

# FYRO MACEDONIA



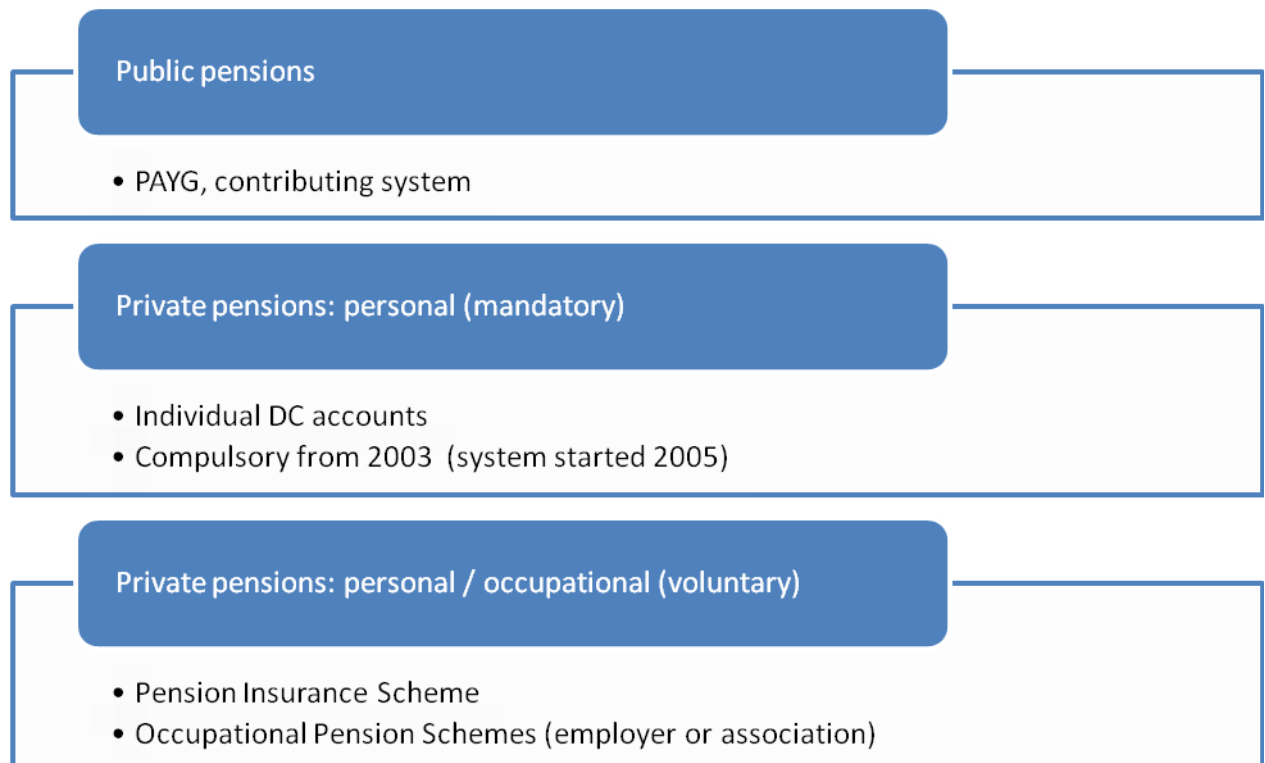
## DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (millions of national currency)	376,612
GDP per capita (USD)	4,407
Population (thousands)	2,041
Labour force (thousands)	919
Employment rate	66.24
Population over 65 (%)	9.73
Dependency ratio	21.59

Data from 2008 or latest available year.  
 1. Ratio of over 65-year-olds the labour force.  
 Source: OECD

## COUNTRY PENSION DESIGN

### STRUCTURE OF THE PENSION SYSTEM



Source: OECD Global Pension Statistic.

