The Fee Structure of Pension Products. Estonian Experience.

by Paavo Põld

Presentation at the INPRS Regional Meeting for the Eastern and Central European Countries
Tallinn Estonia
7-8 February 2002

Room Document 63
The presentation will focus on...

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

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

- The maximum management fee as a percentage of assets is set by the regulator
  - for the fixed income fund 1.5%
  - for the balanced fund 2.0%
  - The exact management fee scale will be known by April when the first funds are due to be registered.

- Entry and exit fees
  - Entry fee - has to be defined in prospectus
  - Exit charge - maximum limit of 1% set by the regulator
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

<table>
<thead>
<tr>
<th>Fund type</th>
<th>Balanced</th>
<th>Fixed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net management fee</td>
<td>1.596%</td>
<td>1.096%</td>
</tr>
<tr>
<td>Custody</td>
<td>0.200%</td>
<td>0.200%</td>
</tr>
<tr>
<td>Registrar</td>
<td>0.024%</td>
<td>0.024%</td>
</tr>
<tr>
<td>Guarantee</td>
<td>0.100%</td>
<td>0.100%</td>
</tr>
<tr>
<td>Supervision</td>
<td>0.080%</td>
<td>0.080%</td>
</tr>
<tr>
<td><strong>TOTAL FEE</strong></td>
<td><strong>2.000%</strong></td>
<td><strong>1.500%</strong></td>
</tr>
</tbody>
</table>
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.