SLOVENIA

REVIEW OF THE PRIVATE PENSIONS SYSTEM

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FOREWORD

This review of Slovenia by the Working Party on Private Pensions is part of a series of reviews of national policies undertaken for the OECD Insurance and Private Pensions Committee (IPPC). It was prepared as part of the process of Slovenia's accession to OECD membership.

The OECD Council decided to open accession discussions with Slovenia on 16 May 2007 and an Accession Roadmap, setting out the terms, conditions and process for accession, was adopted on 30 November 2007. In the Roadmap, the Council requested a number of OECD Committees to provide it with a formal opinion. In light of the formal opinions received from OECD Committees and other relevant information, the OECD Council decided to invite Slovenia to become a Member of the Organisation on 10 May 2010. After completion of its internal procedures, Slovenia became an OECD Member on 21 July 2010.

The IPPC was requested to examine Slovenia's position with respect to core principles related to insurance and private pensions systems. The examinations were carried out by the Working Party of Governmental Experts on Insurance (WPGEI) and Working Party on Private Pensions (WPPP). The present report was finalised on the basis of information available in December 2009. It is released on the responsibility of the Secretary General of the OECD.

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INTRODUCTION

The purpose of this document is to assist the Working Party on Private Pensions (WPPP) form an opinion on Slovenia's ability and willingness to meet the requirements of OECD membership in the field of private pensions as set out in Appendix A.VIII of the Accession Roadmap for Slovenia adopted by the Council [C(2007)104/Final]. Accordingly, Slovenia will be assessed against the two core principles referred to in the Roadmap:

ensuring sound prudential regulation of private pension systems and protecting the rights of members and beneficiaries; and

relaxation of restrictions on cross border trade, investment and establishment of pension services as required under the OECD Codes of Liberalisation.

The Working Party reviewed the first core principle of the Roadmap (except supervisory matters) at a special meeting on 25 March 2009 on the basis of a first draft of this report. Following that meeting, the Chair sent a letter to the Slovenian Delegation (dated 21 April 2009) including a set of policy recommendations to be considered during the review of the pensions law. Slovenia responded in written (letter dated 25 May 2009), welcoming the recommendations and acknowledging their importance in order to "modernise the existing pension system, thus making it more efficient and transparent, assuring on the one hand its sustainability and on the other providing adequate pensions to the future generations."

A report on private pension supervision was then prepared [DAF/AS/PEN/ACS(2009)1/ADD4], which supported the discussion at the July 2009 meeting. This report suggested some recommendations on supervision that the Slovenian Delegation commented on during this meeting. Since then, the government has published a white paper on pension reform [DAF/AS/PEN/ACS(2009)1/REV1/ADD6] which responds to many of the recommendations made the WPPP. The Slovenian Delegation also participated in a third accession review meeting of the WPPP held on 30 November 2009. Following this meeting, the Chair sent a letter to the Slovenian Delegation (dated 21 December 2009) highlighting some important policy issues that still remained to be addressed.

In this revised report, particular attention has been paid as to how regulations, supervision and market-practice in Slovenia measure up in relation to the OECD Recommendation on Core Principles of Occupational Pension Regulation [C(2009)57)], using the Methodology developed for this purpose [DAF/AS/PEN/WD(2008)1/REV2]. The detailed assessment and the main recommendations made by the Working Party are contained in the executive summary.

The report also addresses compliance with the "OECD Recommendation on Good Practices for Financial Education relating to Private Pensions" [C(2008)23]. Market access issues and the Codes of Liberalisation are addressed by the Working Party of Governmental Experts (WPGEI) which assists the Investment Committee in these matters.

The document contains two main sections: the executive summary contains a summary of the assessment of the implementation of the OECD Recommendation on Core Principles of Occupational Pension Regulation in Slovenia. It highlights the main points of convergence and divergence of the Slovenian private pension system with the OECD Recommendation. Any differences with the OECD Recommendation, outstanding questions and areas for further discussion have been categorized and described under the appropriate OECD Core Principle. A reference is also made to the OECD Recommendation on Good Practices for Financial Education relating to Private Pensions. The second section contains a brief description of the Slovenian pension system.

