

# Costs and charges of pension funds in transition economies

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legislation to implementation**

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# Design of funded systems:

## ■ Countries tend to limit:

### – types of charges

- contribution based
- asset based
- performance based
- transfer fee

### – levels of charges

- for all or for selected charge types

## ■ Charges deducted only by managers

## ■ In few cases: specific charges can be paid directly from pension fund assets

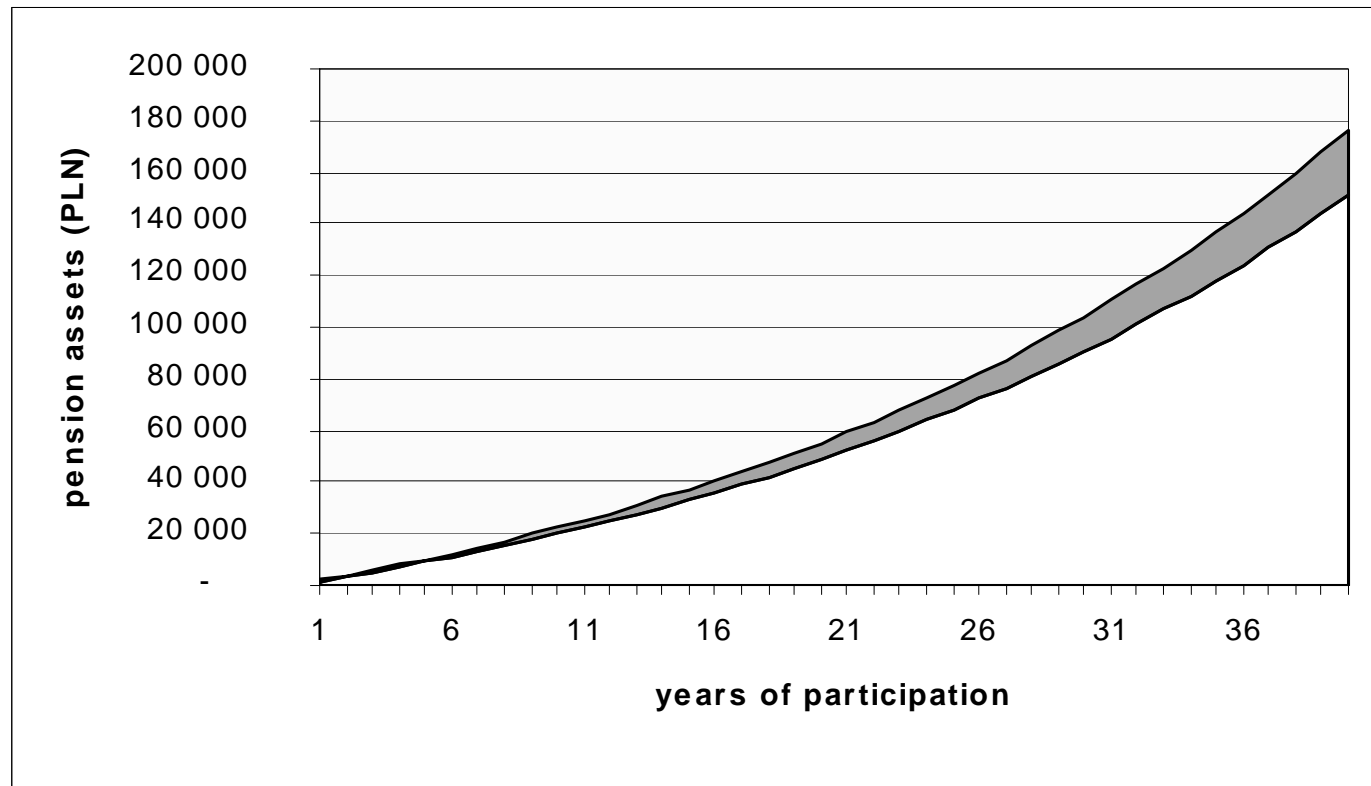
# Charge design in the region:

Country	Limits on charge structure	Types of charges			
		admission fee	contribution-based fee	asset management fee	performance fee from investment return
Hungary	✓	<input checked="" type="checkbox"/>	<input type="checkbox"/>	✓	<input type="checkbox"/>
Kazakhstan	✓	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Poland	✓	<input type="checkbox"/>	✓	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Latvia	✓	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> <sup>1</sup>	<input checked="" type="checkbox"/>
Croatia	✓	<input type="checkbox"/>	<input checked="" type="checkbox"/>	✓	<input type="checkbox"/>
Bulgaria	✓	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Estonia	✓	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Macedonia	✓	<input type="checkbox"/>	✓	<input checked="" type="checkbox"/>	<input type="checkbox"/>

