

# BULGARIA



## DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (EUR bn)	66.7
GDP per capita (USD)	6,573
Population (000s)	7,953
Labour force (000s)	3,650
Employment rate	94.39
Population over 65 (%)	19
Dependency ratio <sup>1</sup>	40.6

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

## COUNTRY PENSION DESIGN

### STRUCTURE OF THE PENSION SYSTEM

#### Public pensions

- The state pension system, covering both employed and self-employees
- Contribution is required from both employer and employee. In the case of self-employee, higher contribution is needed

#### Private pensions: occupational (mandatory)

- Two pension schemes, i.e. universal and occupational
- Universal scheme, covering all employees regardless of job category and self-employees. It is a fully funded DC scheme
- Occupational scheme for those working in hazardous environment, and it is a fully funded and DC scheme too

#### Private pensions: occupational (voluntary)

- It was introduced in January 2007.
- The collective employment contract determines the coverage

#### Private pensions: personal (voluntary)

- It is a fully funded and DC scheme
- It is normally based on a contract between the individual and a pension fund managing company

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)	187	337	513	794	1,117	1,522	2,328	2,303
Total investments, as a % of GDP	0.63	1.04	1.48	2.05	2.61	3.08	4.12	3.45
Of which Assets overseas, as a % of Total investment:								
• Issued by entities located abroad	ND	0.03	0.01	0.46	1.22	8.12	17.88	26.96
• Issued in foreign currencies	ND	0.03	0.01	0.00	0.70	8.02	17.08	24.23
<b>By financing vehicle (as a % of Total investments)</b>								
• Pension funds	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
• Book reserves	ND	ND	ND	ND	ND	ND	ND	ND
• Pension insurance contracts	ND	ND	ND	ND	ND	ND	ND	ND
• Other financing vehicle	ND	ND	ND	ND	ND	ND	ND	ND
<b>By pension plan type</b>								
• Occupational assets	NA	NA	NA	NA	NA	NA	NA	NA
• % 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	187	337	513	794	1,117	1,522	2,328	2,303
<b>Structure of Assets (as a % of Total investments)</b>								
Cash and Deposits	37.45	26.88	19.93	19.93	19.15	24.26	17.50	23.88
Fixed Income	56.70	64.00	74.01	74.77	70.31	51.88	45.57	54.81
Of which:								
• Bills and Bonds issued by the public and private sector	56.70	64.00	74.01	74.77	70.31	51.88	45.57	54.81
• Loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares	0.87	2.96	2.76	2.94	6.37	15.82	21.52	10.40
Land and Buildings	3.15	2.71	1.80	1.67	0.67	1.71	3.33	3.60
Other Investments	1.83	3.44	1.50	0.69	3.49	6.32	12.07	7.32
<b>Contributions and Benefits</b>								
Total Contributions, as a % of GDP	0.45	0.60	0.53	0.65	0.72	0.79	1.11	1.10
• Employer Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	ND	ND
• Employee Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	ND	ND
Total Benefits, as a % of GDP	0.11	0.18	0.07	0.06	0.07	0.11	0.09	0.19
• % of benefits paid as a Lump sum	52.46	75.88	63.54	56.91	59.14	64.23	59.20	56.00
• % of benefits paid as a Pension	47.54	24.12	36.46	43.09	40.86	35.77	40.80	44.00
<b>Membership (in thousands of persons)<sup>1</sup></b>								
Total membership	550	1,804	2,298	2,719	2,719	3,203	3,443	3,646
• % of Active membership	99.56	99.85	99.88	99.91	99.91	99.94	99.94	99.95
Of which: % of Deferred membership								
• % of Passive membership	0.44	0.15	0.12	0.09	0.09	0.06	0.06	0.05
Other beneficiaries	ND	ND	ND	ND	ND	ND	ND	ND
<b>Number of Pension Funds/Plans</b>								
Total number of funds	16	24	24	24	24	24	27	31
Total number of plans	ND	ND	ND	ND	ND	ND	ND	7

Note: Data refer only to Bulgarian pension funds.

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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## BULGARIA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

### PUBLIC PENSION

The retirement age under the public state pension scheme is 63 for men and 59 for women (59.5 in 2008 and 60 in 2009), provided that the sum of the person's age and the number of years of participation in the publicly managed social security scheme is not less than 100 for men (37 years of coverage) and 91 for women (30 years of coverage). The latter figure will increase to 94 in 2010. Where the length-of-service requirements are not met, the retirement age is 65 for both men and women with 15 years of contributory service, of which 12 years of actual service.

The earnings-related scheme pays 1% of earnings for each year of service. The minimum old-age pension for pensioners with the required number of points at the normal retirement age is BGN 85 (July 2006). If an individual has low earnings and/or an incomplete work history, a minimum pension of 115% of the social old age pension (BGN 63 per month) is paid. The social old age pension is available to those aged 70 and over and is means-tested. It is available to those whose annual income per family member has been less than the national guaranteed minimum income for the 12 months prior to the attainment of the retirement age.

The insured person pays 6.65% of gross earnings to social insurance, with the self-employed contribution 19% of declared income. Employers contribute 12.35% of payroll. The minimum monthly earning for contributions is BGN 180 and the maximum BGN 1400.

Pensions are adjusted annually by the National Social Security Institute, at a rate between the previous year's inflation and the average real wage growth.

The gross replacement rate for the average worker, according to OECD estimates, is, 49.7% (75.2% net).

### OCCUPATIONAL MANDATORY (OCCUPATIONAL)

#### Coverage

Mandatory occupational funds provide a fixed-period pension to those working in hazardous environments. Occupational funds are fully-funded, defined contribution schemes with individual capitalization accounts. In 2006 the coverage rate was 4% of the active population.

