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INTERNATIONAL TRENDS: THE NEW INTEREST IN RETIREMENT SECURITY: HOW GOVERNMENTS ARE DRAWING UP NEW REGULATIONS TO PROTECT PENSION FUNDS FROM EXCESSIVE RISKS

With demographic pressure increasing on the solidarity system and stock market losses threatening to compromise funded pension schemes, governments (and workers!) are trying to face up to the challenge of ensuring sufficient retirement income for future generations. In previous issues of IPN, we looked at supervisory responses to limit risks. Such measures continue to be implemented as the OECD's new guidelines and the sum-up table below show. But another aspect of protecting pension savings relates directly to risks inherent to the market, made real by last year's financial crisis. Already, survey results throughout the world show that many workers close to retirement say they will postpone retirement because their savings accounts have been depleted by the financial crisis. Few governments have introduced guarantees against investment risk - compensating stock market losses - whether in the accumulation or in the pay out phase. But the recent crisis, by making the threat to pensions real, has brought thoughts about market risks and pensions into the public sphere. Concerned with reducing risks for pillar II and pillar III schemes, industry experts are drawing up proposals to parry or contain threats to future retirement income. A constant is the concern to balance risk and returns.

EU: Draft Directive On Regulation of Alternative Investments Fund Managers: Does It Protect or Expose Pension Funds?

For months now, the capital markets industry has been hotly debating the pros and cons of a draft regulation by the EU aimed at increasing regulation of hedge funds and private equity companies that until now have benefited from lenient oversight rules. The "Directive on Alternative Investment Fund Managers" (AIFMs) would require that hedge funds register and disclose more information to regulators such as their levels of leverage. It covers all funds with more than €100 million in assets, including hedge funds and private equity funds. It is also seeking higher levels of disclosure, as well as improved governance standards, in the areas of risk, liquidity and conflicts of interest.

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Pension funds have also entered the discussion. Seeking to increase returns and meet the growing retirement needs of an ageing population, pension funds have become some of the hedge funds major clients. They opened their portfolios to riskier alternative investment products and added them to traditional bonds and equities, gambling on higher returns. That's why the U.K's pension fund lobbyist the "National Association of Pension Funds" warns that the new EU restrictions would cut into pension returns. "The directive, if passed in its current form, will reduce investment choice and mean that the return pension schemes can get for any level of risk will be reduced," Joanne Segars, head of the NAPF, told Reuters. "Even a small reduction in returns will have an impact on the affordability of defined-benefit pension schemes." At the same time supporters of the directive also claim that they have pensions funds' best interest in mind. The new rules are meant to protect future retirement savings through increased regulation of hedge funds from inordinate risk posed by opaque investment policies. 80% of Europe's hedge funds are concentrated in the U.K. where industry groups have been on the frontline to try to water down this legislation, finding backing in the U.K. Government. Other critics of the legislation include the U.S. government and, unsurprisingly, the hedge fund lobby through the Alternative Investment Management Association (AIMA). AIMA claims that the aggregate exposure of pensions funds to hedge funds, private equity funds and property funds equates to 20% of all pension money in Europe. (Reuters, pionline.com. guardian.co.uk, ft.com)

OECD: Publication of New Governance Guidelines and Regulatory Principles for Pension Funds

The OECD issued new guidance for private pension systems that "calls for stronger regulation and better governance, based on lessons learnt from the financial crisis", the organization announced in a summary published in July. While attention to date has focused on improving banking regulation, the OECD believes that now is "also the time to strengthen regulation of private pension funds."

The 'OECD Core Principles of Occupational Pension Regulation' lay out a blueprint "for policymakers to improve the regulation and supervision of private pension systems, covering the various aspects of the operation of these systems, such as licensing, governance, funding, investment and the rights of pension plan members."

The Principles are supported by new guidelines on pension fund governance. The guidelines outline "the need for pension funds to improve their risk-based governance structures and mechanisms.

