have been raised yesterday. However, we did not increase it because you do not want this. You should understand that in this case you will have lower pensions than you would have if the retirement age were increased by 5 years,” Lukashenko said.

He went on to say, “There are only two countries left which have not increased the retirement age – we and Russia.” He also underlined that it was wrong for 1.5 persons to support 1 person. “This is wrong. Moreover, this is dangerous from the economic point of view. We need to increase the retirement age but people do not want this. Therefore, we are not increasing it,” Lukashenko said.

“If you want higher pensions, we will increase them depending upon the economic situation but we do not have spare funds. Another way is to increase the retirement age,” summarized Lukashenko.


The government claims that it is not currently working on any document envisaging the retirement age increase. However, earlier the Ministry of Labor stated that it had made numerous proposals on the retirement age increase taking into account the negative trends in the country.

Besides, a projection was published according to which 1,000 workers will support 841 pensioners by 2030. Based on this projection, one can say that Belarus has a rapidly aging population.

Both independent and pro-government Byelorussian experts agree with their foreign colleagues that it is necessary to increase the retirement age not just because of the inability of current workers to support all pensioners, but also due to the improved health care, which, in its turn, contributes to the increased life expectancy. Moreover, when reaching the retirement age, modern men and women are full of vim and vigor. In addition, there was registered a serious outflow of cadre from the country and at the moment vacancies exceed the demand. Early retirement further aggravates the problem of labor resources deficit. It is also pointed out that the problem with the retirement provision of the Byelorussians can be resolved through the introduction of a fully-funded component into their pension system; however, it will only work if there is a sufficiently developed stock market and a low inflation rate, which are both absent in Belarus.

**Source:** [http://www.profi-forex.org/novosti-mira/novosti-sng/belarus-/entry1008215973.html](http://www.profi-forex.org/novosti-mira/novosti-sng/belarus-/entry1008215973.html)

As of May 2014, the average pension benefit in Belarus amounted RUB 2.33 mln. Or approximately USD 230, while the average salary exceeded RUB 6 mln. From the beginning of this year, the average national salary expressed in USD grew from USD 554.4 to more than USD 600 in May 2014. However, the average pension expressed in USD has not changed since the beginning of this year.


**Denmark**

**PensionDanmark invests DKK 3.5bn in new infrastructure fund**

PensionDanmark made an investment commitment of DKK 3.5bn to a newly established infrastructure fund.

The fund, CI II will invest in energy-related infrastructure such as wind farms and electricity and
gas transmission systems in Western Europe and North America. It will be managed by
Copenhagen Infrastructure Partners (CIP). CIP also managed the fund CI I, which was established
in 2012 with PensionDanmark as the sole investor.

The fund’s capital has been invested in wind farms, biomass power plants and transmission
networks in the USA, the UK and the German part of the North Sea.

“Infrastructure investments provide members with a sound and stable return well above the
bond yield and, unlike stock markets, they are not cyclically sensitive.

Therefore we have a target of investing around 10 percent of our balance sheet in stable
infrastructure,” PensionDanmark CEO Torben Möger Pedersen said.

“Our infrastructure investments have really taken off in recent years, both via our internal
investment team and via our very satisfactory cooperation with CIP. So we are pleased to make a
large investment commitment to the new fund today,” he said.

Eight institutional investors have made a total commitment of approximately DKK 8bn to the
new fund, CI II.

Copenhagen Infrastructure Partners expects aggregate commitments to the fund to reach DKK
10-12bn and to invest the capital over the next three years.


**PensionsDanmark among group worth $1.3trn to commit to ‘climate-resilient’ investment**

PensionsDanmark is among 10 pension funds and institutional investors to have presented a
commitment to the UN to identify and evaluate investment opportunities in ‘climate resilient’
infrastructure.

Joint and individual letters were sent by the firms – including Ontario Teachers’ Pension Plan,
California State Teachers’ Retirement System and California Public Employees’ Retirement
System – to evaluate the opportunity to invest in assets that contribute to mitigation of
greenhouse gas emissions, reduce the vulnerability of affected communities and enhance
adaptive capacity.

The other six parties involved in the commitment were Alberta Investment Management
Corporation, British Columbia Investment Management Corporation, Government Employees’
Pension Fund of South Africa, New York State Common Retirement Fund, New Zealand
Superannuation Fund and Office of the New York City Comptroller.

The commitment also called for governments and regulators to create frameworks that enable
structures that have long term cash flows and which appropriately distribute the risk across
parties.

Furthermore, they committed to incorporate appropriate measures to consider climate change
and sustainability in the design, construction and operation of their assets where applicable and
are consistent with existing policies, procedures and processes.

The collective signatories said they will work with the secretary-general and his staff to build an
investment environment to achieve the collective goals, PensionsDanmark said.