Six additional documents support the analysis and recommendations in this report:

- A detailed assessment of the Slovenian Private Pension System in relation to the OECD Consolidated Core Principles of Occupational Pension Regulation (DAF/AS/PEN/ACS(2009)1/ADD1). The format for this assessment follows the format prescribed in the "Methodology for Assessing the Implementation of the OECD Consolidated Core Principles of Occupational Pension Regulation" (DAF/AS/PEN/WD(2008)1/REV2);

- A detailed assessment of the Slovenian private pension supervisory framework against the IOPS Principles of Private Pension Supervision (DAF/AS/PEN/ACS(2009)1/ADD4), included as Principle 7 of the OECD Recommendation on Occupation Pension Regulation;

- The original submission by the Slovenian authorities in response to the Questionnaire prepared by the Working Party on Private Pensions (DAF/AS/PEN/ACS(2009)1/ADD2);

- The response by the Slovenian Delegation to the WPPP's chair containing various policy recommendations (DAF/AS/PEN/ACS(2009)1/REV1/ADD5).

- The Slovenian government's white paper on pension reform (DAF/AS/PEN/ACS(2009)1/REV1/ADD6).

- The letter from the WPPP chair to the Slovenian Delegation dated 21 December 2009 (DAF/AS/PEN/ACS(2009)1/REV1/ADD7).

EXECUTIVE SUMMARY

Overview of the Slovenian private pension system

The voluntary supplementary pension system in Slovenia was first established with the Pension and Disability Insurance Act of 2000 (PDA), and the first pension providers were in place in 2001.

Current levels of pension contributions are low and do not suffice to compensate the projected decrease in public pensions. While contributions are expected to rise in the future, there is concern over the law's permission to access retirement savings without penalty (beyond income taxes) after a period of ten years.

The voluntary supplementary system is a defined contribution system. No defined benefit plans are allowed according to law. There are two types of supplementary pension plans, occupational (or collective) pension plans fully of partly sponsored by the employer and personal (or individual) pension plans.

Collective company sponsored pension plans have a much higher participation than individual pension plans. There are 19 different occupational pension plans and 11 individual pension plans, but 94.2% of all persons insured were members of collective, occupational pension plans (December 2007).

According to law, there is a minimum guaranteed rate of return on the paid in net premium. The guaranteed return is guaranteed over the whole period of the active participation in the supplementary pension scheme (until the acquisition of the rights), and is guaranteed by the pension scheme provider (no liabilities left on the employer's part). Underfunding is not allowed according to Slovenian legislation, and should a shortfall occur, the pension provider has to use its own assets or funds to guarantee the minimum return.

At retirement, the law provides for lifetime annuities. However, there are some possibilities to withdraw the capital as a lump sum. There are also portability rights according to the law.

In order to obtain tax relief for contributions, the pension plan has to be approved by the Ministry of Labour, Family and Social Affairs. The ministry approves the pension plan, if the plan content and rules are in line with the minimum requirements of the law. In practice, the ministry awaits the opinion of one of the Agencies (depending on the type of pension provider) before approving the plan. The Ministry is also in charge of ensuring the implementation of the provisions of the Pension and Disability Insurance Act with respect to the pension plan, in particular those related to the rights of insured persons.

In practice, it appears that the Ministry only plays a role in the approval stage of pension plans and does not engage in any meaningful on-going monitoring. One area that is lightly regulated and supervised is late payments of contributions by employers. The reconciliation of contributions against tax records is done only once a year by the tax authority.

The institutional framework for financial sector regulation and supervision (including private pensions) in Slovenia is under review. Currently, however, there are two independent Agencies supervising pension plan providers. Each of them has jurisdiction for a specific form of provision. The Securities Market Agency supervises the management of mutual pension funds and the Insurance Supervision Agency supervises the operations of pension and insurance companies. The different forms of pension provision in Slovenia differ mainly on the structure of the financing vehicle and the law governing their operation.

The Tax Administration supervises the implementation of the provisions with respect to the acquisition of tax and other reliefs in accordance with a special law regulating tax service and taxation procedure.