Governance guidelines include "clear identification and separation of operational and oversight responsibilities", appointment of an actuary, of an auditor, risk-based internal controllers with the division of responsibilities reflecting the nature and risks posed by the fund. "The guidelines also stress that funds "ensure that their board members have the knowledge and expertise to fulfil their roles in making important investment decisions."

The organization also published a methodology to assess how well pension schemes comply with the principles and

guidelines. The methodology is being currently used to do an assessment of the regulatory and supervisory frameworks concerning pension regimes in five countries that are seeking OECD membership: Estonia, Slovenia, the Russian Federation, Israel and Chile. We will introduce the OECD methodology in detail in another issue of IPN. (OECD website)

Oil Major BP Plans Switch from DB to DC

BP, Europe's second largest oil company with 16,000 employees in the U.K. will close its U.K. final-salary pension plan to new workers from April 2010, switching instead to a DC scheme. The new policy is meant to save the company money while making expenses more predictable in the context of a volatile market. The group's spokesman told Bloomberg agency that the change in its pension policy for employees is a response to expenses linked to increased life expectancy. The restrictions are meant to cut expenses and reduce future uncertainties and actuarial risks BP's present scheme is non-contributory, which means the cost of funding it rests entirely with the company. The most recent valuation as of the end of 2007 showed it to be 135% and the company expects the scheme's 2008 valuation will show a surplus of about US1.7bn. Of the BP scheme's 69,000 members, 39,000 are pensioners and 18,000 are deferred members, meaning they have left the company but have not yet drawn their pensions. The company has started a consultation process with its staff. (BBC, Bloomberg)

U.S: Congressional Research Agency Highlights Need for Pension System Improvements

The United States Congressional research agency, the Government Accountability Office (GAO), examined retirement risks posed by the existing U.S. pension system and suggests reforms "through alternative approaches" to building up retirement savings. The report specifically notes that under the existing private voluntary schemes workers may not accumulate sufficient retirement income because they are not covered by either a DB or DC plan. Approximately half the working population in the U.S. is not covered for its retirement through any private plans. Other risks include poor investment returns, making inadequate contributions, and high fees. "Many experts agree that reforms are needed to make the U.S. private pension system more effective in protecting workers from risks to accumulating and preserving adequate savings for retirement," the report warns. "If no action is taken, a considerable number of Americans face the prospect of a reduced standard of living." In its report, the GAO also looked at four proposals to reform the U.S. pensions system. Three out of the four proposals offer voluntary pension schemes. However one proposal, the Guaranteed Retirement Account plan (GRA), introduces a mandatory pension scheme. The GRA proposes a government-sponsored system where the U.S. federal government would administer a system of retirement saving accounts and guarantee a certain rate of return on those accounts, with both workers and employers paying a mandatory minimum contribution of 2.5% each. The GAO looked at private pension systems of the Netherlands, Switzerland and the U.K. for alternative approaches that could yield "useful lessons for the U.S. experience." The report



points out that these countries have reached nearly universal coverage. Just what action to take, the GAO does not say, pointing out that such approaches involve trade-offs on the part of employers, employees and the federal government. It argues that no retirement system is perfect but underlines the need to “balance the interests and responsibilities of workers, employers, and the government.” (GAO website, pionline.com)

Poland: Pillar II Celebrates Tenth Birthday with Draft Amendments to Reduce Risks

The Polish regulator the Polish Financial Supervisory Authority (KNF) is drafting laws to amend the country’s second (mandatory) funded pillar to address three priorities, mainly introducing lower risk profiles and changing capital requirements. First, by introducing adapted life-cycle funds, safer funds should be made available to participants that are approaching retirement. Second, capital requirements should be linked to the size of the assets under management, for instance imposing 1% of the assets under management as capital requirements. The third priority is introducing more control over funds’ sales representatives who sometimes “mislead and abuse clients”. (IPE.com)

Slovakia: Introducing Guaranteed Accounts

On July 1, 2009 a key amendment came into force in Slovakia reforming parts of the second pillar to protect member accounts against the effects of economic downturns. Under the new legislation, pension funds management companies (DSS) are required to create a separate guarantee account for each pension fund that will contain all of that fund's earnings.