**Investments  Pension Danmark**

As of 31 December 2013 PensionDanmark had EUR 20 bn under management. In the coming
years the net inflow of pension contributions will amount to more than EUR 1bn on an annual
basis. By 2016 assets under management are expected to exceed EUR 24 bn.
Investment objective and asset allocation

PensionDanmark’s long term investment objective is to ensure the highest possible buying power of our member’s pension savings – i.e. achieving the highest possible investment return after inflation, taxes and costs with a prudent level of risk.

Contrary to most Danish pension funds, PensionDanmark is working without guaranteed minimum yields, which enables the fund to invest with a long term horizon to the benefit of the members. Most investments are managed in a lifecycle product, where

- Members under age 41, have their savings invested in a way where slightly less than half of the investments are allocated to equity and non investment grade credit.
- When members turn 41, their savings are gradually switched into more conservative and less volatile holdings as they near retirement age.

The Strategic Benchmark

On an annual basis the Board determines a strategic benchmark (SBM). The SBM reflects the funds medium to long term strategic asset allocation, and provides an efficient balance between risk and return in the light of the funds’ risk tolerance. Furthermore the SBM serves as a yardstick against which the funds performance can be measured. The Board also sets limits to how much the actual asset allocation can divert from the SBM due to short term tactical considerations.

The table below shows the 2014 Strategic Benchmark for PensionDanmark’s Basispulje and the fund for 65 year old members (under adjustment).

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<tr>
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<th>Under 41 years old Pct.</th>
<th>65 year old Pct.</th>
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<tbody>
<tr>
<td>Public Equity</td>
<td>41.5</td>
<td>21.0</td>
</tr>
<tr>
<td>Private Equity</td>
<td>3.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Equities in total</td>
<td><strong>45.0</strong></td>
<td><strong>23.0</strong></td>
</tr>
<tr>
<td>High yield bonds</td>
<td>6.0</td>
<td>4.5</td>
</tr>
<tr>
<td>Leveraged Loans</td>
<td>3.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Credit funds (Mezzanin)</td>
<td>2.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Emerging Market bonds</td>
<td>6.0</td>
<td>4.5</td>
</tr>
<tr>
<td>Non investment grade credit</td>
<td><strong>17.0</strong></td>
<td><strong>13.0</strong></td>
</tr>
<tr>
<td>Index linked bonds</td>
<td>6.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Real Estate</td>
<td>9.0</td>
<td>9.0</td>
</tr>
<tr>
<td>Infrastructure, energy</td>
<td>8.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Real assets in total</td>
<td><strong>23.0</strong></td>
<td><strong>21.0</strong></td>
</tr>
<tr>
<td>European government and mortgage bonds</td>
<td>15.0</td>
<td>43.0</td>
</tr>
<tr>
<td>Investment Grade corporates</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
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Investment Philosophy Pension Danmark

Pension Danmark believe the best investment results are most likely to be achieved with a relatively small and focused investment team combined with a high degree of outsourcing to external managers.

Pension Danmark take well-considered investment decisions based on long term thinking and valuation. By nature our investment style is contrarian and value orientated.

Pension Danmark aim for an effective decision process based on a clear structure for responsibility and evaluation with well defined decision points. Risk is allocated based on a structured process of risk budgeting. The process allows for a detailed performance attribution analysis evaluating the performance of both internal and external decision takers.

Internal core activities

The allocation between asset classes is vital to returns as well as to risks. The most important core activities for the internal investment team are therefore:

- Strategic asset allocation and risk management
- Tactical asset allocation
- Selecting and evaluating external managers and funds

Furthermore, a part of the equity portfolio and the fixed income portfolio are managed internally. The decision to manage part of the assets in-house reflects our belief in significant synergies between some internal management and delivering best practice when it comes to taking care of the internal core activities. Nevertheless, we will only consider internal management of mandates, where we feel confident, that we have the sufficient skills and resources.


Irish pension levy must be discontinued to ensure supplementary saving, IAPF warns

A levy on Irish private sector pensions must be discontinued if individuals are to be persuaded to save through a new, universal supplementary pension saving scheme in Ireland, the IAPF has said. In its Budget 2015 submission, the IAPF said “people need to know their savings are secure”.

“The experience of the levy and the fate of the National Pensions Reserve Fund do not indicate that pension savings in Ireland are secure.”

Last October, the Minister for Finance Michael Noonan announced an increase in the levy on private sector pensions of 0.15 per cent in 2014. This brought the levy for 2014 to 0.75 per cent of private sector retirement savings which will result in a payment of around €700m from those savings by the end of September.

“The announcement indicated the additional payment was to cover the cost of potential state liabilities which may emerge from pre-existing or future pension fund difficulties. No details have been provided as to what these liabilities might be or whether the funds collected will be specifically earmarked for such liabilities.”

The IAPF said the state pension should be maintained at its current level as it is “the foundation stone of the pension system” and needs to continue its role of providing protection from poverty.


