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Developments in Pension Provision and Supervision in Central and Eastern Europe

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Outline


Part A: Pension Provision in the Czech Republic, Hungary and Poland

- I. Reform
- II. Market Analysis
- III. Initial Experience
- IV. The Future

Part B: Pension Supervision in Hungary

- I. Process of Integration
- II. Factors
- III. Objectives and Tasks
- IV. Organigram

Conclusions



Part A: Pension Provision in the Czech Republic, Hungary and Poland

- I. Reform
- II. Market Analysis
- III. Initial Experience
- IV. The Future



I. Reform: General Strategies

Decrease in life-long pension amount

1) Increase in retirement age

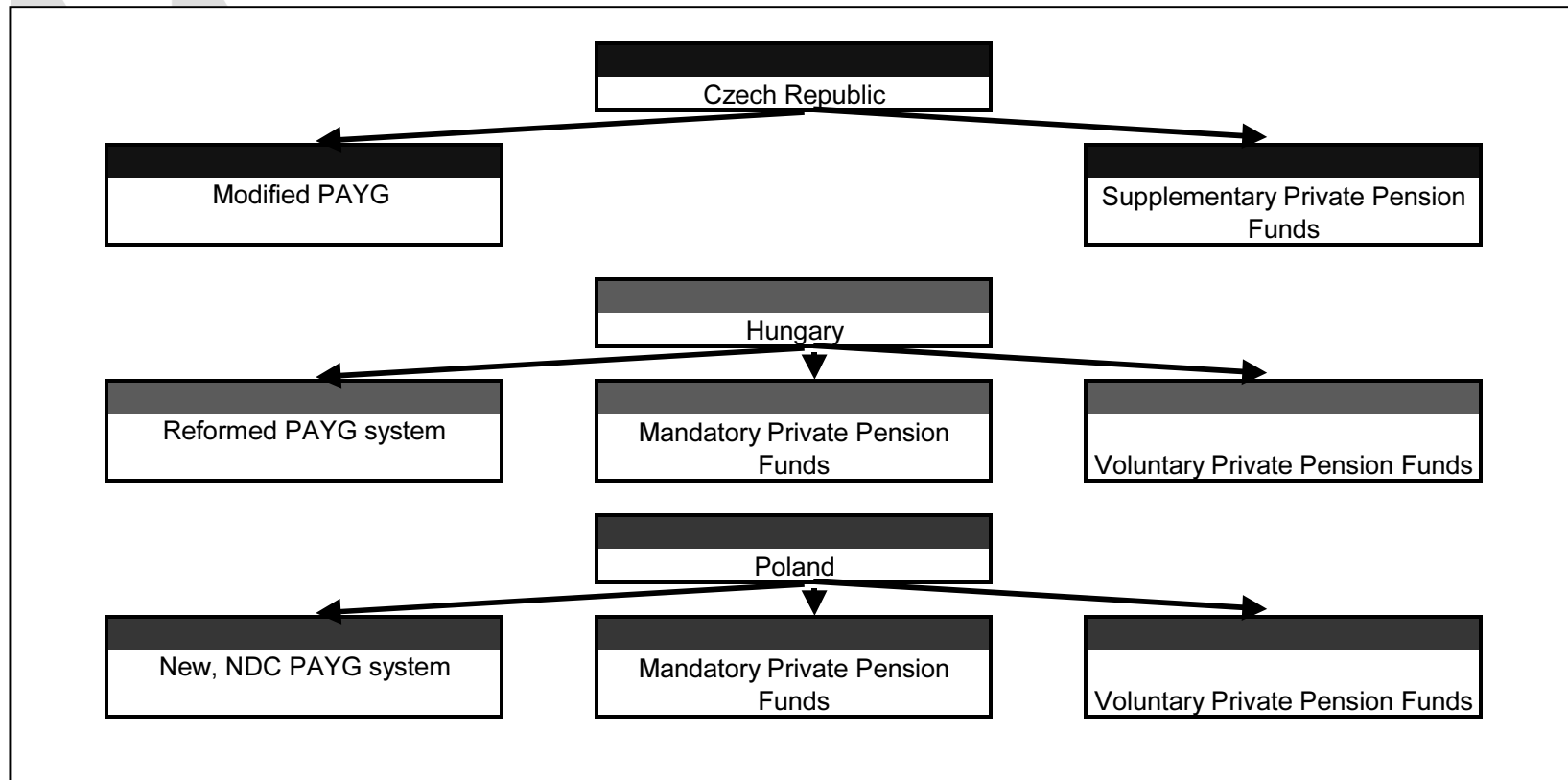
2) Reduction of pension benefits

in order to balance system financing.