The amendment introduces three changes to the Slovak pension system, according to Watson Wyatt, a leading consultancy of the private pension sector:

Each fund management company must establish a guaranteed account for each pension fund. Investments will be reviewed every six months, and if they have had a negative rate of return, the management company will be obligated to make up the shortfall. This will guarantee at least the principal in each fund. The first six-month review period begins July 1, 2009.

The flat fee pension management funds can charge has been reduced from 0.065 % to 0.025 % of the fund’s net value.

To make up for this reduction, a variable fee will be introduced on top of the flat fee. However, this will only be paid if, upon the six-month review, investments yields are found to be positive. (see section on fees for details). (Watson Wyatt Global news brief)

Table: Minimum rates of return (OECD)

In times of financial crisis, a rate of return guarantee can appear tempting to fund participants. The main attraction of a guaranteed rate of return (especially an absolute guarantee) is that it reassures the participant about the limited risk of seeing his benefits reduced due to bad investment returns. However, experts (see * and **) point out that, while such guarantees offer protection to fund participants, they can potentially become a “financial liability for government finances, in particular when the state is the ultimate guarantor”*. Indeed,

experts note that funds that are bound by a minimal return may choose lower risk placements to “play it safe”, and thereby earn lower returns in the long run.

Regarding calls to governments to provide some kind of top-up or bail out for individuals nearing retirement whose assets have eroded due to the crisis, the OECD warns that such policies should be carefully designed and should be one-off temporary measures*.

Relative rate of return guarantee: they are relative because they are pegged to the pension fund industry’s average rate of return of a certain period. Chile, Slovakia, Poland, and Bulgaria have introduced a relative rate of return mechanism, regulating the rate of return in relation to a market benchmark.

Absolute rate of return guarantee: it is equivalent to, for instance, a 0% rate of return, regardless of how well or how bad the pension industry and the market is doing.

Switzerland’s pension II pillar funds need to meet a minimum investment rate of return of 2.75%** but the government is considering reducing this rate to 2% due to the financial crisis. This minimum has to be met when a participant changes jobs and when he retires Romania* is considering an absolute rate of return where mandatory private pension funds should cover the rate of return guarantee, for instance by being equal to annual inflation, meaning a minimal rate of return of zero in real terms. Germany** and Belgium** have introduced minimum rates of return for their Pillar III funds. In Germany it is the equivalent of a minimum 0% nominal rate of return with guaranteed capital preservation at retirement and when changing jobs. In Belgium, sponsoring employers of DC the pension plans must guarantee an annual minimal return of 3.75% on employees’ contributions and 3.25% on their own contributions. Russia has introduced a minimum rate of return for both pillar II and pillar III pension schemes of 0% year on year. So unlike Germany and Switzerland where the guarantee is cumulative, having to be met at certain key moments (when leaving a job and retiring), in Russia the “pluses” and “minuses” have to be balanced out every year, which is usually more expensive for the fund (or the state, depending on who is the guarantor)

TYPE OF RATE OF RETURN GUARANTEE		
	Relative rate of return guarantee	Absolute rate of return guarantee
Pillar II		
Slovakia	YES	NO
Poland	YES	NO
Bulgaria	YES	NO
Romania	NO	YES
Estonia	NO	NO
Lithuania	NO	NO
Hungary	NO	NO
Switzerland	NO	YES
Chile	YES	NO
Russia	NO	YES
Pillar III		
Germany	NO	YES
Belgium	NO	YES
Russia	NO	YES



A different category of guarantees protects fund participants against risks caused by mismanagement (and not by market factors as above). Most countries have restricted the guarantees in the case of mismanagement of funds through a guarantee fund (or “lifeboat fund”), and sometimes backed up by the state, as a last resort.

*The Social Protection Committee: privately managed fund pension provision and their contribution to equal and sustainable pensions, EU, adopted 2008.