Irish pension fund assets up by 4% over Q3 but deficits keep climbing
Irish pension funds have experienced a 4 per cent growth of assets in the third quarter of 2014, but deficits continue to climb on the back of poor government and corporate bond yields. Liability values have increased by over 20 per cent to date in average in 2014 and since the beginning of 2014, accounting deficits have grown from €5.4bn to €8.9bn at the end of September.

Mercer said the position could have been even worse had it not been for a small increase in corporate bond yields over September.

The picture is in stark contrast to 2013, when the country saw a €1.8bn reduction in pension deficits.

“Even after a long run of positive asset returns to the end of September 2014 it will come as a disappointment that liability values and reported deficits on Company balance sheets will have increased significantly,” Mercer head of DB risk Sean O’Donovan said.

“This is even before the stock market falls in October which will have increased deficits.” Bond yields are at historic lows and while they do provide a broad match for liabilities, the timing of switching out of equities to these assets remains a key issue for employers and trustees. Schemes need to maximise opportunities as and when they arise and put in place plans to capture funding level improvements,” he added.

Sources: [http://www.europeanpensions.net/ep/Irish-pension-fund-assets-up-by-4pc-over-Q3-but-deficits-keep-climbing.php](http://www.europeanpensions.net/ep/Irish-pension-fund-assets-up-by-4pc-over-Q3-but-deficits-keep-climbing.php); by Marek Handzel, 21/10/2014

French pension fund to cut ‘most polluting’ firms from portfolio to reduce carbon footprint

French public pension fund ERAFP has made plans to remove CO2 emissions from its investment portfolio by excluding the “most polluting” companies.

The fund has been working with French asset manager Amundi on a methodology aimed at “significantly reducing” the carbon footprint of a €750m portfolio managed on ERAFP’s behalf by only selecting companies with ESG profiles.

The decarbonisation methodology selects only those with the best ESG profiles and applies an additional filter based on their carbon-intensity data, ERAFP said.

According to the fund, this will exclude from the portfolio the overall 5 per cent most polluting companies and the 20 per cent most polluting companies in each sector.

Furthermore, the tracking error for the decarbonised portfolio will not exceed 0.7 per cent and its performance will be similar to that of the initial index and yet its carbon intensity will be some 40 per cent lower.

The fund said in the meantime, it will continue its work on measuring carbon and climate risks with a particular focus on supporting research and development initiatives aimed at assessing the alignment of investments with climate objectives.


On January 1, 2015 Pension Benefits in Kazakhstan Will Rise 9%

This was announced by Kazakh Minister of Finance Bakhyt Sultanov in Majilis on September 15 at presentation of two bills: on the 2015-2017 republican budget and on the guaranteed transfer from the National Fund.

“Social security expenditures in 2015-2017 will total 5,885 bln. tenge. Out of them in 2015, 1,713 bln. tenge will be allocated, including for 9% increase in pension benefits from January 1, 2015 (inflation plus 2%). In addition, 129 bln. tenge will be allocated for 7% increase in the state social allowance; 23 bln. tenge for 25% increase in the amount of disability and survivor benefits from July 1, 2015; 137 bln. tenge for increase in the amount of basic pensions depending upon the years of services from July 1, 2017 and 30 bln. tenge for the military pensions reform”, said
Ministry of Labor and Social Protection of Kazakhstan (MLSP): Pension reform in Kazakhstan will lead to the implementation of a three-pillar system of benefits, including 5% from employers

The three-pillar pension system in Kazakhstan will consist of basic pension benefits depending upon the length of service, solidarity pension benefits paid over the next 30 years and starting from 2043 Kazakhstan will completely move to the fully funded system which will include a notional defined contribution scheme funded from 5% employers’ contributions. These are the parameters of Kazakhstan pension system reform being implemented by the MLSP of Kazakhstan.

According to the Ministry, the Concept of further Kazakh pension system improvement until the year of 2030 was developed in pursuance of the instruction of the country President. The need for this document development was dictated by the country’s social development priorities, namely the growing well-being and improvement of living standards.

The need to revamp pension system is caused, first of all, by growing mismatch between pension benefits and the working life earnings as well as the overall growing of living standards in the country; secondly, by the necessity to split responsibility for retirement provision between the government, employers and employees, and, thirdly, to ensure the correspondence of the retirement provision level to the level of economic growth.

According to the MSP, under the current Kazakh system all pensioners, irrespectively of their length of service, receive the same amount of basic pension equal to 50% of the minimum subsistence (10,450 tenge). In accordance with new legislation, which will become effective after the pension reform is implemented, basic pension benefits will be calculated based on the length of service and participation in the pension system. As a result, the longer person works the higher level of both basic pension benefit paid from the state budget and the accumulation pension benefit paid from the employee’s pension contributions he/she will receive.

