

# **The Fee Structure of Pension Products. Estonian Experience.**

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## The presentation will focus on...

- Types of pension schemes available in Estonia**
- The fee and cost items**
- Fee scales**
- The regulation of fees**

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## **Pension schemes in Estonia**

**Estonia follows the traditional blueprint of the “three pillar” system:**

**Pillar two - is the private occupational scheme funded by workers’ and state contributions (2%+4%). The scheme is compulsory for all 18 year olds entering the work force.**

**Pillar three - is the individual private pensions, funded by workers’. The tax-free contributions are limited to 15% of gross salary**

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## Fee structure

**Estonia has chosen to apply a different fee structure for compulsory and voluntary savings schemes.**

- ❑ For compulsory pension funds the management company has to pay the custody, registry, and guarantee fund fees. The net management fee thus depends on the amount of those charges.
- ❑ Voluntary pension funds can charge custody fees and dealing expenses in addition to management fee, but total fees are limited to 3% of the NAV.
- ❑ The system is geared towards making the management fees more transparent and comparable across fund managers.

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## Types of fees and cost items

**The Law on Pension funds outlines the following fees and cost items applicable to Estonian pension funds.**

- Management fee
- Custody fee
- Commissions paid to a broker or agent
- Compulsory funds' fee payable to the Registrar (Estonian Central Depository)
- Compulsory funds' fee payable to the Pension Guarantee Fund

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## Fee scale - third pillar funds

- ❑ **The management fee of third pillar pension funds is not regulated. Currently all voluntary pension funds charge a management fee of 1%.**
- ❑ **The entry fees and exit charges are also uniform - 1%.**
  - The exit charge maximum limit of 1% set by the regulator
- ❑ **The custody fee is either a flat fee ranging between 0.25%-0.30% of the assets or tiers of charges which fall as the fund grows. On the assets exceeding EEK 50-70mln (approx. EUR 3-5mln) the custody fee will fall to 0.20% of assets under management.**



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## Fee scale - compulsory funds

❑ The investor register and II pillar pension accounts are kept by the Estonian Central Depository, who charges a fee for its services, which is set by the regulator.

- 0.024% of assets

❑ **Guarantee fund: Pension Guarantee sub-fund**

- Registration fee                      EUR 1000
- Quarterly fee                            max 0.1% of NAV (0.02% until 2004)



## II pillar fees: Example

<b>Fund type</b>	<b>Balanced</b>	<b>Fixed</b>
Net management fee	1.596%	1.096%
Custody	0.200%	0.200%
Registrar	0.024%	0.024%
Guarantee	0.100%	0.100%
Supervision	0.080%	0.080%
<b>TOTAL FEE</b>	<b>2.000%</b>	<b>1.500%</b>

## Conclusions

- The fund manager fee scales in Estonia are transparent and comparable between fund managers**
- The total fee limits expressed in voluntary funds' prospectus limit the possibility of hidden or dirty fees**
- The mandatory fund management fees are regulated and diversified by investment structure. For transparency the custody, registrar and guarantee fees are payable from the management fee.**