

# Controlling costs in ROMANIA

Liviu Ionescu – CSSPP (Romania) / IOPS Secretariat

**2<sup>nd</sup> IOPS Regional Workshop on Pension Supervision for  
CEE, CIS, CAUCASIA and Central Asia Regions,  
10-11 May 2012  
Skopje , Macedonia**

[www.iopsweb.org](http://www.iopsweb.org)

# Background

Because:

- DC plans transfer the costs to individual members,
- There is a substantial impact of an annual management charge of funds under management – a 1% fee can reduce accumulated assets by as much as 20% (over a period of 40 years),

not excessive, fully and transparently disclosed costs are an important aspect of DC supervision.

There will always be a conflict of interests between the commercial incentives of pension providers and their fiduciary duty.

# Cost Control Mechanisms Applied in Different Countries

Transparent Fee Structure	Comparison	Not unreasonable tests	Fee Caps	Default allocation to low cost provider	Limit switching	Licensing	Centralized systems	Centralized fund management
Chile	Australia	New Zealand	Lat Am	Chile	Columbia	Bolivia	Sweden	Sweden
El Salvador	Hong Kong	USA	CEE		Bulgaria	Macedonia	Denmark	
Italy	Hungary		Israel		Estonia		Bolivia	
Mexico	Israel		Spain		Mexico		Kosovo	
Australia	Italy		UK				Colombia	
New Zealand	Spain						Poland	
	Mexico						Bulgaria	
							Hungary	
							Mexico	
							New Zealand	
							Chile	

# The case of Romania – overview of the system

## Pillar I

- public, “pay as you go” system
- managed by the National Public Pension House (CNPP)

## Pillar II

- since 2008
- private, personal accounts, mandatory, DC system
- managed by private entities - Pension Companies
- contributions: 3.5% employee gross earnings starting 2012, up to 6% by 2016
- 9 pension funds managed by 9 pension companies
- 3 categories of risk: low, medium and high

## Pillar III

- since 2007
- private, personal accounts, voluntary, DC system
- managed by private entities: Pension Companies, Insurance Companies, Asset Management Companies
- contributions: up to 15% of the gross salary
- tax incentives - 400 EUR / year both for employer and employee
- 11 pension funds and 9 pension fund managers: Pension Company - 7, Insurance Company - 1, Asset Management Company - 1

# Romanian Private Pension System 2011

## Pillar II

- 5,516 mil. members
- 1,49 billion EUR assets
- 9 pension funds, 9 pension fund managers

## Pillar III

- 260.393 members
- 100,85 mil. EUR assets
- 11 pension funds, 9 pension fund managers

## Total

- 1,59 billion EUR assets
- 1,25% of GDP
- 20 pension funds, 11 pension fund managers

# The case of Romania – supervising costs :

## 1. cap on fees

Formally, as is the case with other CEE countries, CSSPP (the Romanian authority in pensions supervision) decided to keep costs under control by introducing a **cap on fees**.

Maximum levels that can be charged are set up by primary and secondary legislation, but the fees are established by each pension provider through the pension scheme prospectus.

All pension funds providing 2<sup>nd</sup> pillar pensions (mandatory) have opted for charging the maximum fees, as seen below.

# The case of Romania – main costs & fees (1)

## *Second pillar* – fees charged:

1. *management fee on contributions* (% of contribution) – maximum 2,5% . Each fund can establish it's own percentage in the pension scheme prospectus.

2. *fee on assets under management* (monthly) – maximum 0,05%. Each fund can establish it's own percentage in the pension scheme prospectus.

3. *transfer fee* – amount paid by the participant if he transfers to another pension fund earlier than two years from the date of his last transfer. The fee is maximum 5% of the present accumulation that is to be transferred to the new fund.

At the moment all pension funds charge the maximum of the fees mentioned above.

4. *audit fee* – fixed annual amount paid by the pension fund publicly disclosed in the prospectus.

# The case of Romania – main costs & fees (2)

## *Third pillar* – fees charged:

1. *management fee on contributions* (% of contribution) – maximum 5%. Each fund can establish its own percentage in the pension scheme prospectus. At the moment, the range of management fee varies between 2.95% - 5%.

2. *fee on assets under management* (monthly) – maximum 0,2%. Each fund can establish its own percentage in the pension scheme prospectus. At the moment, the range of management fee charged by the pension companies is between 0,091% - 0,195%.

3. *transfer fee* – amount paid by the participant if he transfers to another pension fund earlier than two years from the date of his last transfer. The fee is maximum 5% of the present accumulation that is to be transferred to the new fund.

4. *audit fee* – fixed annual amount paid by the pension fund publicly disclosed in the prospectus.

Other costs charged: depository fee, trading fee.

# The case of Romania – cost comparison with the CEE region

**Table 1: Average Annual Administrative Fees Charged**

Country Or Jurisdiction	Proportional Charge on Flows (% of Contribution)	Fixed Charge on Flows (US\$)	Charge on Assets Under Management (% of net assets)	Charge on Returns (% of assets under management)	Charge on Excess Returns <sup>a)</sup>	Fixed Charge on Transfer (US\$)	Charge on Exit (as a % of total transferring member's account)	Social Insurance Agency Fee (% of Salary)	Charge on Death and Disability Insurance
Bulgaria	5.00%		1%			\$14.45			
Croatia	0.68% <sup>f)</sup>		0.95%				0.47%		
Czech Rep			1.92% <sup>g)</sup>						
Hungary	5.00%		0.57%						
Macedonia	6.85%		0.6% <sup>h)</sup>						
Poland	7.00%		0.53% <sup>h),i)</sup>	0.03% <sup>ii)</sup>					
Serbia	2.21%		1.78%						
Slovak Republic	1.00%		0.78%					0.045%	
ROMANIA (MONTHLY)	2.50%		0.05%				5%		

# The case of Romania – supervising costs:

## 2. transparency

Another useful way considered by CSSPP to keep costs under control is by **transparency**:

- there is a legal obligation for pension funds to disclose different information regarding costs and fees publicly, through various ways (pension scheme prospectus, annual written letter, information upon request, information published on website, etc),

- CSSPP has on its own website, at the “Financial Education” page, an updated comparison of all the main information pension funds should disclose publicly, both for 2<sup>nd</sup> and 3<sup>rd</sup> pillar. These info include the main costs and fees above mentioned.

- CSSPP provides a web-based system for members to undertake comparison of the returns earned by 2<sup>nd</sup> pillar pension funds.

# The case of Romania – supervising costs: learning from other entities' experience

Transparency can also be obtained by publishing real and comparative costs. Comparative costs = well-informed participants.

The experience from other countries has been collected in the IOPS (2011), *“Comparative Information Provided by Pension Supervisory Authorities” – Working Paper No. 15.*

In the paper, IOPS looked at data collected in the members' jurisdictions. Pensions supervising authorities provided comparison costs – see the cases of Hong Kong, Italy, etc. who calculate synthetic cost indicators.

## Conclusions

- Private pension system in Romania – young system, 4 years old
- Main control on costs by the authority is made through cap on fees mentioned in the national legislation.
- Other control – transparency – being a legal obligation of pension providers, but also something that is encouraged by CSSPP through various ways (financial education, web-based comparisons, etc).
- However, the cap on fees is not very useful in the 2<sup>nd</sup> pillar (mandatory), as all providers chose to charge the maximum fees allowed.
- For the future – CSSPP should calculate and provide comparative costs so that participants are better informed about the costs of pension providers.