Thus, pensioners with no length of service in Kazakhstan will receive the same basic pension equal to 50% of the minimum subsistence. Those who have 20 year of service will get 70% of the minimum subsistence. For pensioners with 35 years or more service period the basic pension will amount 100% of the minimum subsistence.

With regard to the timeline of various pension system components implementation, according to the reform program, the transitional solidarity pension system will be effective until 2043. This is caused by the fact that during this period, individuals having their service period prior to 1998 that is before transition to the mandatory accumulation pension system will retire. In addition to basic pensions and accumulation pensions, these individuals will also receive solidarity pensions.

After the year of 2043, only the accumulation pension system will be operational in Kazakhstan and basic pensions will be granted based on the length of contributory period in the accumulation pension system.

Pension benefits from the accumulation pension system will be funded from 10% pension contributions paid by employees. The amount of pension benefits will depend upon the length of participation in the system, the amount of pension contributions as well as the rate of return on the pension accumulations.

Except for the retained solidarity system in the transitional period and the newly implemented accumulation system, one more source of pension benefits for all categories of pensioners will be introduced – the Notional Defined Contribution (NDC) component. It will be funded from employers’ mandatory pension contributions.

According to the Minister of Labor and Social Policy of the Republic of Kazakhstan, due to this
design the pension system will be balanced, since all three parties will be participating in it: employer, employee and the government. The three components – basic pension, accumulation pension and NDC pension – will allow future pensioners to have adequate pensions after they reach the retirement age.

As the MLSP pointed out, the main objectives of the pension system upgrading are:
- to ensure that pension benefits are linked to the length of contributory period, the amount of salary and the accumulated amount;
- to ensure long-term financial sustainability of the pension system;
- to keep the pension system’s burden on the national economy at a reasonable level.


Currently, pension benefits are paid from three pillars: basic pension from the republican budget, solidarity pension for the service period prior to January 1, 1998 and the accumulation pension. Basic pensions are the same for all pensioners and amount a little less than 10,000 tenge. “Changing the basic pension, we will address the problems of three generations at once, specifically of those individuals who had low income prior to 1998, those who had short service period prior to January 1, 1998 and those who participated only in the accumulation system”, explained the Minister.


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**Reverse mortgages: Additional pension benefits program has been launched in People’s Republic of China**

P.C. China saw the launch of a reverse mortgage pilot project. Under this program, senior citizens will be able to sell their apartment in advance and continue living in it for the duration of their life. This will provide for a significant increase to their pension benefit. Eligible to participate in this program are those aged 60+. The reverse mortgage pilot program has already taken off in some PRC provinces and is soon to expand to major metropolises of the country.

Jian Vay, insurance problems studies department dean at the Beijing University, comments: “This program of social support of the population is primarily of interest to retirees living on their own, and those who have no next of kin to care for them. In this case, they have an opportunity to sell their apartment already today and to paid from proceeds on a monthly basis, living in the sold apartment until they die.”

Reverse mortgage involves transferring to an investment company their title to the apartment. In return, the company will disburse monthly payments in an agreed amount to the apartment owner. Eligible to render this service are only those companies whose own capital is at least RMB 2 billion. After the owner’s death, the company sells off the apartment and compensates its expense.

In lawyers’ opinion, the system needs elaboration of documents today. On the one hand, old age retirees should be protected against fraud. On the other hand, providers of this service are to be certain that they will be ultimately compensated once they have performed all their obligations.

Sources: [http://cctv.cntv.cn/2014/06/25/VIDE1403711038928931.shtml](http://cctv.cntv.cn/2014/06/25/VIDE1403711038928931.shtml)

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**NAPF: 60% of pension savings concentrated in reorganized NPFs, plus 26% more in those NPFs that are under demutualization**

The process of demutualization of non-State pension funds in the Russian Federation has been launched this year. Those NPFs that take pension savings of individuals are required to complete this process in 2014-2015. They are also required to be members of the savings guarantee system that comes into operation in 2015. Under the pretext of the need to bring order in the
system, the Government squeezed out of the NPFs their mandatory accumulation contribution for 2014. Instead of the accumulation pension system, these moneys will be diverted to the insured portion of the retirement pensions, Finance Minister Anton Siluanov claimed in June 2014.

The National Association of Non-State Pension Funds (NAPF) provided preliminary statistics on the demutualization process that is supposed to transform NPFs into joint stock companies (JSCs): 15 NPFs have been converted into JSCs, and 27 NPFs are being demutualized. More than 90% of NPFs, according to NAPFA, plan to complete the reorganization process by the end of 2014, and the rest following suit by the end of 2015 to comply with the deadline specified by Russia’s government. The NPFs already demutualized account for 60% of total pension savings accumulated by NPFs and for more than 55% of insured participants who opted for NPFs (Pillar II participants).