**Antolin P., et al. “Investment Regulations and Defined Contribution Pensions“, OECD Working papers on Insurance and Private Pensions No 37, OECD, 2009.

MARKETS:

Hong Kong : Retirement Funds Show Good Results

Pension funds returns in Hong Kong have risen 20% since the end of March thanks to improved investor confidence and strengthening regional stock markets. The funds lost over 40% between October 2007 and February 2009, but the recovery this year comprised 27% according to experts’ estimations. The regular investment approach of the Mandatory Provident Fund Scheme benefited longer term retirement investors. (globalpensions.com)

Norway: Oil Fund Boasts Positive Results on Equity

Norway’s Government Pension Fund (also known as ‘oil fund’ because it invests Norway’s energy revenues in foreign stocks and bonds to save for future generations) showed a 12.7% return on its investment which comprises the biggest quarterly gain (\$45 billion) in relative and absolute terms. Yngve Slyngstad, the fund’s executive director, stated: “Economic developments showed clear signs of stabilizing in the second quarter and the uncertainty over the financial sector decreased”. He added that the fund’s share of global stocks has more than doubled over the past year as the fund brought a larger than normal amount of equities during the downturn. The fund claims it now owns 1% of the world’s stocks. The fund’s largest equity holdings include almost \$3 billion stakes in Royal Dutch Shell, food group Nestle and banking group HSBC. Also it owns near \$13 billion worth of British and U.S. state debt and \$7 billion in notes from U.S. mortgage lender Fannie Mae. (Reuters)

Poland: Funds Are Picking Up

In the first half of 2009 Polish pension funds have managed a 3% return on their investments. During this period, their assets rose from PLN138.8bn (33.9bn euro) to PLN153.9bn (36.8bn euro) which constitutes 10.9% (IPE.com)

FUND STRATEGIES:

Europe: Dutch and Swiss Funds Turn to Commodities

Commodities attract Dutch and Swiss pension schemes that are looking to diversify their portfolios.

For instance, Stichting Pensioenfond Aon Groep Netherland lowered its allocation to fixed income from 65% to 61% of assets, shifting 4% in favor of commodities investment. The Pensionskasse Phonak shifted 5% from its hedge fund allocation to commodities, and now commodities amount to 10% of assets. (Global Pensions)

Global: Pension Funds Lose Interest in Funds of Funds

Pension funds looking to increase direct control over their investments by building their own portfolios instead of relying on pre-selected funds of funds. According to investment consultants Van Mac Group and Mercer, pensions funds are increasingly reluctant to pay fees to fund of funds managers whose performances haven’t always been convincing. Also, funds seek ways to increase expertise and accountability of their managers. (Mercer)

Mexico: More Freedom for Funds Make Stocks Value Fall

Mexican stocks dropped after the country’s pension fund regulator Consar gave managers more freedom to pick stocks, and funds dumped less-liquid stocks that were seen as overpriced.

Before these changes were enacted Mexican funds had to keep stocks in a basket that mimicked the composition of the IPC stock index (Índice de Precios y Cotizaciones), within a percentage point of deviation. But the regulator increased the acceptable deviation from the official IPC weightings to four percentage points, and fund managers responded to the new rules by dumping less-liquid stocks on the IPC.

Global: Bloomberg Analysis Shows Pension Funds Lost Confidence in Stocks

According to data compiled by Bloomberg, the largest pension funds worldwide lost confidence in stocks as the best long-term investment, reducing their weightings for equities or leaving them unchanged. Four of the world’s seven biggest pension funds - California State Teachers’ Retirement System, California Public Employees’ Retirement System, ABP Netherlands, and South Korea’s National Pension Service – have cut their equity holdings. ABP Netherlands - from 32% to 29%, California Public Employees U.S. – from 56% to 49%, and the South Korean fund – from 17 to 15%. Equity losses have hit the pension industry as liabilities increase. Pension funds are seeking to de-risk their portfolios and boost their allocations to alternatives that deliver returns but are uncorrelated with stocks.