Position of Slovenia with regard to the OECD Legal Instruments

In its Initial Memorandum and its presentation to the Working Party on Private Pensions, Slovenia formally stated that it accepted all the OECD legal instruments in the field of private pensions. The Working Party found that Slovenia's position on all six legal instruments relating to private pensions was satisfactory taking into account the planned reform of the pension system described in the government's white paper (DAF/AS/PEN/ACS(2009)1/REV1/ADD6).

A detailed assessment was carried out of the revised Recommendation on Core Principles of Occupational Pension Regulation [C(2009)57] as it encompasses the four other legal instruments in the field of private pension regulation.[1] The Working Party also reviewed the implementation of the Recommendation on Good Practices for Financial Education relating to Private Pensions [C(2008)23].

The Working Party finds that Slovenia is broadly compliant with the recommendations in the OECD legal instruments related to private pensions. Taking into account the planned reforms, the country will have the main features of a sound regulatory and supervisory framework as stated in the Core Principles..

During the accession review process, the Slovenian Government launched an initiative to reform the pension system, led by a working group on the modernisation of the pension system established at the Ministry of Labour, Family and Social Affairs.

The Working Party welcomed this initiative and made a series of recommendations for the consideration of the Slovenian Government aimed at improving the functioning of the pension system. Most of the Working Party's recommendations were incorporated into the Slovenian government's white paper on pension reform dated 25 September 2009. The Working Party welcomed the white paper, but drew attention to a number of weaknesses in the government's plan and, in a letter to the Slovenian authorities dated 21 December 2009, made specific recommendations on how to address them. The Working Party looks forward to the revision of the Pension and Insurance Disability Act, scheduled for the beginning of 2011, which should bring the Slovenian private pension regulation more closely into line with the OECD Recommendation on Core Principles of Occupational Pension Regulation. As a result of its assessment, the WPPP has identified certain policy areas that it believes should be considered as part of the review of the pensions law.

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1 The four instruments are Recommendation of the Council on OECD-IOPS Guidelines on the Licensing of Pension Entities C(2008)18; Recommendation of the Council on Guidelines on Funding and Benefit Security in Occupational Pension Plans C(2007)8; Recommendation of the Council on Guidelines on Pension Fund Asset Management C(2006)7; and Recommendation of the Council on Guidelines for Pension Fund Governance C(2005)46.

The WPPP's recommendations include:

- Expand the private pension system via appropriate incentives, including tax benefits but also policies such as automatic enrolment and matching contributions so as to provide a stronger supplement to the public pension system, and promote the use of supplementary pension savings for retirement purposes via suitable restrictions and tax rules.

- Promote the prompt payment of contributions, via stricter monitoring and supervisory oversight, and grant priority rights to unpaid contributions by sponsoring employers in case of insolvency of sponsoring employer.

- Strengthen private pension supervision by designating a single supervisor for private pensions – such as the planned single supervisor for the financial sector - with outcome-focused objectives specific to pension supervision, sufficient independence, adequate resources and powers, strong internal governance and a risk-based orientation.

- Provide guidance materials to entities applying for a private pensions license and adapt licensing requirements to institution's size, risks faced and complexity.

- Strengthen pension fund governance by, for example, the representation of members and beneficiaries in a plan oversight committee and requiring members of the governing body of pension providers to establish and adhere to a code of conduct.

- Standardise pension fund valuation methods, improve transparency and disclosure on pension fund fees and performance, and enhance efficiency and competition in order to bring down fee levels.

- Provide plan members the opportunity to choose investments, including options such as life-cycle funds and reviewing the problems caused by the combination of a minimum annual investment return guarantee and free switching of provider.

The WPPP has invited the Slovenian authorities to maintain an open dialogue with the OECD and will request Slovenia to submit a progress report on the issues outlined above within two years after its accession to the Organisation. Should the private pension reform be adopted earlier, Slovenia should promptly submit an interim report on the results of the reform.

The Working Party also recommends the implementation of the "OECD Recommendation on Good Practices for Financial Education relating to Private Pensions" [C(2008)23] via appropriate financial education programmes relating to private pensions. There are currently no public financial education programmes in Slovenia on pension issues, but the government is currently considering launching such initiatives. Given the nature of the private pension system (defined contribution) and the pension law review process that the government is planning, there is an urgent need for such initiatives.