NPFs demutualization data as of June 25, 2014

Of the 117 licensed NPFs, 89 are engaged in mandatory pension insurance. Of these, NAPFA membership is held by 52 NPFs accounting for 81.4% of total pension assets accumulated by all NPFs and for 80.5% of all insured participants who opted for NPFs.

Table: NPFs ready for demutualization

<table>
<thead>
<tr>
<th>NPF name</th>
<th>Demutualization decision date</th>
<th>Docs registration date by CB</th>
<th>Date of CB agreeing with NPF demutualization</th>
<th>Pension reserves, in RR Mio.</th>
<th>Pension savings*, in RR Mio.</th>
<th>No. of participants, in '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Those that submitted documents to Central bank</td>
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Sources: [http://www.google.com.ua/url?url=http://napf.ru/files/84628/%D0%9C%D0%BE%D1%80%D0%BD%2019 165
3THUg](http://www.google.com.ua/url?url=http://napf.ru/files/84628/%D0%9C%D0%BE%D1%80%D0%BD%2019 165
3THUg)

Romanian regulator to expand pension fund corporate investment

Romania’s financial supervisory authority (AFS) has announced it intends to review the regulations for private pension funds to increase their direct investment in the real economy, primarily via listed equities and corporate bonds.

According to the authority, the second and third-pillar fund investments in Bucharest Stock Exchange (BSE) listed companies totalled RON2.73bn (€617m).

The funds are large shareholders in the recent major state-owned company IPOs on the BSE, with 20.6% in nuclear power plant Nuclearelectrica, 22.8% in natural gas producer Romgaz and 18.6% in electricity distributor Electrica, as well as holding significant stakes in other strategically important companies.

Mihai Bobocea, adviser to the board of the Romanian Pension Funds’ Association (APAPR), added that, according to the association’s estimates, pension funds now account for 10% of the BSE’s trading volume.

Bobocea told IPE the association had been discussing potential changes with the AFS for some...
Romania

months. These include reviewing the risk coefficients of the asset classes pension funds can currently invest in. “This would ultimately lead to more direct investment in stock,” he said.

For example, while the limits state that funds can invest between 0% and 70% in government bonds, in practice, the numerous valuations force medium-risk funds into investing 60-65% into state securities.

The APAPR has also proposed the possibility of buying and trading corporate bonds, currently restricted to “regulated stock markets”, on the OTC market, and allowing interest rate risk hedging and other uses of derivatives. “The current legislation is restrictive and only allows for some forex hedges,” said Bobocea.

The AFS’s announcement follows on from prime minister Victor Ponta’s statements to the Romanian press in July that appeared to rule out either a Hungarian-style nationalisation of the second-pillar funds or a Polish-style expropriation of their government bond assets.

These spectres were raised last year following rumours the government intended to review the second pillar’s performance with the IMF.

Ponta has since stated that he wanted to find, along with the European Commission and IMF, a solution enabling the funds to expand their investments beyond government bonds in ways that would benefit the real economy. He told the Romanian financial weekly Capital that while the Hungarian solution produced good results in the short term, in the medium term, it would prove a mistake.

Sources: http://www.ipe.com/10002567.article

United Kingdom

The pensions industry, for so long riddled with absurd charges and overpaid and underperforming fund managers, finally has a real competitor. It’s called the British government.

In a little-noticed technical change slipped out on Monday, the Department for Work and Pensions has lifted the cap on contributions into the government scheme it set up in 2012, and said people can transfer in their pension pots from past employers.

The move in effect turns the government into a no-nonsense, cheap alternative to the likes of Aviva, Standard Life and Legal & General – and underlines just how much the British public has been overcharged until now.

From the moment the scheme – National Employment Savings Trust or Nest – was set up, the private pensions industry sought to handicap it, hedging it in with a multitude of restrictions. Why? Because it showed up the industry for the overcharging beast it had become.

Unlike the private providers, Nest said it could perfectly well manage small contributions that may stop and start (for example, while on maternity leave). It does so without public subsidy, for an annual charge of 0.3% of the person’s money.

That number horrified the pensions industry, which has routinely milked members for between 1% and 3% a year – money used to pay fund managers £1m-plus salaries and fat commissions to brokers. It declared Nest was unfair competition and demanded it be allowed only to take workers who paid in small amounts (the customers they didn’t want anyway) and that it be banned from accepting transfers of big company schemes (their juiciest customers).

Sadly, the government caved in at the time. But yesterday pensions minister Steve Webb lifted the restrictions – albeit only from 2017, the date when the staging of auto-enrolment from large employers down to the smallest is finally completed.

Nest keeps its costs low chiefly by investing members’ money in cheap tracker funds matching the performance of an index, rather than “actively managed” funds where star managers pocket millions of pounds individually – but where the evidence shows that almost none consistently beat the index. Also, it doesn’t have to shell out dividends to shareholders.