*Source: Agnieszka Chlon-Dominczak, Funded Pensions in Eastern Europe and Central Asia: Design and Experience  
Paper prepared for the World Bank in co-operation with FIAP (2003)*

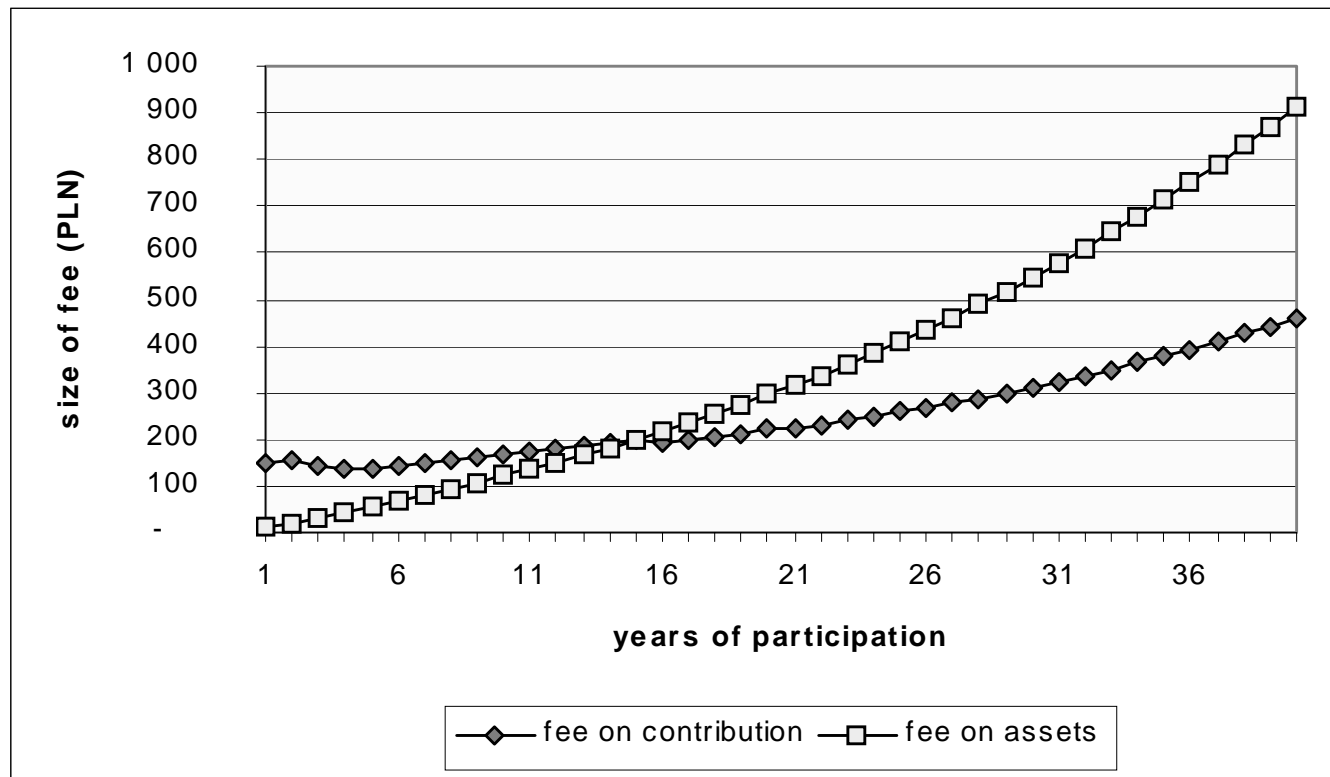
# Charges have an impact on pension wealth:

Simulation for Poland: pension assets with and without charges:



# Asset-based charges are more important in long run:

Simulation for Poland: size of contribution and asset charges:



# Impact of fees in selected countries:

	<i>Poland 2001</i>	<i>Poland new law 2004</i>	<i>Kazakhstan 2001</i>	<i>Kazakhstan new law 2002</i>	<i>Croatia 2002</i>	<i>Croatia - draft law</i>
Up-front fee (% contribution)	8.5*	from 7.0 to 3.5	1	0	0.8	0.8
Management fee (% assets)	0.6	Up to 0.54	None	0.6	None	1.2
Rate of return fee/ 'performance fee' (% return)	None	Up to 0.06	10	15	25	None
Reduction in assets	17.4	14.4	10.3	16.5	29.3	26.4
Reduction in yield	0.82	0.65	0.37	1.13	1.61	1.19