## PENSION FUNDS DATA OVERVIEW

	2001	2002	2003	2004	2005	2006	2007	2008
<b>Assets</b>								
Total investments (National currency millions)	ND	ND	ND	ND	ND	ND	3,125	5,037
Total investments, as a % of GDP	ND	ND	ND	ND	ND	ND	0.88	1.34
Of which Assets overseas, as a % of Total investment:								
• Issued by entities located abroad	ND	ND	ND	ND	ND	ND	2.89	2.12
• Issued in foreign currencies	ND	ND	ND	ND	ND	ND	35.29	29.50
<b>By financing vehicle (as a % of Total investments)</b>								
• Pension funds	ND	ND	ND	ND	ND	ND	100.00	100.00
• Book reserves	ND	ND	ND	ND	ND	ND	NA	NA
• Pension insurance contracts	ND	ND	ND	ND	ND	ND	NA	NA
• Other financing vehicle	ND	ND	ND	ND	ND	ND	NA	NA
<b>By pension plan type</b>								
• Occupational assets	ND	ND	ND	ND	ND	ND	0	0
• % of DB assets	ND	ND	ND	ND	ND	ND	ND	ND
• % of DC (protected and unprotected) assets	ND	ND	ND	ND	ND	ND	ND	ND
• Personal assets	ND	ND	ND	ND	ND	ND	3,125	5,037
<b>Structure of Assets (as a % of Total investments)</b>								
Cash and Deposits	ND	ND	ND	ND	ND	ND	18.47	42.42
Fixed Income	ND	ND	ND	ND	ND	ND	59.79	47.93
Of which:								
• Bills and Bonds issued by the public and private sector	ND	ND	ND	ND	ND	ND	59.79	47.93
• Loans	ND	ND	ND	ND	ND	ND	0.00	0.00
Shares	ND	ND	ND	ND	ND	ND	21.58	8.75
Land and Buildings	ND	ND	ND	ND	ND	ND	0.00	0.00
Other Investments	ND	ND	ND	ND	ND	ND	0.16	0.90
<b>Contributions and Benefits</b>								
Total Contributions, as a % of GDP	ND	ND	ND	ND	ND	ND	0.53	0.62
• Employer Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	100.00	100.00
• Employee Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	0.00	0.00
Total Benefits, as a % of GDP	ND	ND	ND	ND	ND	ND	0.00	0.00
• % of benefits paid as a Lump sum	ND	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Pension	ND	ND	ND	ND	ND	ND	ND	ND
<b>Membership (in thousands of persons)<sup>1</sup></b>								
Total membership	ND	ND	ND	ND	ND	ND	163	195
• % of Total active membership	ND	ND	ND	ND	ND	ND	100.00	100.00
Of which: % of Deferred membership								
• % of Passive membership	ND	ND	ND	ND	ND	ND	ND	ND
Other beneficiaries	ND	ND	ND	ND	ND	ND	ND	ND
<b>Number of Pension Funds/Plans</b>								
Total number of funds	ND	ND	ND	ND	ND	ND	2	2
Total number of plans	ND	ND	ND	ND	ND	ND	ND	ND

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available

NA = data not applicable

Source: OECD, Global Pension Statistics

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## FYRO MACEDONIA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

### **PUBLIC PENSION**

The contribution rate is 21.2% of gross earnings, covering old age, disability, survivors, and minimum pension benefits – for the members of mono-pillar pension system. For the members of two-pillar pension system 65% of contributions i.e. 13.78% of gross earnings go to the PAYG system and the remaining 35% of contributions i.e. 7.42% of gross earnings go to the mandatory fully funded pension insurance. The retirement age is 64 for men and 62 for women with minimum 15 years of pension service.

### **PERSONAL MANDATORY**

#### Coverage

The scheme covers private- and public-sector employees, civil servants and self-employed persons who participated in the publicly managed social security scheme for the first time on or after 1 January 2003. Participation is voluntary for the persons covered by the publicly managed social security scheme before 1 January 2003. The switching period for this category ended on December 31, 2005. Covered persons may join any open pension fund through entering into a membership contract with the pension company administering the fund, the choice of which is not influenced by their employer

#### Contributions

Contributions are made solely by employers at the rate of 7.42% of payroll. The self-employed must make their own contributions at the same rate. Additional voluntary contributions are not permitted. Individuals choose their provider, not their employer.

#### Benefits

As this is DC scheme, benefits depend on asset accumulation in individual accounts. For members who are eligible for public pension funds, they are allowed to purchase life annuity and receive programmed withdrawal. For those members who are not eligible for public pensions, a life annuity is the only allowable benefit payment method if the value is at least 40% of the minimum pension of Macedonia. If the accumulated asset is insufficient to buy such an annuity product, the members should receive a lump sum payment. This insurance provides one part of old age benefit (additionally to the old age benefit from the PAYG system). In case of a disability or death of the member, assets from the individual account are transferred to the PAYG public pension fund which provides full amount of disability or survivors' pension. In case there are no users of survivors' pension, the assets from the individual account can be inherited by the inheritors.

The retirement age is 64 for men and 62 for women with minimum 15 years of pension service. Pension withdrawal before retirement age is not allowed, except in case of disability or death. In case sum of PAYG and fully funded pension benefit are lower than minimum pension, the PAYG fund pays additional amount up to minimum pension.

#### Taxation

Tax regime is EET. Pension contribution and investment income are tax exempted and payment of pension benefits is taxed.

### **OCCUPATIONAL / PERSONAL VOLUNTARY**

#### **Voluntary**

#### Coverage

The scheme covers domestic and foreign citizens between age 18 to 70, regardless of the employment status, on a voluntary basis. This means that a person, who is already a member of the mandatory pension insurance, can also be a member of voluntary pension insurance. Also a person who is not covered by mandatory pension insurance can be a member of voluntary pension insurance. Additionally, a person can be a member of an Occupation Pension Scheme financed by its employer or association. This way a person might have one voluntary individual account and one occupational account.

#### Contributions

Contributions are made by the person, by third party or the sponsor of occupational pension scheme (employer or association). Amount and period of contributions payment are done by a free choice of the contribution payer.