Since Nest started it has attracted 1 million members. The private pension companies have
begun cutting their charges, but few match Nest.

From next April, they will be dragged (and they’re already screaming) by Steve Webb into a new regime whereby they will be banned from charging more than 0.75%.

Charges matter. An individual earning £20,000 would save around £35,500 over their lifetime if they saved in a scheme with a 0.75% charge compared to a 1% charge – and much more if they are in Nest.

Standard Life is already reported as having made provisions of £160m and Scottish Widows £100m to cope with the cap – but few will shed any tears for their shareholders.

Nest isn’t perfect – as Tom McPhail of Hargreaves Lansdown points out, apart from its 0.3% annual charge, it imposes a 1.8% initial fee, which means it is more expensive than others if the member is, say, starting in their early 60s and isn’t going to contribute for long. And while it’s ultra-cheap for people accumulating their savings, it offers very little for the new world of “decumulation” – where you draw down the money during your retirement.

But even with the initial fee factored in, long-term savers will be facing charges that work out at 0.5% a year, or a third less than the private providers under the new cap. If you are self-employed, Nest is virtually a no-brainer. For many small and medium-sized employers, it stacks up extremely well against the private companies.


**UK to ‘lead the way’ with at-retirement innovations**

The UK has an opportunity to “lead the way” with innovating the at-retirement market, but only has a small window of time to do so, Alliance Bernstein has warned. Speaking at the UK’s NAPF annual conference, AllianceBernstein multi-asset pension strategies head David Hutchins stated the decumulation stage in every DC market is now pretty similar following the Budget changes in the UK.

According to Hutchins, despite the work of DC markets globally to encourage employers and trustees to make good decision on members’ behalves, at the decumulation stage “we give up and say ‘here is your money, go and do your own thing’”. There has been a “high level policy vacuum in this space everywhere”, he added, “although everybody is now looking at this, whether it’s the UK with our changes, Australia with the Cooper Review or in the US with the stuff occurring there at the moment”.

The problem, Hutchins explained, was people tend to ‘default’ into whichever retirement product is put in front of them, as well as poor levels of product innovation.

“There is a very inefficient demand-side market – you just don’t have educated buyers in this market driving innovation in a positive way,” he added. “People do not buy pensions, they are sold pensions. In the UK we do have an opportunity to lead the way in getting this right post-Budget, but we have a very narrow window of opportunity over the next year or two to improve this.”

Revision of the Occupational Pension Funds Directive – frequently asked questions

1. What are occupational pension funds?
Occupational pension funds or Institutions for Occupational Retirement Provision (IORPs) are financial institutions which manage collective retirement schemes for employers, in order to provide retirement benefits to their employees (the scheme members and beneficiaries).

Occupational pensions, which include an employer contribution, are known as the "second pillar" of pension systems, the "first pillar" being state-based social security pensions, and the "third pillar" being non-compulsory private pension savings by individuals.

There are some 125,000 such funds operating across the EU. They hold assets worth €2.5 trillion on behalf of around 75 million Europeans, which represents 20% of the EU’s working-age population.

2. Why did the 2003 Occupational Pension Funds Directive need to be revised?
The Occupational Pension Funds Directive 2003/41/EC (also known as the IORP Directive) lays down basic requirements for occupational pension funds and their supervision, including rules which oblige occupational pension funds to invest their assets prudently, in the best interest of members and beneficiaries. It aims to provide the conditions under which a single market for occupational pension services could start developing.

However, there have been significant developments since 2003.

First, the financial crisis has recalled the need for sound governance of financial institutions and clear information to members and beneficiaries. Failure of certain funds in the EU meant in some cases a cut in members' and beneficiaries' rights. This has shown a need to strengthen governance provisions. This is particularly relevant since there has been a decline of "defined benefit" and a growth of "defined contribution" occupational pension funds. Defined benefit pension schemes guarantee pay-outs upon retirement. Contrary to defined benefit schemes, in defined contribution schemes the investment risk is borne by the pension scheme member, with no guaranteed pay-out. Therefore, governance and transparency of information rules are especially important for defined contribution schemes. The growth of defined contribution schemes is illustrated in the figure below.
Figure 1: Membership in defined benefit, defined contribution, and hybrid schemes (combining both defined benefit and defined contribution), in millions of members

Source: Commission Services, Eurostat, OECD and national sources.

Second, ageing populations have increased the pensioner-to-worker ratio, and also the need for more retirement savings and for strong occupational pensions systems which are being developed in several Member States.

Third, there is an increasing recognition of the need for long-term investment in Europe's economy, and occupational pension funds are among the largest institutional investors in Europe.