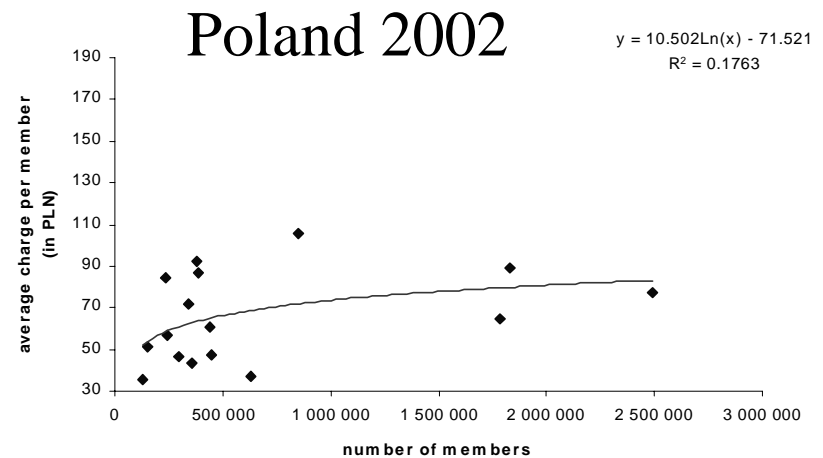
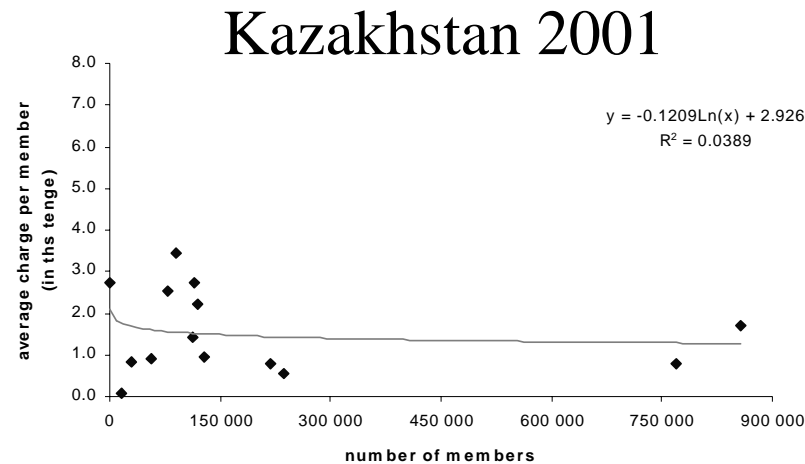
Source: World Bank (2003)



## Charges - actual performance:

- Charge levels are different across countries
- They reflect the legal design, supervision practices and competition
- Economies of scale are hardly observed

# Charges vs. size of pension funds Kazakhstan and Poland:



- Charge level does not depend on the pension fund size
- Some economies can be seen in Kazakhstan
- In Poland - bigger funds charges are higher

Source: Agnieszka Chlon-Dominczak, *Funded Pensions in Eastern Europe and Central Asia: Design and Experience*  
Paper prepared for the World Bank in co-operation with FIAP (2003)