I. Reform: Increase in retirement age

	Retirement age		Year	
	Men	Women	Legislation passed	Phased in until
Czech	62	57-61	1996	2007
Hungary	62	62	1995	2008
Poland	65	60	1997	

I. Reform: Reduction of pension benefits



II. Market Analysis: Mandatory Funds (1)

Hungary

- Non-profit organizations
- Can be established by certain defined entities
- High concentration
 - Largest are bank / insurance company backed
- Assets can be internally or externally managed
- Supervised by Hungarian Financial Supervisory Authority
 - merged April 1, 2001

Poland

- Joint stock companies
 - minimum capital requirement
 - profit oriented
- High concentration
- Supervised by Supervisory Commission of Insurance and Pension Funds
 - merged April 1, 2002

II. Market Analysis: Mandatory Funds (2)

Key Market Data on Mandatory Pension Funds

	Hungary	Poland
Number of Funds	25	20
Number of Members as share of labour force	2.2million 55%	10.4million 60%
Assets in EUR	570million	2560million
Government paper	77.9%	54.6%
Bank deposits	0.2%	1.8%
Shares	14.7%	38.4%
Others (incl. Bonds)	7.2%	5.2%
Assets as share of household savings	2.4%	4.7%

December 31, 2000 Data

Sources: HFSA (2001), UNFE (4/2000)

II. Market Analysis: Voluntary Funds (1)

Czech

- Joint stock company
 - minimum capital requirement
- all funds are open
- mostly foreign owned

Hungary

mutual benefit societies

established by min. 15 persons

no minimum capital requirement

non-profit organisations

open or closed

largest are

banks/insurance

companies

Poland

founded by employers

proof that at least 1/2 of employees

intend to join

no minimum capital

employer may

contract out

investment fund

insurance company

II. Market Analysis: Voluntary Funds (2)

Key Market Data on Voluntary Pension Funds

	Czech	Hungary	Poland
Number of Funds	19	116	74
Number of Members	2.3million	1.1million	0.03million
Assets in EUR	1300million	860million	N/A
Government paper	84.1%	76.5%	N/A
Bank deposits	5.9%	1.6%	N/A
Shares	10.0%	14.1%	N/A
Others (incl. Bonds)	0.0%	7.8%	N/A

December 31, 2000 Data

Sources: Min. of Labor and Social Affairs (2001), HFSA (2001), UNFE (4/2000)

III. Initial Experience: Hungary (1)

- Legislative changes
 - elimination of independence of public pension scheme
 - change of collection institution
 - extension of transition deadline
 - manipulation of indexation
 - sharp decrease in contribution rates
 - freeze in funded scheme's contribution rate

III. Initial Experience: Hungary (2)

- Switch to new system
 - choice until Aug. 31, 1999 then only new entrants to labor force
 - overswitching
 - + "active errors" v.s. - "passive errors"
 - factors for choice
 - age
 - wage profile
 - accrued rights
 - expected fund returns
 - distrust / trust of old / new system
 - about 50% of labor force joined

III. Initial Experience: Poland (1)

- Contribution collection problems
 - operation problems of ZUS
 - difficulties in implementation of new regulations
 - problems with new IT system
 - inefficient organizational structure
- Legislative changes
 - to improve efficiency
 - revision of difficult to implement laws
 - interim solutions until ZUS capacity improved
 - extension of implementation dates