3. What are the key aims and contents of this proposal?

The proposal has four key objectives and introduces improvements in all these areas to:

- **Ensure the soundness of occupational pensions and better protect pension scheme members and beneficiaries.** The proposal would introduce:
  - (i) new governance requirements on key functions (risk management, internal audit and where relevant actuarial function),
  - (ii) new provisions on remuneration policy, so that institutions have a sound remuneration policy (for instance avoiding conflicts of interest) and regularly disclose relevant information on such policy,
  - (iii) a self-assessment of the risk-management system (through a Risk Evaluation for Pensions),
  - (iv) the requirement to use a depositary (that is an entity in charge of for the safe-keeping and oversight of members and beneficiaries' assets), particularly to reduce operational risk,
  - (v) enhanced powers for supervisors including for chain-outsourcing (outsourcing and all subsequent re-outsourcing) and stress testing.

- **Better inform pension scheme members and beneficiaries.** The proposal would introduce a Pension Benefit Statement standardised at EU level that provided pension scheme members with simple and clear information about their individual pension entitlements. The Pension Benefit Statement aims to support informed decision-making about (i) pension adequacy (answering the question "do I need to save more to maintain my standard of living after retirement?") and (ii) investment strategy (answering the question "is my investment approach right?"). The Pension Benefit Statement helps individuals maintain a good understanding of their occupational pension entitlements throughout their working lives and across Member States, the latter being particularly important for the increasing workforce that is mobile across the EU (see also Question 11 below on the administrative costs of the proposal and Question 12 on the Pension Benefit Statement).
- **Remove obstacles for cross-border provision of services so that occupational pension funds and employers can fully reap the benefits of the single market.** The proposal would make it easier for occupational pension funds to operate a pension scheme that is subject to the social and labour law of another Member State and for fund assets to be transferred across Member States, notably by introducing a pension fund transfer procedure (see also Question 13 below). Innovative companies, ranging from SMEs to multinationals, would be able to reduce staff costs through economies of scale, risk diversification and innovation.

- **Encourage occupational pension funds to invest long-term in growth-, environment- and employment-enhancing economic activities.** The proposal would modernise investment rules to allow occupational pension funds to invest in financial assets with a long-term economic profile thereby supporting the financing of growth in the real economy. The proposal would change the existing provisions on investment restrictions to make sure occupational pension funds remained free to invest in infrastructure, unrated loans etc., thus ensuring that investments, in particular with a long-term profile, should not be restricted if the restriction is not justified on prudential grounds.

5. **What benefits would arise from this proposal?**
The proposal would improve financial stability, as certain occupational pension funds are large financial institutions with several millions of members and beneficiaries.

*Employers, including SMEs,* are expected to benefit through the reduced cost of joining an existing occupational pension fund. Moreover, employers joining a pension scheme in an established market can expect to see a reduction in their administration and investment costs.

*Multinational companies* would also benefit from more easily consolidating their existing pension schemes (possibly in different Member States) into one occupational pension fund. *Member States* would benefit because well-governed occupational pension funds, and wider geographic coverage, are expected to reduce some of the fiscal pressure on state pension systems.

*Citizens* in general and those who are mobile across borders in the course of their careers in particular would also benefit from having the Pension Benefit Statement in a standardised format, for all the Member States in which they have worked. More generally, all citizens would benefit from better protection through strengthened rules for governance of occupational pension funds. They would also benefit from improved personalised information so that they could make better-informed decisions about their retirement provision.

6. **How would this initiative contribute to long-term investment?**
The proposal would stimulate the capacity of occupational pension funds to invest in financial assets with a long-term economic profile and thereby support the financing of growth in the real economy in several ways:

- The Risk Evaluation for Pensions would allow occupational pension funds to be more aware of their commitments to their beneficiaries and thus make better-informed decisions about investments in long-term assets;
- Provisions on investment restrictions would be modernised (as explained above) so that Member States could not restrict investment choices made by occupational pension funds (in particular in assets with a long-term profile such as infrastructure) if restrictions were not justified on prudential grounds.

7. **How would it contribute to the agenda for safe and sustainable pensions?**
In February 2012, the Commission adopted a White Paper on safe and sustainable pensions\(^1\), containing a range of ideas and suggestions for improving various aspects of pension provision in the EU (IP/12/140, MEMO/12/108 and MEMO/14/217). A reform of the 2003 Occupational Pension Funds Directive featured prominently among the action points included in that White Paper. This legislative proposal meets that commitment.
8. Is there any link to the Acquisition and Preservation Directive for pension rights?

The proposal for the revision of the Occupational Pension Funds Directive includes the use of the Pension Benefit Statement, a common template for reporting to scheme members and would thus support the effectiveness of the Acquisition and Preservation Directive as scheme members would need to have a clear and concise overview about their pensions rights accumulated in different national occupational pension funds across Member States. The common template would also support the development of an EU-wide pension tracking system².

More generally speaking, as defined contribution schemes with investment choices for the member (multi-fund occupational pension funds) are becoming more widespread, the Pension Benefit Statement is expected to provide more relevant information to individuals for taking investment decisions in relation to their particular characteristics, notably their age and risk profile.