#### Contributions

Retirement benefits are based on contributions, investment income and interest rate projections, while there is no minimum pension guarantee. Only employers contribute.

#### Benefits

Workers receive the occupational pension until they become entitled to retirement benefits under the public and universal pension schemes. They are entitled to benefits when they have:

- no less than 10 years of service in the most hazardous working environments and 8 years younger than the state retirement age;

- no less than 15 years of service in less hazardous working environments and 3 years younger than the state retirement age required for eligibility for old age and length of service pension from the Public Social Insurance system.

Until the end of 2009, slightly more favourable retirement conditions apply to those with long service periods. Until 31 December 2009 individuals can choose to receive benefits from the public social security pension fund or from an occupational pension fund. After 1 January 2010 benefits will be paid by occupational pension funds only.

### Taxation

Contributions to occupational funds and investment income are tax-exempt.

## **OCCUPATIONAL MANDATORY (UNIVERSAL)**

### Coverage

These funds provide retirement benefits to all employees regardless of job category. Universal pension funds cover employees and the self-employed. Participation is compulsory for all workers born after 31 December, 1959. In 2006 the coverage rate was 50.7% of the active population.

### Contributions

Universal pension funds are fully-funded, defined contribution schemes with individual capitalization accounts. Employers and employees make contributions to universal pension funds. Pension fund contributions are paid together with social security contributions and then redirected toward the private pension fund management company. The contribution level to universal pension funds amounts to 5%, with the employer responsible for 60% of that percentage and the employee for 40%. This division will gradually change to 55%-45% in 2008 and 50-50% in 2009. The self-employed must pay the entire 5% contribution themselves. Additional voluntary contributions are not permitted.

### Benefits

Benefits are paid by the pension fund itself as a life-long pension. Early retirement is allowed from five years before the ordinary retirement age described above, provided that the participant has accrued an amount of pension benefits that is equal or superior to the minimum old age pension provided by the Public Social Insurance system.

### Taxation

Same as mandatory occupational funds.

## **OCCUPATIONAL VOLUNTARY**

On 1 January 2007, voluntary occupational schemes were introduced. The collective bargaining agreement or the collective employment contract determines the coverage. Voluntary schemes provide pensions to participants aged 60 in accordance with the rules stipulated in a collective bargaining agreement or a

collective employment contract. Benefits are taxed identically to those under voluntary personal pensions. Early 2007, there were no management companies that manage voluntary occupational pension schemes.

## **PERSONAL VOLUNTARY**

### Coverage

Participation is open to all those aged 16 and over.

### Contributions

Contribution levels are determined in a contract between the pension fund managing company and the contributor (an individual, employer or another contributor); there are no legal limits. Vesting of contributions is immediate and the account is portable.

### Benefits

Benefits are paid directly by the fund. They can be paid out in a lump sum or through periodic withdrawals.

### Tax

Employers and individuals receive tax benefits on contributions. Benefits are taxed at 15%.

### Fees

The managing company may charge a fee for early withdrawals, which cannot exceed BGN 20.

## **MARKET INFORMATION**

### Occupational mandatory

As of 30 June 2006, there were eight mandatory occupational funds and some 188,000 participants. Doverie (39%), Allianz Bulgaria (20%) and Saglasie (17%) held the largest market shares in terms of participants. The eight mandatory occupational funds held BGN 273m in assets, of which Doverie (113m), Allianz Bulgaria (64m) and Saglasie (48m) held the largest portions: 41%, 23% and 18%, respectively. Over 2005, members made a total of BGN 47m in contributions. The figure for the first half of 2006 reached BGN 25m. The average monthly contribution per member for the first half of 2006 was BGN 53, while that figure was BGN 47 over 2005. Members have no individual portfolio choice.

### Personal mandatory

There were eight universal pension funds offering mandatory pensions to 2,3m participants in June 2006. Doverie (40%) and Allianz Bulgaria (20%) held the largest market shares in terms of members. Total assets were BGN 544,5m as of June 2006, with Doverie (41%) and Allianz Bulgaria (23%) holding the largest market shares. Total contributions over 2005 amounted to BGN 166m, while members made an average monthly contribution of BGN 20 over the first half of 2006. There number of universal pension funds has increased to nine (spring 2007).

### Personal voluntary

In 2006 there were eight voluntary pension funds, offering pensions to 557,000 participants. Allianz Bulgaria (47%) and Doverie (28%) held the largest market shares in terms of membership. Total assets in

the voluntary pension fund market amounted to BGN 444m, with Allianz Bulgaria holding 53% of all assets. Participants made a total of 46m in contributions during the first half of 2006 (95m over all of 2005). Participants made an average monthly contribution of BGN 47 over the first half of 2006. The figure of total investments by the eight funds stood at BGN 414m at the end of June 2006. Of those investments, 39% were made in government guaranteed securities, while 27% were made in securities traded on the financial market. Since 2007 there are nine voluntary pension funds.

#### **POTENTIAL REFORM**

The present pension system could be considered somewhat conservative; (e.g. no individual investment choice). Questions have also been raised about the ability to sufficiently fund the mandatory supplementary pension funds. A reserve fund may be established (key challenges for Bulgaria in the coming years relate to the amount of GDP that can be set aside for such a fund, the availability of funds from privatization activities and the investment strategies pursued. The investment regime for supplementary mandatory and voluntary pension funds has recently been liberalised and further liberalisation is expected.

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### **REFERENCE INFORMATION**

#### **KEY LEGISLATION**

All forms of old-age pension provision discussed in this chapter are regulated by the Social Insurance Code

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

Financial Services Commission

[www.fsc.bg](http://www.fsc.bg).