III. Initial Experience: Poland (2)

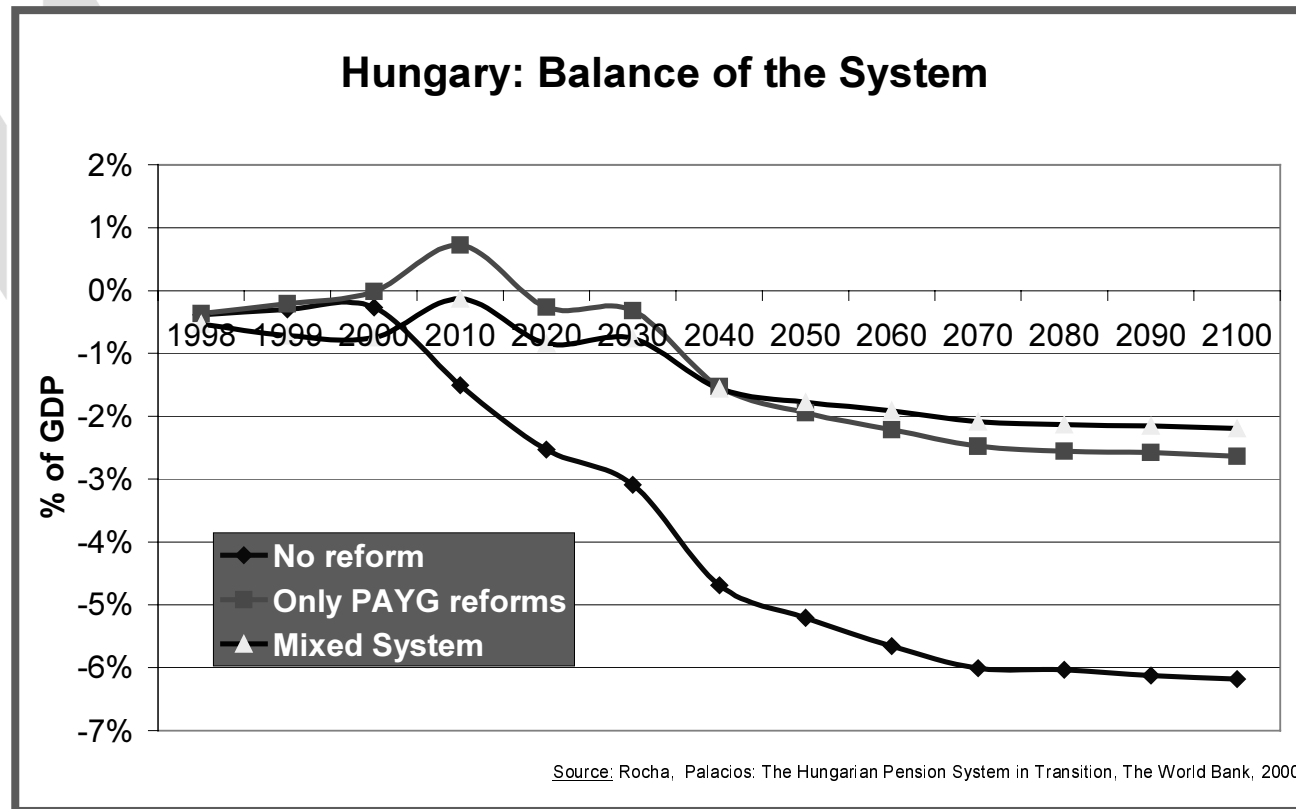
- Switch to new system
 - only 30-50 with choice
 - choice until December 31, 1999, then only new entrants to labor force
 - overswitching
 - strong PR campaign
 - effective sales agents
 - factors for choice
 - persuasion by ads / family/friends
 - troubles with ZUS
 - about 60% of labor force joined