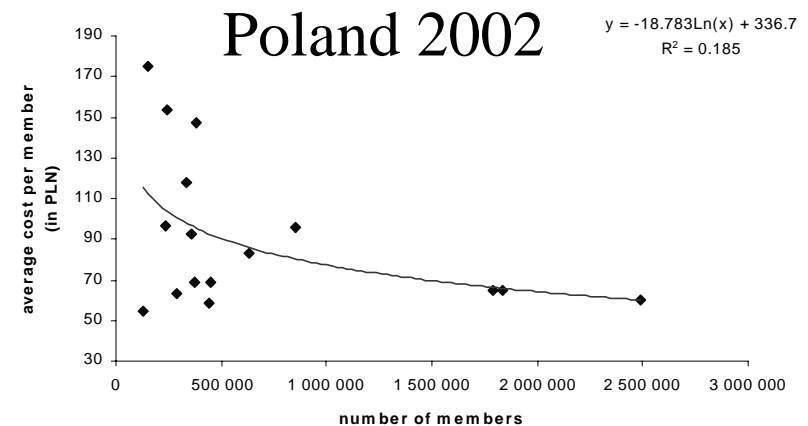
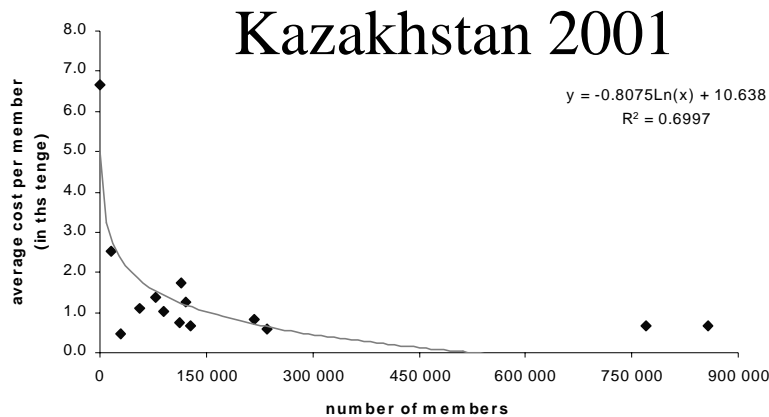




## Early experience with costs:

- Costs of initial year high:
  - driven by sales and advertising
- Reductions in following years
- Some costs imposed by the law
  - costs of guarantees and mandatory reserves
  - costs of reporting
  - costs of supervision

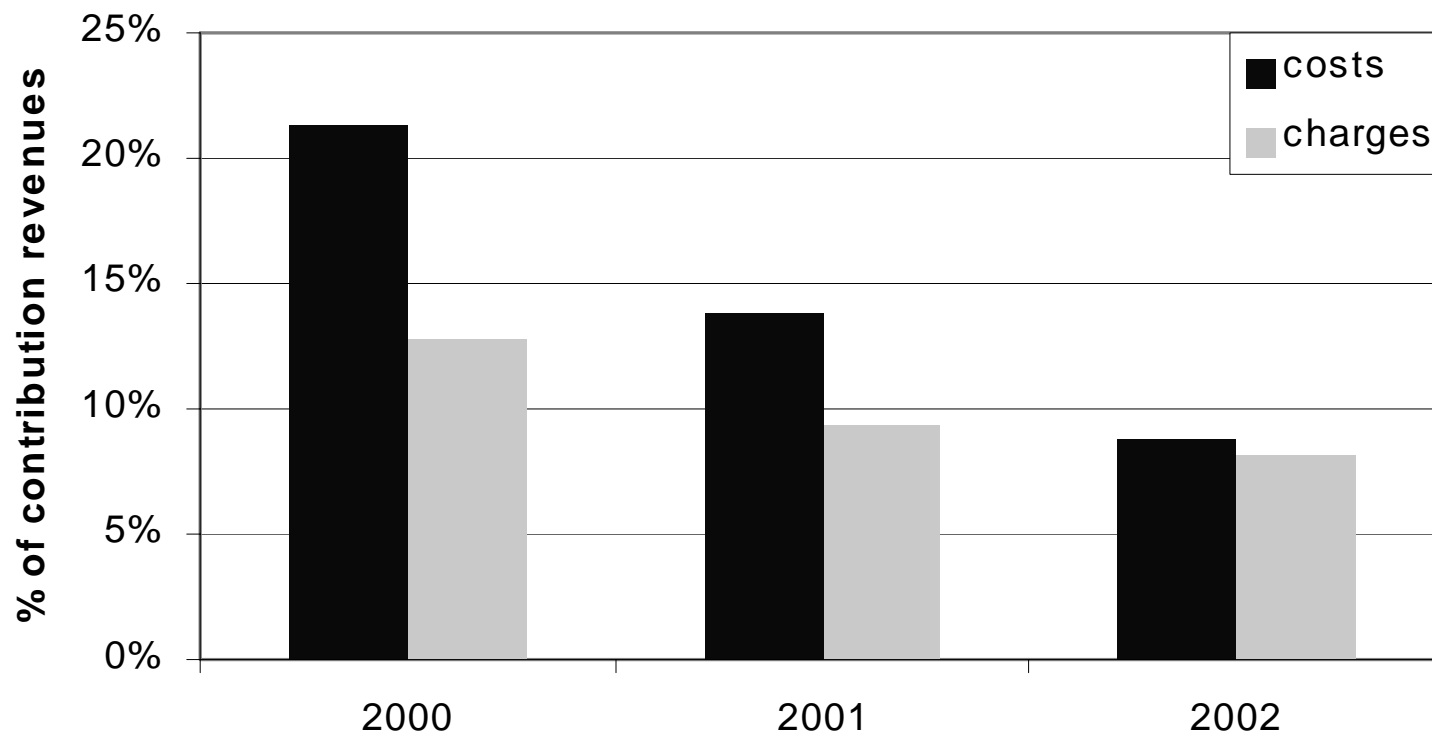
# Charges vs. size of pension funds Kazakhstan and Poland:



- More economies of scale than in the case of charges
- In Kazakhstan - stronger than in Poland

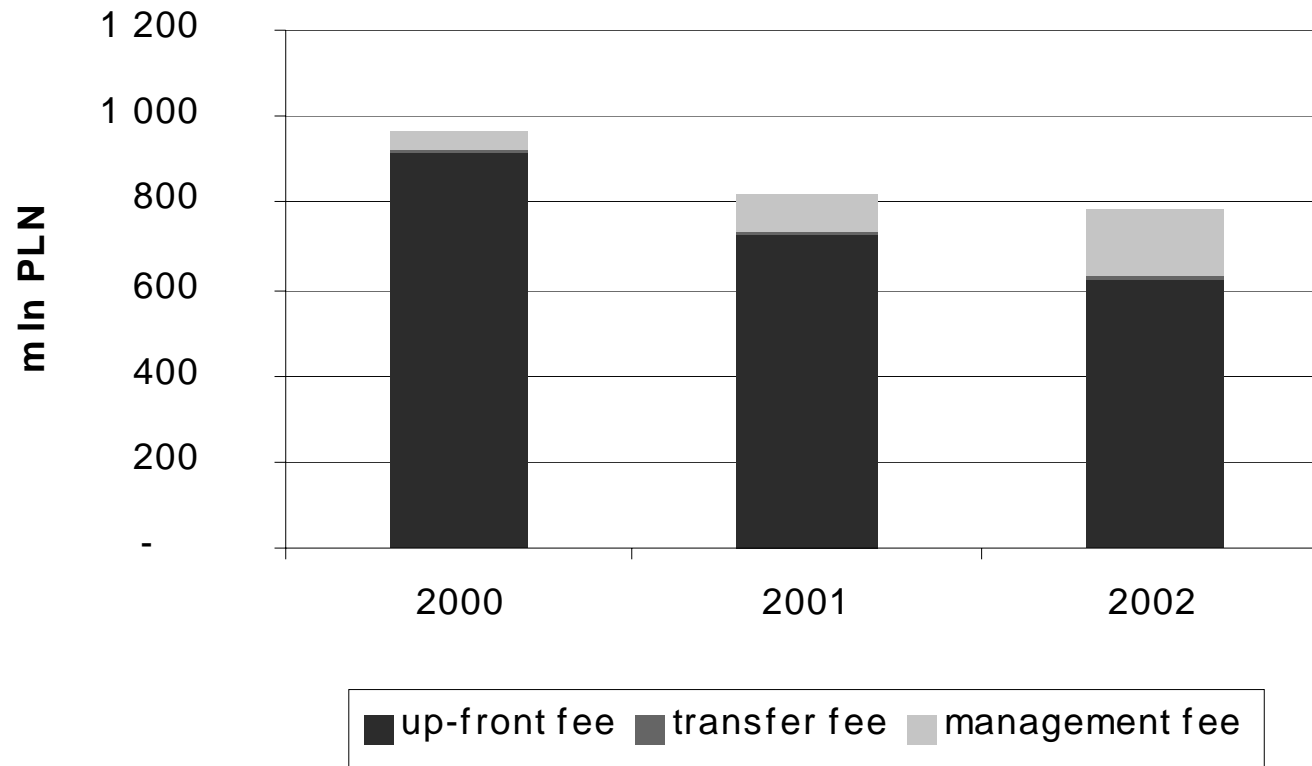
Source: Agnieszka Chlon-Dominczak, *Funded Pensions in Eastern Europe and Central Asia: Design and Experience*  
Paper prepared for the World Bank in co-operation with FIAP (2003)

