



Capital Markets Project

## SECOND PILLAR PENSIONS – SOCIAL SECURITY OR BUSINESS?

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### WHAT IS THE SECOND PILLAR?

- COMPENSATION FOR A REDUCED SOLIDARITY BENEFIT
- CONTRIBUTIONS ARE INVESTED AND AT RETIREMENT CONVERTED TO A REGULAR MONTHLY PAYMENT

## WHY SECOND PILLAR IS NEEDED

- CHANGING DEMOGRAPHICS MAKE THE CURRENT SYSTEM FINANCIALLY UNSUSTAINABLE
- EITHER CONTRIBUTIONS GO UP OR BENEFITS COME DOWN
- SECOND PILLAR IS A COMPROMISE BETWEEN THESE TWO FOR YOUNGER PEOPLE

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PENSION REFORM IS A SOCIAL REFORM

ITS PRIME REASON IS TO ENSURE ADEQUATE PENSIONS FOR ALL

IT IS NOT THE DRIVER OF CAPITAL MARKETS DEVELOPMENT

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## WHO WILL PARTICIPATE IN THE SECOND PILLAR

- YOUNG PEOPLE
- CUT OFF AGE UNDER EXISTING LEGISLATION IS 20 YEARS TO RETIREMENT
- MAY CHANGE

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## WHO WILL CONTRIBUTE TO THE SECOND PILLAR

- EMPLOYEES
- EMPLOYERS (DIVERTED FROM SOLIDARITY CONTRIBUTION)
- PERHAPS THE GOVERNMENT BY WAY OF A TAX INCENTIVE

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## WHO OWNS THE SECOND PILLAR CONTRIBUTIONS

- THE INDIVIDUAL EMPLOYEE –  
ARTICLE 79(6) OF 2003 LAW

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## WHO PROVIDES THE SERVICES TO A SECOND PILLAR PENSION FUND

- ADMINISTRATOR
- ASSET MANAGEMENT COMPANY
- CUSTODIAN
- (OTHERS BUT THEY DON'T CHARGE DIRECTLY)

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## WHO ACTUALLY PAYS FOR THESE SERVICES

- THE CONTRIBUTORS THEMSELVES:-

### OUT OF:-

- CONTRIBUTIONS (ADMINISTRATION CHARGE)
- INTEREST ACCRUED (ASSET MANAGEMENT AND CUSTODIAN CHARGES)

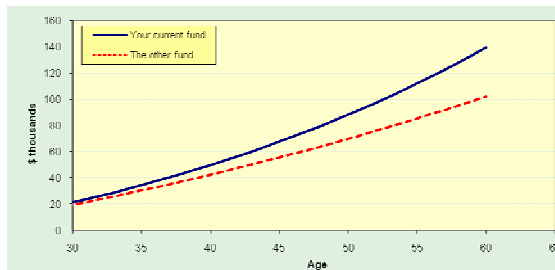
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## HOW MUCH WILL IT COST

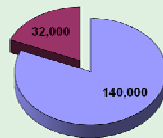
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|--|--|
| • FEDORENKO DRAFT LAW                    | • AVERAGE CHARGES IN AUSTRALIA                       |
| • 2% OF CONTRIBUTIONS FOR ADMINISTRATION | • 0.42% OF ASSETS FOR ADMINISTRATION                 |
| • 1% OF CONTRIBUTIONS FOR PFU            | • 0.59% OF ASSETS FOR ASSET MANAGEMENT AND CUSTODIAN |
| • 2% OF FUND VALUE FOR ASSET MANAGEMENT  |  |
| • 0.5% OF FUND VALUE FOR CUSTODIAN       |  |

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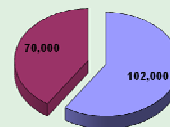
## IMPACT OF DIFFERING COSTS BASED ON A MONTHLY WAGE OF 2,000 UAH



■ Accumulation  
■ Effect of Fees and Premiums



■ Accumulation  
■ Effect of Fees and Premiums



THE DIFFERENCE IS 38000 UAH

FOR A MAN THAT MEANS AN  
EXTRA PENSION OF 300 UAH PER  
MONTH

## CAN YOU MAKE UP THE DIFFERENCE?

- YES YOU CAN
- BY TAKING MORE RISK WITH WHERE YOU INVEST PEOPLE'S MONEY
- THAT MEANS THE RETURN COULD GO UP BUT IT COULD ALSO GO DOWN AND MAKE THE DIFFERENCE MORE EXTREME

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## COSTS ARE AN ISSUE

- IN AUSTRALIA IN 2006 SECOND PILLAR SERVICE PROVIDERS RECEIVED \$14.2 BN. (ABOUT 100 BN UAH)
- THAT'S HALF OF THE COST OF PAYING PILLAR ONE PENSIONS

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WE CAN'T EXPECT SERVICES TO BE PROVIDED FOR FREE  
BUT AT THE SAME TIME PARTICIPANTS HAVE TO COME FIRST

THIS A COMUPLSORY SOCIAL INSURANCE SCHEME  
NOT A MONEY MAKING VENTURE FOR THE PRIVATE SECTOR

WE NEED THE RIGHT BALANCE BETWEEN INTERESTS OF  
PARTICIPANTS AND PROFITS OF SERVICE PROVIDERS