IV. The Future: Czech Republic

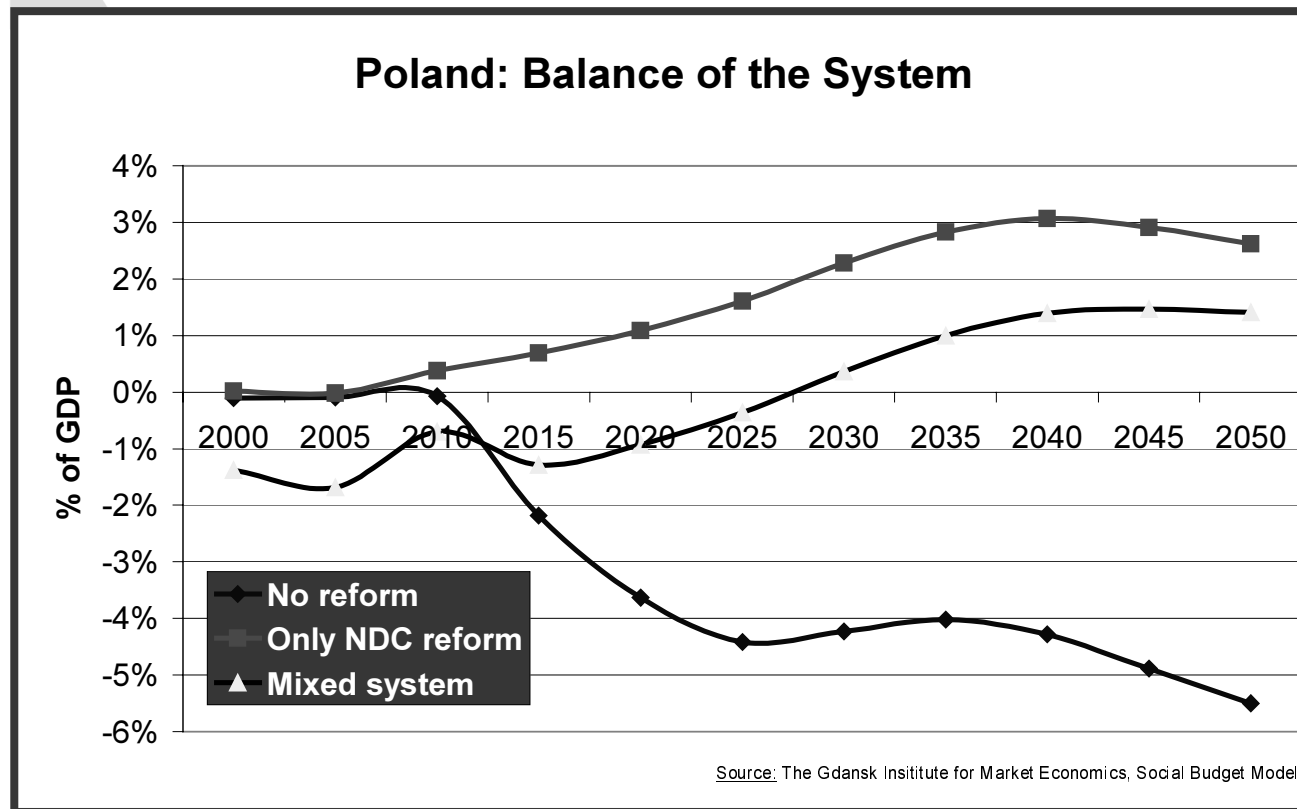
Reform Proposals

- Concept of Pension Reform (2001)
 - refusal of partial privatization
 - mainly due to high transition costs
 - further reform of PAYG
 - increase of contribution rate
 - gradual limitation of redistribution
 - consideration of implementation of NDC
 - flexible retirement age