GOVERNMENT POLICY:

Romania: Following Some, But Not All IMF Recommendations

The Romanian government wants to ban the practice of cumulating old-age pensions and salaries (also called 'double-dipping') by public sector employees with the aim of cutting state spending. This measure is one of several demanded by the IMF under a loan agreement. According to the Romanian Minister of Labor, the ban concerns about 20,000 state employees. However, the ban only concerns those state workers who earn more than the average gross salary (about 1,500 lei or 350 euros/month); low earners can continue to complement their pension with a state salary. The proposal still needs to be submitted to Parliament. The planned ban is the outcome of a long political and legal odyssey, involving even the country's highest court, the Constitutional Court, which had opposed the ban. In early August, Government sources told MEDIAFAX that IMF and the Romanian government were negotiating the layoff of 100,000 to 150,000 state employees by the middle of the next year and freezing public sector wages and freezing pensions in 2009 and 2010. However, the Romanian Prime Minister is resisting implementing another IMF condition. He said that Romania would raise pensions by 2% as of October 1, in spite of IMF disapproval. (www.mediafax.ro)

Chile: Government Looks to Goldman Sachs Group for Derivatives

Goldman Sachs Group and Chilean brokerage and investment bank Celfin Capital CA have teamed up to develop derivatives products for Chilean pension funds. Pension funds are the country's biggest investors that have assets of \$102 billion under management as of the end of July. The two will form and sell financial instruments, including cross-currency and interest-rate swaps. Chile's government authorized private pension funds, known as AFPs, to trade in derivatives in October in an attempt to increase trading volumes in Latin America's third largest market.

Czech Republic: Pension Reform Held Up in Political Debates

Pension reform enters debates ahead of parliamentary election on October 9-10, 2009, following the collapse of Prime Minister Mirek Topolánek's center-right coalition government last March. Topolánek who also heads the Civic Democratic Party(ODS, center right) had wanted to push through pension reform developing funded-pension schemes, but lost a confidence vote last March. The opposition, the Czech Social Democrats (CSSD) reject the ODS pension reform proposals. CSSD chairman Jiri Paroubek said that in his opinion, stabilizing the first pillar is a priority. The CSSD wants to prevent decreases in pensions and promises a replacement rate of 55% of the average net wage, which is the current rate relation. Paroubek says the pension system revenues could be funded by increasing the insurance rate for people with higher incomes and by state subsidies to voluntary private pension schemes. The party wants to pay an extraordinary subsidy of 2400 crowns to pensioners next March to be funded from dividends of the semi-state CEZ energy company. (CTK news agency)

Chile: New Provision Introduces Child-Rearing Bonuses for Women Which Are Redeemable After Age 65

On July 1, two provisions of Chile's 2008 pension reform law were implemented - a change in the rules for extending survivors and disability insurance and a new child rearing bonus for women to encourage them to work beyond their normal retirement age of 60. Under the new 2008 law the coverage for survivors and disability insurance has been expanded to include:

- women up to age 65, provided they continue working. Until recently, women were covered only up to age 60, the standard retirement age for women;

- and widowers and students up to age 24. Previously, only disabled widowers and students up to age 18 were eligible for a benefit.

Under the second pension reform provision, pensions for women aged 65 or older are increased with a bonus for each child (biological or adopted). The government will provide each eligible woman with a bond that credits time out of the labor force for raising children. The bond may only be deemed after the woman's 65th birthday. (www.ssa.gov)

U.S.: SEC to Ban Pension "Pay-to-Play"

The U.S. Securities and Exchange Commission proposed rules to prevent the practice of making contributions in exchange for government contracts, for instance managing state and local pension funds. With billions of dollars to invest, public pension funds are attractive targets for investment managers. They try to win votes on the pension board by "influencing" a public official with campaign contributions. "Our proposal would significantly curtail the corrupting and distortive influence of pay to play practices", said SEC chairperson Mary Schapiro, defending the proposal. Under the new proposed regulation, an investment adviser will be banned from providing investment services for two years if they make a political contribution to an official. The proposed SEC rule also would prohibit an adviser and certain of its executives and employees from paying a third party, such as a solicitor or placement agent, to solicit a government client on behalf of the investment adviser. (Global Pensions)

