Controlling costs in Slovakia

2nd IOPS REGIONAL WORKSHOP ON PENSION SUPERVISION FOR CEE, CIS, CAUCASIA AND CENTRAL ASIA REGIONS
10th May 2012, Skopje
Retirement pension saving

Act No 43/2004 Coll. (2\textsuperscript{nd} pillar)

**DC scheme; fully funded** → accumulation phase
- 6 companies (24 pension funds)

**Current structure of fees:**
1. administration fee (for Social Insurance Agency, central collection system)
2. admission fee (for PAMC)
3. management fee (for PAMC)
   + costs of transactions, taxes, fee for depository bank etc.
   (deducted from pension fund's assets)
4. success fee (for PAMC)

**Pay-out phase:** no legislative framework yet
2nd pillar

- Saver
  - 0.5% of contribution

- SIA
  - 1% of contribution

- PAMC
  - 0.3% p.a. of NAV
  - 5.6% of return

- Pension fund

3rd pillar

- Participant
  - 0.996% (1.98) p.a. of NAV
  - 12% of return (HWM)

- SPAMC

- Other expenses

- 5% of total transferring participant's account (less than 3 years)
- 5% of total exiting participant's account
- 15% of total exiting participant's account

- Pension fund

- Other expenses
Retirement pension saving

Major fee alterations  
*as of July 2009 /April 2012*

Management fee
- fell from 0.78% p.a. to 0.3% p.a. of NAV

Success fee (new)
- calculated every month (about 5.6% of average return)
+ *launching of guarantees in 2009* (provided by PAMC) with slight correction in 2012
+ *deduction of other expenses* (costs of transactions, taxes, etc.) from pension funds assets

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Reason
expensive system with bad performance (in 2008: BndPF 2.8%, MixPF -5.2%, EqtPF -7.4%)

Requirements
- improve competition, define and distinguish investment strategies, eliminate „herding behavior“ within the pension industry (**tool**: benchmarks)
- reward good performance (**tool**: success fee)
- focus on long-term objectives (**tool**: guarantee account/guarantees)
Retirement pension saving – market response

Structure of assets in retirement pension savings (2009)
## Retirement pension saving performance

### Annual returns on pension funds (in %; weighted average)

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
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<th>2010</th>
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<th>2011</th>
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<tbody>
<tr>
<td></td>
<td>June</td>
<td>December</td>
<td>June</td>
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<td>2nd pillar</td>
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<tr>
<td>Bond PF</td>
<td>1.9</td>
<td>1.6</td>
<td>1.3</td>
<td>1.2</td>
<td>1.3</td>
<td>1.5</td>
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<tr>
<td>Mixed PF</td>
<td>-3.4</td>
<td>0.8</td>
<td>1.3</td>
<td>1.2</td>
<td>1.3</td>
<td>1.5</td>
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<tr>
<td>Equity PF</td>
<td>-4.8</td>
<td>0.7</td>
<td>1.2</td>
<td>1.2</td>
<td>1.3</td>
<td>1.4</td>
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<tbody>
<tr>
<td>Fee income of PAMCs (in th. of €)</td>
<td>23 727</td>
<td>21 399</td>
<td>19 621</td>
<td>23 593</td>
</tr>
</tbody>
</table>


Retirement pension saving
current value of pension units

Equity Pension Funds
Mixed Pension Funds
Bond Pension Funds
Supplementary pension saving

Act No 650/2004 Coll. (3rd pillar)

DC scheme; fully funded
- 4 companies (14 pension funds)

Current structure of fees:
1. management fee (for SPAMC)
   + costs of transactions, taxes, fee for depository bank etc.
     (deducted from pension fund's assets)
2. success fee (for PAMC)
3. transfer fee (for PAMC)
4. exit fee (for PAMC, pension fund)

Pay-out phase: charge on benefits by insurance company (not regulated)
**2nd pillar**

- **saver**
  - 0,5% of contribution
- **SIA**
  - 1% of contribution
- **PAMC**
  - 0,3% p.a. of NAV
  - 5,6% of return
- **pension fund**
  - other expenses

**3rd pillar**

- **participant**
  - 0,996% (1,98) p.a. of NAV
  - 12% of return (HWM)
  - 5% of total transferring participant’s account (less than 3 years)
  - 5% of total exiting participant’s account
  - 15% of total exiting participant’s account
- **SPAMC**
  - **pension fund**
  - other expenses
## Supplementary pension savings performance

### Annual returns on pension funds (in %; weighted average)

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<td>June</td>
<td>December</td>
<td>June</td>
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<tr>
<td>3rd pillar</td>
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<tr>
<td>Accumulation PF</td>
<td>-0.19</td>
<td>3.6</td>
<td>2.45</td>
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<tr>
<td>Pay-out PF</td>
<td>0.74</td>
<td>1.6</td>
<td>2.48</td>
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</table>

### Fee income of SPAMCs (in th. of €)

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<tbody>
<tr>
<td>Fee income of SPAMCs (in th. of €)</td>
<td>22 757</td>
<td>26 697</td>
<td>26 736</td>
<td>26 806</td>
</tr>
</tbody>
</table>
Supplementary pension savings current value of pension units

Accumulation Pension Fund (type: mixed)  Accumulation Pension Fund (type: equity)  Pay-out Pension Fund
Thank you for your attention

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