# Costs and Charges in Poland:



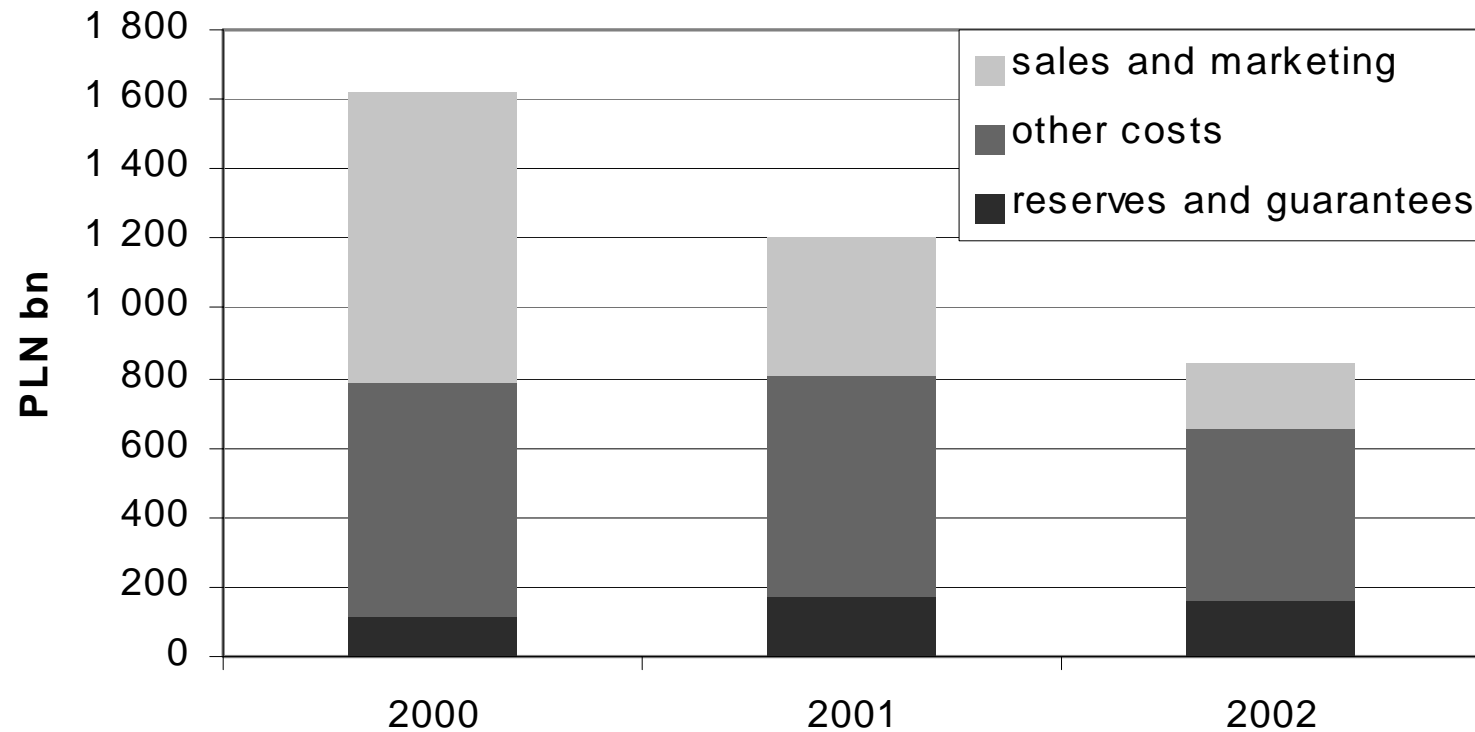
Source: Agnieszka Chlon-Dominczak, *Funded Pensions in Eastern Europe and Central Asia: Design and Experience* Paper prepared for the World Bank in co-operation with FIAP (2003)

# Charge structure: Polish example:



Source: Agnieszka Chlon-Dominczak, *Funded Pensions in Eastern Europe and Central Asia: Design and Experience*  
Paper prepared for the World Bank in co-operation with FIAP (2003)

# Cost structure: Polish example:



Source: Agnieszka Chlon-Dominczak, *Funded Pensions in Eastern Europe and Central Asia: Design and Experience* Paper prepared for the World Bank in co-operation with FIAP (2003)



## Conclusions:

- Most countries regulate the structure and partially level of charges
- There are significant differences between countries in the overall level of charges
- Costs can be caused by legislative requirements
  - Eventually all costs are paid by members
  - For the regulator it is necessary to balance the costs and benefits of guarantees
- The structure of costs changes
  - in the long run the impact of sales and marketing costs is reduced