THIS MONTH'S ANALYSIS: FINANCIAL CRISIS SPURS SCRUTINY OF FEES

With the economic downturn sapping returns on investments, participants take an even closer look at where their pension savings are going and fees tapped by their pension funds become a major concern – especially when clients are unhappy about their account balances. Recent reports show that the fees charged between countries vary significantly (see graph below) but also within one country (see table, fee ranges). Another concern is how well and clearly funds communicate their fee policy, making clear to their clients what the fees are being used for and what they are based on, for instance a percentage of their contribution, of assets, or on performance

As we reported in IPN#5, the trend is to lowering management/administrative fees as a way of optimizing clients' returns. In May we reported that a survey by pension



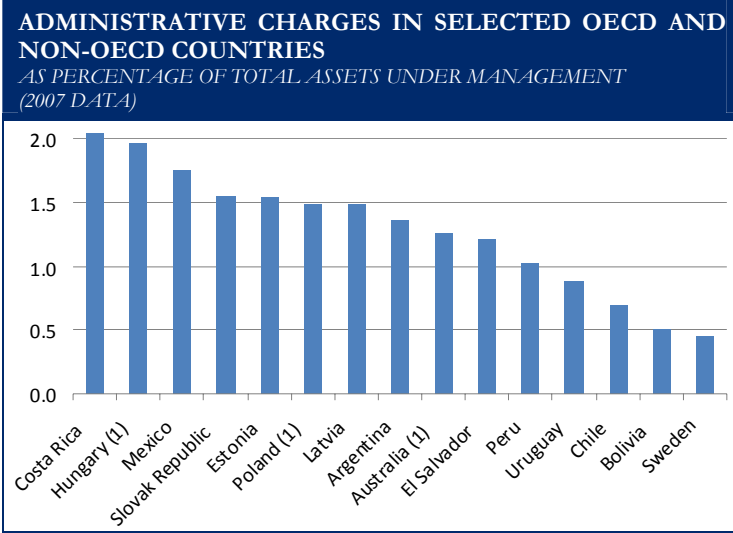
consultancy Mercer showed that managers would be increasingly willing to negotiate fees downward in 2009 and beyond. Analyzing fee data of 19,000 asset management products from 3,400 asset management firms from around the world, Mercer concluded that alternative investment strategies had the highest fees, whereas the most expensive mainstream asset category is global emerging markets equity with median fees in the sector averaging about 0.9% of assets under management.

A recent EU report* on funded pensions indicates that on average, the level of administrative costs vary within a range from 0.5 to 2.5%, with the most representative value being at 1% of assets under management per year.

Administrative charges and fees are a key factor in the net return on investment offered by pension schemes. But at the same time, measuring and comparing fees and fee structures between funds can be extremely complex for consumers trying to decide between funds or simply trying to understand what they are paying for. For that reason fees must be subjected to clear and transparent disclosure by funds. The graph below shows how much combined fees weigh against the overall assets under management in different countries

*EU Commission, The Social protection Committee: privately managed fund pension provision and their contribution to equal and sustainable pensions, EU, adopted 2008

Graph: Administrative Charges in selected OECD and non-OECD countries as percentage of total assets under management (2007 data)



(1) 2006 data

(Source: Waldo T., Yermo I.: "Fees in individual account pension systems: A cross-country comparison.", OECD working paper, September 2008.)

Table: Fees in mandatory funded schemes: fee basis, legal limits, range

This table gives some measure of the complexity and diversity of charges throughout pillar II schemes.

Trend: Improving oversight and control of fees

An in-depth international analysis of administrative charges produced by the World Bank stresses the problem of insufficient transparency and clarity in funds' fee strategy.

Governments, it says "must ensure clear and transparent disclosure of charges so that people can compare different funds' fees".

