

Central- and Eastern Europe: Strategies to Address High Fees

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The Framework

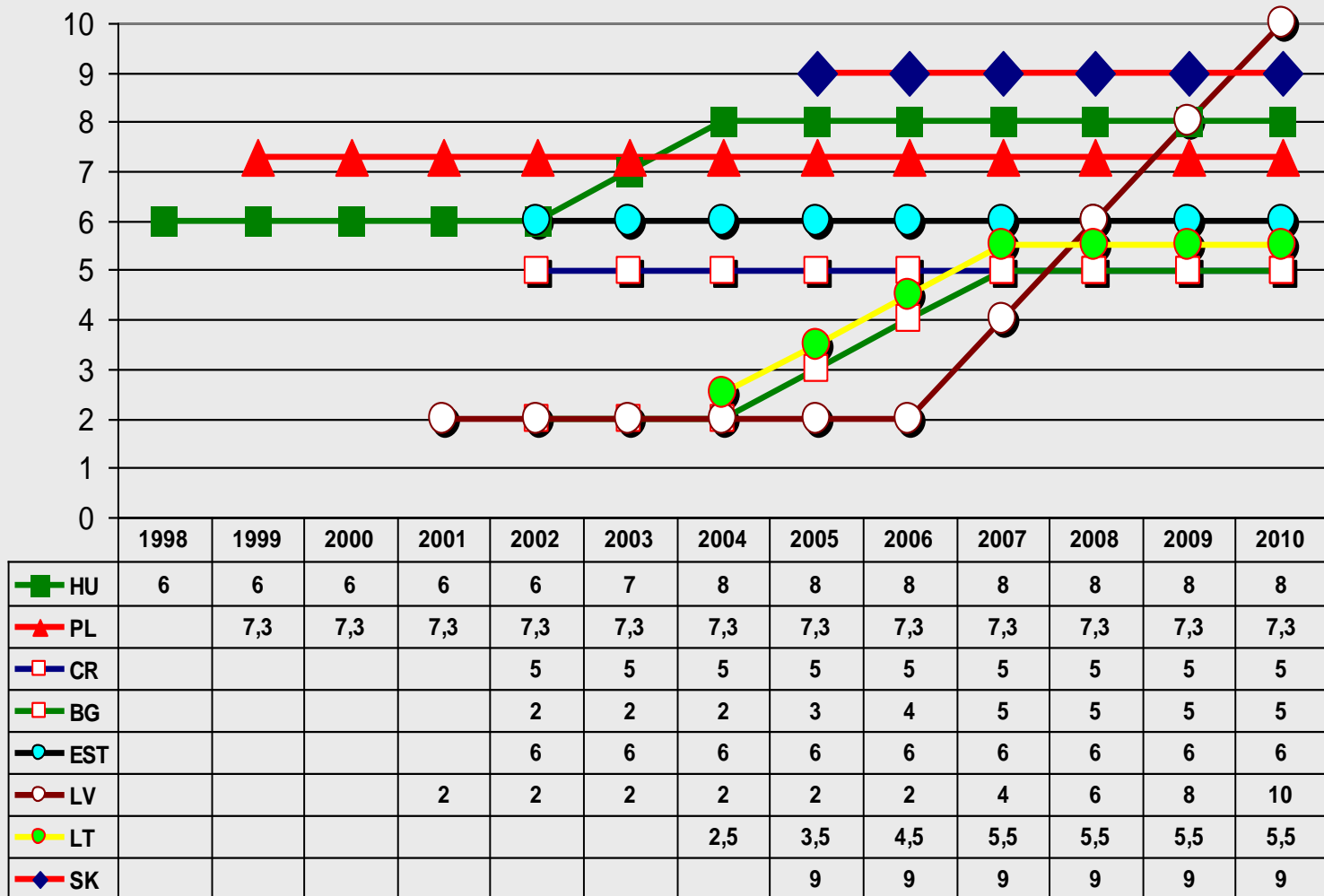


- **Country examples**
 - **The World Bank model: the pillars**
- **Concluding remarks**





Decade for Reforms

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Contributions (%)



Czech Republic

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- pension funds are not allowed to charge fees for members
- asset of the members and the pension funds are not separated
- therefore costs of pension funds are included in the fund's profit and members' yields calculations
- no limits on costs or fees paid by the funds set by law
- pension fund expenses/members
 - 19,16 CZK/part. → 2000
 - 42.53 CZK/part. → 2007