Implementation of the OECD Core Principles of Occupational Pension Regulation

The following section provides a summary assessment of the Slovenian private pension system against the OECD Recommendation on Core Principles for Occupational Pension Regulation, using the methodology developed for this purpose. This section highlights the main points of convergence and divergence of the Slovenian private pension system with the OECD Recommendation. Any differences with the OECD Recommendation, outstanding questions and areas for further discussion have been categorized and described under the appropriate Core Principle.

Core Principle 1: Conditions for effective regulation and supervision

The operation of pension plans in Slovenia is governed by a comprehensive regulatory system and the supervision regarding the soundness of pension providers is performed by the Insurance Supervision Agency and the Securities Market Agency, depending on type of entity (Mutual Pension Fund, or Insurance or Pension company). The Ministry of Labour, Family and Social Affairs also have supervisory roles regarding the rights of employees, and the Tax Authority performs this function for tax related issues.

Slovenia's voluntary supplementary system is new, established in the year 2000, and therefore the significance of the pension institutions is still limited, but is expected to grow in the future. Investments are to a large extent directed abroad due to insufficient capacity in the local financial market.

The current structure, with different supervisory agencies and governing laws depending on the type of pension entity, could create the potential for regulatory arbitrage and confusion among both providers and participants. The supervisory agencies also have a different focus in their operation, with the securities markets agency focusing on investments, while the insurance supervisory agency focuses on the solvency of the provider. As mutual pension funds must also meet a minimum rate of return guarantee, the securities agency has a responsibility to monitor the provider's reserving policies that does not sit well with its supervisory mandate and practical focus on the securities market. The Government is considering a broad reform in the financial supervisory framework, leading to the establishment of an integrated supervisor.

Core Principle 2: Establishment of pension plans, funds and fund managing companies

Slovenia has a fully-fledged and well-developed licensing framework for pension plans and providers including most of the requirements of the Core Principle. The Ministry of Labour, Family and Social Affairs approves the pension plan if it is in line with the minimum requirements of the law, and also collaborates with the supervisory agencies in the approval process. The required governing documents for a pension plan are comprehensive and clearly defined.

Only defined contribution plans are allowed in Slovenia, and the requirements for the pension plan being approved, set out in the minimum requirements specified by law, has as a consequence that the pension plans in Slovenia are similar and basically only differs regarding contribution levels, fees and investment strategy.

In the licensing process there is no guidance material available to the applicant, but the licensing authorities do provide guidance and written answers, should there be any difficulties with establishing the pension entity. There are no direct possibilities for the licensing authority to show flexibility in the requirements according to size or complexity.

Basic risk control mechanisms are in place for investments, as well as a requirement for internal audit and an actuary in the case of pension companies that pay annuities and insurance companies. There is a requirement to have an overall risk management plan, including operational and governance risks.

Core Principle 3: Pension plan liabilities, funding rules, winding up, and insurance

The Slovenian pension system is a defined contribution system, with pension plan assets legally separated from the sponsor's, but there is a minimum guaranteed return stipulated in the law that must be met by the pension providers. No defined benefit plans are allowed. The pension plans are required to be fully funded, and in case of shortfall, the guarantees must be financed from reserves or by the pension entity's capital.

There are no guarantee funds or insurance schemes for cases of insolvency of pension entities or sponsoring employers. Unpaid contributions by employers do not receive priority in bankruptcy proceedings and there is no regulation on late payment of contributions. If there are due and unpaid contributions, employees have the same rights as other creditors.

The actuarial techniques for valuating pension fund assets and investment returns vary according to type of pension entity so that investment returns and value of assets are not fully comparable.

Core Principle 4: Asset Management

The prudent person principle is implemented in Slovenian legislation as can be seen from the main investment principles that have to be respected. However, there are still some regulatory limits, in particular diversification requirements to limit exposures to individual issuers.

The investment policy restrictions are perceived to be an important challenge for the future. The measures currently being considered would reduce existing restrictions and give more emphasis to the prudent person rule. However, no final decisions have been made at this point of time.