The study recommends as being "essential" that "governments set out standard presentations of charges to ensure that consumers can make reasonably accurate comparisons between different providers." Transparency can be improved by having a clear and simple charging structure, strict regulation on the disclosure of charges to potential customers, supplying comparative information from an official source and a program offering consumer education in the financial sphere. (Source: Whithouse, E.: Administrative charges for funded pensions: an international comparison and assessment, World Bank 2000.)

However, because the impact of charges varies according to the individual customer's characteristics (age, contribution level, expected retirement age), it is a complex and time consuming process for the client to receive exhaustive information from several providers and compare their performances. The same WB study also points out that the advantages for clients of financial advisors can be questionable, as the client cannot always be sure of the financial advisor's position as a disinterested party.

Suggested measures to increase transparency:

- One way of ensuring the transparency of charges is to levy charges on top of, rather than out of, mandatory contributions. This would give the client a clearer idea of how much he is paying. This is the case in Latin American systems of Chile, Colombia, El Salvador, and Peru. In Australia, Sweden, Hungary, Poland, and the U.K, the fee is deducted from the contribution.
- Another way is to limit the types of charges that can be levied, reducing them even to just one. The WB notes two possible single "prices" that funds could establish: a single "proportional" charge either on assets or on contributions.
- Finally, establishing price caps on fees is an option chosen by many countries (see section on specific countries' experience below). Some experts point out that setting such limits is evocative of price regulation, something that most economies of CEE have abandoned and may be very restrictive if the ceiling is set too low (little competition) or too high (expensive).

Examples: Countries That Have Reviewed Their Fee Levels, Limits and Structures Post-crisis

Some regulators and governments around the world are also considering re-formatting fee structures, introducing or changing limits to fees that funds are allowed to levy.

Mexico: In a bid to create transparency and bolster competition, Mexican private pension funds are not allowed anymore to charge commissions on clients' contributions. Fund operators will only be allowed to charge commissions on account balances. Until these changes, many private pension funds levied a complex combination of fees on both monthly contributions and account balances, making it difficult for clients to compare different schemes' performances and prices. (Reuters)

(Source: Antolin, P and Stewart F.: Private pensions and policy responses to the financial and economic Crisis, OECD, 2009)



FEES IN MANDATORY FUNDED SCHEMES: FEE BASIS, LEGAL LIMITS, RANGE

(Sources: EU Commission, The Social protection Committee: privately managed fund pension provision and their contribution to equal and sustainable pensions, EU, adopted 2008. Also: OECD database, national regulators)

Structure/Countries	Bulgaria	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia
Unit purchasing fee	YES	YES	YES	NO	YES	YES	YES	NO	NO
Fee base	% of contribution	% of unit stock value	annual revenue (without yield)	---	% of contribution	% of contribution 4-7%	% of contribution	---	---
Fee limit	Max 5%	NONE	max 4% from 2009	---	max 10%	max 7%	2.5% of contribution paid monthly	---	---
Fee range	No info	1.003%	4-5%	---	1.19%-5.5%	4-7%	No info	---	---
Unit redemption fee	NO	YES	YES	YES	NO	NO	NO	NO	NO
Fee base	---	% of unit asset value	% of asset value	% of annual net assets	---	---	---	---	---
Fee limit	--	max 1%	NONE	set by fund manager	---	---	---	---	---
Fee range	--	No info	No info	0-0.25%	---	---	---	---	---
Fund management fee	YES	YES	YES	YES	YES	YES	YES	YES	YES
Fee base	% of fund value (annual average)	% of net fund value	% of fund value	% of annual net assets	% of fund value	% of net fund value Success management fee	% of fund value	% of net fund value (monthly average)	% of net assets (annual average)
Fee limit	1%	For fixed income funds – max 1.5% For equity funds – max 2%	max 0.8% since 2008	max set by fund manager	1%	0.054% or less depending on volume of assets. Success fee up to 0.005%/month		down from 0.065 to 0.025 % of the fund's net value since July 1, 2009. Introduction of a performance based fee	1.5%
Fee range	No info	0.75-1.88%	0.5-1%	0.75-1.52%	0.95%-1.0%	No info		No info	0.2-1.5%
Account maintenance fee	NO	NO	YES	YES	NO	NO	NO	YES	YES
Fee base	---	---	Flat rate	% of annual contribution	---	---	---	% of contribution	flat rate
Fee limit	---	---	---	2.5%	---	---	---	1% (monthly)	SEK 100
Fee range	---	---	130-200 HUF	1,25%	---	---	---	No info	0.16% of account
Other	Small switching fee	No other fees permitted			Switching fee	Switching fee if less than two years in one fund, between PLN 80 and PLN160 depending on the length of membership	Switching fee if member less than 2 years-max 5% of net account	Bank transfer fee of 0.5% of contribution Switching fee-SKK500 flat rate	