Poland

- **upfront fee by law: 7 % 2008-10 → 3,5 % 2014 and up**
- **asset management fee by law:**
0,54% → an amount + 0,18 %
scale: if assets PLN 8 billion and below
→ above PLN 65 billion
(in practice: additional nominal cap)
- **switching fee:**
free → membership after 2 years
80 PLN membership 1 – 2 years
160 PLN membership < 1 year
- **maximum rates: no price competition**

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Croatia




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- **cost limits:**
 - operational fee **0.8%**
 - asset management fee: **0.8%** of net asset + max **25%** of return
 - limits on switching fees

Bulgaria

- **operational fee (on contribution):**
 - mandatory: no more than 5 %
 - voluntary: up to 7%
- **asset management fee**
 - mandatory: max 1 % of the asset
 - voluntary: max. 10% of the return
- **switching fee: up to cca. 13 USD**
- **switching signed by lawyers**
 - **commission for recruitment: no regulatory requirement)**
- **custody fee: no regulatory requirement**

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Estonia

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- **no limit on**
 - upfront fee
 - operational costs
 - commission for recruitment
- **redemption fee: max 1 % asset**
- **asset management fee (mandatory):**
 - max: 1.5 % (conservative investment policy)
 - max: 2.0 % (other investment policy)
 - no regulatory limit in the voluntary system
- **plans for further regulation**

Latvia

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- no regulatory cost limits
- the pension plan
 - shall indicate the procedure whereby expenses of the pension plan are covered
 - provide information on maximum commissions on administration
 - fees payable to the asset manager and the custodian,
- board decides on actual limits

Lithuania

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- **upfront fee, operational and custody fees, asset management fee:**
 - 1 % of the asset (in practice: 1 %)
 - 10 % of the contribution (in practice: 3 %)
- **switching fee:**
 - 0.2 % once a year
 - 0.4 % more than once a year






Ukraine

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- **mandatory system: framework regulation (with public administration)**
- **voluntary system**
 - **upfront fee: max 6.0 % (average 3.5 %)**
 - **asset management fee: max: 4.2 %**
 - **custody fee: max: 0.5 %**
- **switching fee not limited**



Slovak Republic

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- **mandatory system:**
 - upfront fee: 1 % of member's contribution
 - fee for transfer of member's contribution to the Pension Management Company (PMC): 0.5 % of member's contribution
 - commission for recruitment: 6 % of average monthly salary
 - marketing cost: 1000X the average monthly salary
- **asset management fee**
 - mandatory: 0.065 % / month
 - voluntary: 3% of the asset, annually
- **switching**
 - between companies, not funds!: cca. 24 USD
 - voluntary: 5% of asset in 5 years, 1% after



Romania

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- private pension system from 2007
- upfront fee: max 2.5% of member's contribution
- asset management fee: 0.6 %
- commission for recruitment: cca 78 USD






Macedonia

- **second pillar exists for two years (third pillar: legal framework only)**
- **operational fee: 6.9% of the contribution**
- **Central Bank as custodian: 0.4 % of the contributions**
- **asset management fee 0.05% / month,**
- **switching fee: 0-25 EURO depending on the duration of the membership (>24 month, < 6 month)**
- **central collection system: 0.5% of the contributions**
- **supervisory fee: 2.5% of the contribution**

Hungary

- **upfront fee: max 4.5 % of member's contribution**
- **switching fee: max. cca. 20 USD**
- **asset management fee: max. 0.8**
- **commission for recruitment: cca. 20 – 150 USD**
- **central collection system from 2007: no fee**

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Concluding remarks

- **types: liberal – balanced – stringent**
- **limits on every single aspect? focus?**
- **sub-types: asset management fee on asset, or on return, switching fee depending on the duration**
- **fees paid to public organizations?**
- **changes over time?**
- **are the limits effective? are there lower fees in the market? there is a fee competition?**
- **influential factors?**
 - **mandatory versus voluntary, size of the market, market structure**

Concluding remarks

- **why limits? against**
 - **agents**
 - **frequent switching**
 - **the lack of competition**
 - **the lack of public trust**
- **to limit the costs and fees or to control the phenomenon results high fees?**
- **why not total fee regulation?**
- **contra effect? growing fees? less competition?**
- **annuity market?**
 - **transition fee? operational fee? asset management fee?**

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" I've run every test known to man, and it turns out you're allergic to medical bills. "