IV. The Future: Hungary



IV. The Future: Poland

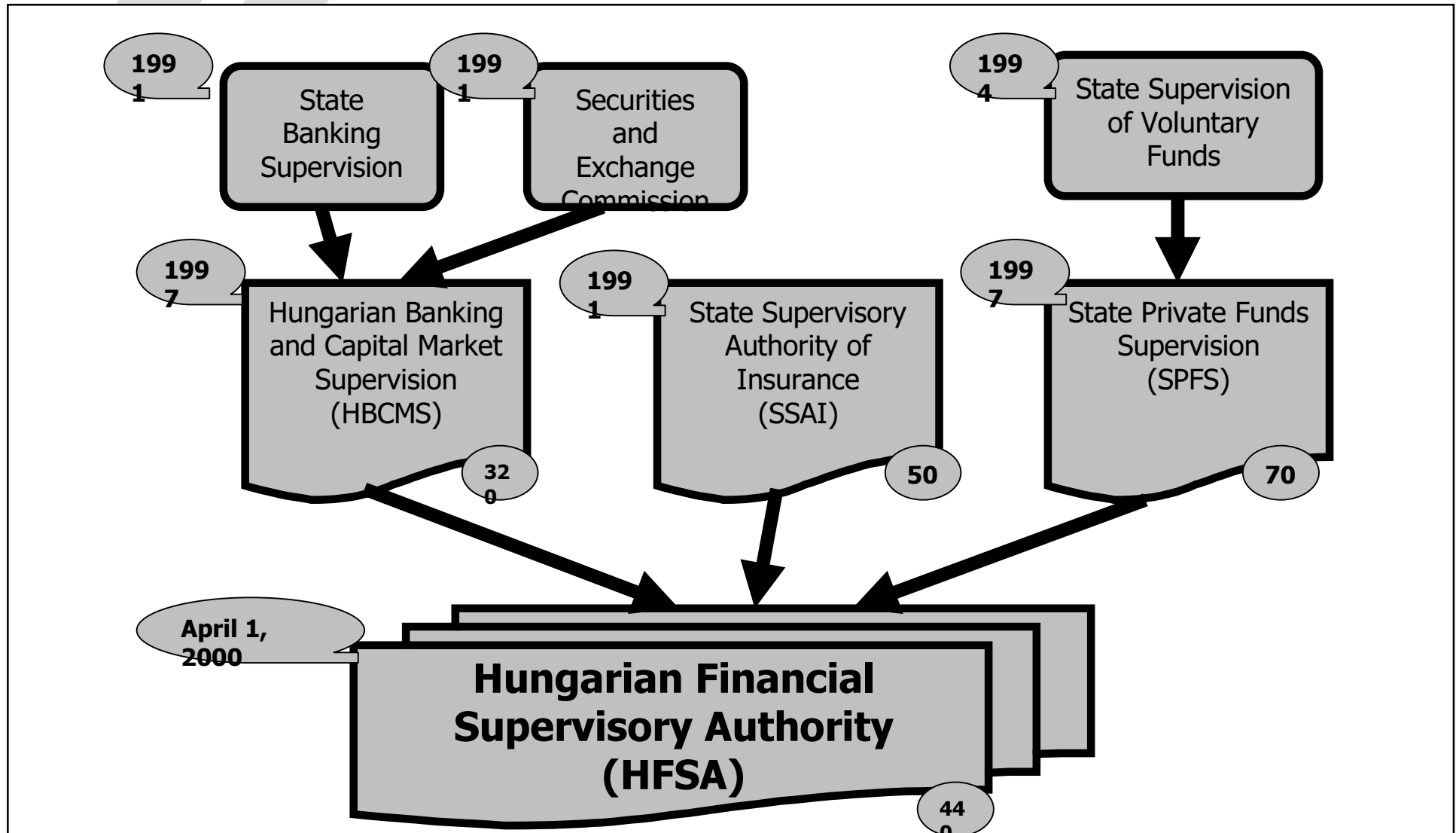




Part B: Pension Supervision in Hungary

- I. Process of Integration
- II. Factors
- III. Objectives and Tasks
- IV. Organigram

I. Process of integration



II. Factors

- Country specific reasons
 - strong concentration of financial sector
 - limited HR capabilities
- Expected benefits
 - increased efficiency in consolidated supervision
 - increased unity in approach
 - organizational integration
 - increased economies of scale
 - more effective utilization of HR, better career prospects
 - better accountability
 - --> preventive supervisory approach

III. Objectives and Tasks

- Objectives
 - to promote the smooth operation of the money and capital markets,
 - to protect the interests of clients of financial institutions,
 - to enhance transparency of markets and the maintenance of fair and regulated market competition of financial institutions
- Tasks
 - authorizes all entities
 - keeps records required by law and controls the information system operated at the financial institutions
 - regularly monitors and evaluates compliance with the laws and regulations governing the financial services industry
 - examines, analyses and evaluates the prudent operation of financial institutions, the business activities of investment service providers and those of insurance brokers and pension funds
 - investigates, where appropriate, suspected business malpractice and takes enforcement actions
 - comments on legislative proposals

IV. Organigram

President

Chief Supervisory Advisors	Secretariat of the President	Information and Quality Assurance Department	Internal Audit	Department of International Affairs	Public Relations Department	Human Resources Department	Economic Controlling and Management of Premises	Councils and Commissions
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Supervision Department for Pension Funds				
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Part A: Conclusions

- **Common Past**
 - Common history of pension systems
 - Demographic and economic problems
- **Different Present**
 - Czech Republic: No structural reforms
 - Hungary: Reform of PAYG system
 - Poland: Introduction of NDC system
- **Divergent Future**
 - Czech Republic: financing problems, no immediate plans for privatization
 - Hungary: balanced system in mid-term, further reforms needed
 - Poland: long-term sustainability



Part B: Conclusions

- Is consolidation the international trend?
- Country specific factors
- Supervisory methods are more important than organizational structure?
- Always: ensure operational independence but maintain accountability