#### Benefits

As this is DC scheme, benefits depend on asset accumulation in individual accounts. Benefits can be withdrawn as lump-sum, life annuity, programmed withdrawal or combination in case of old age, disability or death. Pension benefits can be withdrawn no earlier than 10 year before legal retirement age for the PAYG system, except in case of disability or death.

#### Taxation

Tax regime is EET. Pension contribution and investment income are tax exempted and payment of pension benefits is taxed.

### **MARKET INFORMATION**

During the first 10 years of operation of the mandatory private pension scheme, each licensed pension company may establish only one open pension fund. Two pension companies (i.e. AD za upravuvanje so penziski fondovi NOV PENZISKI FOND Skopje and KB Prvo drustvo za upravuvanje so penziski fondovi AD Skopje) have been selected to manage pension fund assets via international public tender process, and each mandate is granted for a 10-year period.

Pension assets must be managed in-house, although foreign assets may be outsourced to qualified foreign asset managers. Asset investment is subject to strict asset restriction, e.g. maximum 80% invested in bonds, 60% in bank deposits, and 20% in foreign assets. Assets must be kept by a custodian. In the first 5 years of operation the custodian of the pension funds' assets must be the National Bank of the Republic of Macedonia.

As of March 2008 there were 171,248 participants. Net assets managed by NPF were MKD 1.6bn and the fees charged in March 2008 were MKD 7.3 million. These two figures were 2.0bn and 8.5 million for KB Prv, respectively. The reported return between January 2006 and December 2007, on annual level, was 7.48% for NPF and 7.38% for KB Prv. In terms of asset allocation, as of March 2008, for NPF 0.54% was invested in foreign shares, 23% in domestic shares, 52% in domestic bonds, 23.7% in deposits, and 0.75% in others. For KB Prv, 2.9% in foreign shares, 0.22% in foreign investment funds, 14% in domestic shares, 56% in domestic bonds, 25.76% in deposits, 0.18% in cash, 0.88% in others.

### **POTENTIAL REFORM**

There are several amendments of the Law on mandatory fully funded law prepared and they are currently in the parliamentary procedure. Most important are:

1. Opening of the market for entry of new Pension Companies with purpose to increase competition and decrease the costs
  - Current Pension Companies licenses and approvals to manage a mandatory pension fund extended, instead for 10 years they have unlimited duration
  - New Pension Companies can be licensed via open licensing criteria, same legal requirements for the founder and Pension Company
2. Limiting the maximum fee on contributions charged by Pension Companies
  - Each year MAPAS can reassess max amount of fee on contribution on the basis of the actual developments in the market, real data and projections of members, contributions and pension fund assets, operations of pension companies, fees of all institutions involved in the system etc. with purpose of cutting the fees of the system. Government gives approval on this max amount.
3. Establishment of Penalty Commission in MAPAS
  - Pursuant to the changes of the Penalty law, MAPAS will establish Penalty Commission that will decide about breaches of the Law which will enable more efficient penalty system

There are undergoing preparations for transfer of custodian function into the commercial bank, for mandatory as well as for voluntary pension insurance.

Also, there are undergoing considerations of possibility towards shift of full independence of MAPAS

## **REFERENCE INFORMATION**

### **KEY LEGISLATION**

2008: Law on Voluntary Fully Funded Pension Insurance; regulates the establishment, operation and winding up of voluntary pension companies and joint pension companies, as well as voluntary pension funds, occupational pension schemes establishment, membership in voluntary pension funds, reporting, fees, investment and asset management rules, custody activities, etc.

2003/2004/2005/2007 Law on Mandatory Fully Funded Pension Insurance: Amendments.

2002: Law on Mandatory Fully Funded Pension Insurance; regulates the establishment, operation and winding up of mandatory pension companies and mandatory pension funds, membership in mandatory pension funds, reporting, fees, defines investment and asset management rules, custody activities and provides for a supervisory and regulatory system with regard to all entities involved in the administration of the mandatory private pension scheme.

Additionally to these laws there are more than 50 secondary regulations prepared or drafted for detailed regulation of specific elements of mandatory and/or voluntary fully funded pension insurance.

2000: Law on Modifications and Amendments to the Pension and Disability Insurance Law; establishes a mixed system of mandatory old-age provision consisting of a publicly managed social security scheme and a mandatory private pension scheme.

### **KEY REGULATORY AND SUPERVISORY AUTHORITIES**

Ministry of Labor and Social Welfare, responsible for the overall design of policy for pension and disability insurance in Macedonia as well as supervision and control of the implementation of the policies.  
<http://www.mtsp.gov.mk>

Agency for the Supervision of Fully Funded Pension Insurance (MAPAS), regulates and supervises mandatory and voluntary pension companies and their mandatory and/or voluntary pension funds, custodians and the operations of foreign asset managers in the Republic of Macedonia.

<http://www.mapas.gov.mk/en/index.asp?lan=en>

Pension and Disability Insurance Fund of Macedonia, administers the publicly managed social security scheme and collects contributions.

<http://www.piom.com.mk/>

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**COMPARATIVE CHARTS**