U.S.: Congressional Committee Pushes for More Disclosure of 401(k) Fees

The House Committee on Education and Labor has approved fee disclosure legislation for 401(k) plans (the U.S. defined contribution occupational plans used by workers) and is initiating the procedure to propose it to Congress, according to the house website (<http://edlabor.house.gov>). The “401(k) Fair Disclosure and Pension Security Act (H.R. 2989) imposes new reporting and disclosure requirements for individual accounts to help workers choose the best and most cost-effective schemes on offer and see how much they are paying in fees. According to the Committee press-release, current law does not require disclosure of certain fees, and even when fee information is available, it can be difficult for workers to find and evaluate it. “It is about time that American workers have basic and clear information on costs and choices contained in their 401(k) plan,” said George Miller, Chairman of the House Education and Labor Committee. “The economic collapse has fueled Americans’ concerns about whether they will have enough savings to last them throughout retirement. This bill will give Americans a fighting chance to strengthen their retirement and increase our nation’s future economic security.” Miller said the issue is particularly important given that increasing numbers of American workers are relying on 401(k)s to help them pay for a decent retirement. According to the same press-release, roughly 50 million Americans now have a 401(k)-style plan (as opposed to Defined Benefit plans). But past surveys have shown that more than 80 percent of workers don’t know how much they are paying in fees on their retirement savings accounts, the committee says. Quoting the Government Accountability Office, even a seemingly small difference in the fees that workers pay can make an enormous difference in the overall size of their account balance, since a 1 percentage point difference in fees “can reduce retirement benefits by nearly 20%.” Some of the proposed amendments had been submitted to Congress in 2007-2008 but not approved at the time. Some fees that were previously “hidden” would have to be released, and all fees would have to

be categorized under specific names, for example: “investment management”, “administration”, and “transaction-based”, or “other”. Also, Service providers would be obliged disclose any relationship with the plan or its sponsor to reveal possible conflict of interest. (<http://edlabor.house.gov>, Watson Wyatt)

Slovakia: Management fees slashed from July, introduction of a performance based fee

Since July pension fund management companies have started a six-month monitoring period during which their performance will be assessed under a new law that reforms the country’s fee policy. From now on, a greater part of the fee they can charge will depend on the fund’s yield.

The flat fee that pension management funds can charge for administering individual accounts has been reduced from 0.065% to 0.025% of the fund’s net value.

To make up for this reduction, a variable fee will be introduced on top of the flat fee. However, this will only be paid if, upon the six-month review, investments yields are found to be positive. The system is the following: if the pension management fund investments has a positive rate of return following a six-month monitoring period, it will be allowed to demand 5.6% of the increase of pension assets for that time period. The other 94.4% of the increase is passed on to the pension fund participants’ accounts. If a fund managed by a management company has a negative rate of return following the six-month monitoring period, the management company will be responsible for compensating the difference to ensure that workers’ accounts do not fall below the principal amounts they have contributed. The first six-month monitoring period begins July 1, with DSSs permitted to start charging this second fee on January 1, 2010.

When the cut as approved last March, Prime Minister Robert Fico – whose Government pushed for the change - called it said “the start of a path towards protection of clients, as their savings shink due to impacts of the crisis.”(Reuters, IPE.com, U.S. Social Security Administration Updates)

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