9. Where is the added value in EU-level action, given that occupational pension funds are concentrated only in a small number of Member States?

While occupational pension funds play a significant role in the pensions systems of only a minority of Member States, they exist to some extent in most Member States, and even in those Member States where they do not currently exist, employers are free to contract their occupational pension provision with an occupational pension fund in another Member State, if they choose to do so.

A more harmonised and robust EU regulatory framework for the supervision of occupational pension funds can therefore pave the way for the development of occupational pension funds in some Member States where they are currently not developed or non-existent. In particular, pension systems in some of the newer EU Member States are heavily dependent on state-provided social security ("pillar 1"), and there is scope for more funded pension provision, including occupational pensions. Currently, a number of Member States are considering developing an occupational pension fund sector. The revision of the Directive is also expected to facilitate cross-border activity by occupational pension funds, by removing some uncertainties about the legal framework applicable to such activity, and reducing the costs.

The figure below shows that there is a potential for the development of occupational pension funds in many Member States: the projected share of occupational pension funds within the overall pension systems is higher in 2046 than in 2006 in nearly all of the 16 surveyed EU Member States.

**Figure 2: Actual and projected share of occupational pension funds in the overall pension systems³, 2046 versus 2006, survey for 16 EU Member States**

The proposal would also bring about a higher EU-wide minimum level of consumer protection, thus disseminating best practices across the EU and preventing unequal levels of protection in the EU. It also takes into account interests of cross-border workers, by ensuring that they would have clear and
comparable information about their pension schemes in a consistent manner across Member States. All of these benefits can only be achieved by action at EU level.

10. Isn't this area part of social security and thus not part of the Single Market?

Member States retain full responsibility for the organisation of their pension systems as well as for the decision on the role of state, occupational or personal pensions. This proposal does not call into question that prerogative. However, within that framework occupational pensions are provided by financial institutions and may therefore be provided cross-border in the EU’s Single Market for financial services.

11. What costs would the proposal impose on occupational pension funds? Would smaller funds be forced to merge as a result?

The Commission has estimated the administrative burden of the proposal with the support of the occupational pension fund industry: the proposal would involve a one-off adjustment cost in the short-term estimated at around 22 euro per member, and recurrent additional costs estimated between 0.27 and 0.80 euro per member and per year. The benefits of the entire package of the proposal are expected to outweigh these costs.

The additional requirements are not likely to impose a disproportionate burden on smaller occupational pension funds, considering that outsourcing is widespread. Moreover, Member States would have the option not to apply the Directive, in whole or in part, to any occupational pension fund with less than 100 members in total. The simplification of cross-border definitions and procedures is likely to benefit smaller occupational pension funds more in comparison with larger ones because smaller ones have a lower financial capacity to absorb transaction costs.

12. How would the Pension Benefit Statement work?

The annual Pension Benefit Statement would contain both personalised and generic information about the pension scheme. The Pension Benefit Statement would be produced according to a standard template of two pages. Standardisation will help members to compare their rights under different pension schemes, and will help occupational pension providers to reduce implementation costs, including where they are active cross border.

It would contain general information for all types of pension schemes and information about an individual’s personal situation (for example accrued pension rights or assets accumulated and projections) with a view to helping individuals take decisions regarding their retirement planning. It would also contain information for "defined contribution" schemes about risks, returns and costs with a view to helping individuals take decisions on investment. The Pension Benefit Statement would be the first layer in a modern multi-layered approach to communication, with national specificities described more in depth in subsequent layers. The Pension Benefit Statement would indicate where more detailed national information is available and could be integrated into more comprehensive national systems of information on all pillars of the pensions system.

13. How would the proposal contribute to more cross-border activity?

It is complex today for an occupational pension fund located in one Member State (home Member State) to manage schemes with members whose relationship is subject to the social and labour law of another Member State (host Member State). Specifically, occupational pension funds wishing to be active cross-border may face higher prudential requirements than local funds: the supervisor in the host Member State may impose additional investment rules or information requirements on top of those required by the supervisor in the home Member State.

The proposal would make it easier for occupational pension funds to operate cross-border pension schemes. In particular, the proposal would: (i) clarify the procedure when occupational pension funds wish to offer their services in other Member States, (ii) clarify the respective roles of the home and
host Member States and (iii) puts in place a procedure for the transfer of pension schemes between occupational pension funds in two different Member States.

14. Is the Commission intending to introduce new solvency rules for occupational pension funds?

This proposal does not contain a review of the existing quantitative solvency rules for occupational pension funds. The European Insurance and Occupational Pensions Authority (EIOPA) is carrying out detailed technical work on this. A Quantitative Impact Study of occupational pensions was completed in February 2013. However, based on the results of this work, the Commission did not consider it appropriate to introduce new quantitative solvency rules with this proposal.