The asset class quantitative portfolio limits generally do not inhibit the diversification of the investment portfolio, given the high ceilings set for the main asset classes and the possibility to invest freely in regulated markets within the euro area. The actual investment allocation is driven by the minimum guaranteed return, which directs investments towards low risk assets (Slovenian government bonds and bank deposits).

Core Principle 5: Rights of members and beneficiaries and adequacy of benefits

The rights covered by the core principles are generally reflected in the Slovenian regulations. In particular, there are non-discriminatory rules, full vesting and portability rights. There is so far no possibility for individuals to direct their own investments, and all plan members are part of the same investment strategy, regardless of age or risk profile.

The law does not stipulate the level of the employer's contribution as this is left to be agreed upon between the employer and employees in an agreement by which the employer sets up a pension scheme. There is no data available on a typical contribution made by the employers, but it is estimated at less than 2% of average wages, which may be insufficient to maintain the retirement pension at its current level, especially given projected reductions in public pension benefits. This concern is heightened by the possibility of withdrawing the savings after a ten year period without any penalty, beyond income taxes.

Information regarding contributions made on behalf of plan members is sent to the tax authorities once a year. No special notification is sent to alert the members and there is no regulation or regular oversight in place to ensure that employers transfer the money on a timely basis.

As individuals may find it difficult to obtain information on their future state pension entitlements, employees may be unable to determine the possible need for additional voluntary pension savings. There are also no regulations regarding pension entities' possible (maximum) estimates to use when showing projected pension savings for sales purposes, which may also complicate individuals' assessments of future pension levels.

There are no public financial education programmes currently in place or planned regarding pension education. Currently Slovenian legislation pursues the goal of adequate financial education by introducing basic interest calculations to secondary school curricula. Some pension providers offer free seminars to their plan members.

Core Principle 6: Governance

The governance requirements for pension plan providers in Slovenia are set out in the law, with clearly defined responsibilities for the supervisory and management boards, as well as requirements regarding suitability.

All types of pension entities have defined governance structures according to their relevant regulation framework, including internal and external audit, and certified actuary (not mutual funds, as they are managed by a bank or insurance company). The sizes of the pension entities are relatively small, but they have the possibility to seek expert advice, delegate and outsource within and outside of the pension entity.

Slovenian legislation does not currently oblige pension entities to adopt a code of conduct for the members of its governing bodies. Relevant Slovenian laws do, however, set out the rules on the obligations of the members of the governing bodies when conducting their business. Moreover, the Slovenian Insurance Association has adopted an Insurance Code, the signatories of which include certain pension scheme providers.

There is no requirement for member representation on the supervisory or management boards, which limits the extent of accountability to plan members.

Core Principle 7: Supervision

Slovenia has the essential features of a sound supervisory framework as stated in the Core Principle. However, there are some important shortcomings with regard to some of the implementing guidelines.

First, neither of the two main supervisory authorities have outcome-oriented objectives nor are they specific to pensions.

Second, the independence of one of the supervisory authorities (Insurance Supervision Agency) is compromised by certain features such as the absence of indemnities from prosecution, a certain lack of transparency in the process for appointing the Expert Councils (governing boards) and the presence of a senior official of the Ministry of Finance in the board.

Third, while the legislation gives the supervisors broad powers, these do not include powers relating to late payments of contributions - a major gap in view of the risk of employers with cash crises withholding contributions prior to bankruptcy.

Fourth, the supervisory authorities do not publish their decisions on sanctions taken against supervised entities and one of the supervisors (the Securities Markets Agency) has no reporting duty specific to pensions. Internal governance also shows some weaknesses. Neither supervisor has written procedures for internal risk management nor recognisable performance measures.

Fifth, there are no special guidance materials (such as written explanations on how to satisfy the licensing criteria) in place for applicants seeking to establish a pension entity. However, the supervisory (licensing) authorities do provide guidance and written answers, if requested.

DESCRIPTION OF THE SLOVENIAN PENSION SYSTEM

I. The Slovenian State Pension System

Statutory pension provision has a long tradition in Slovenia, starting already in the middle of the 19th century, with many changes to the system throughout the 20th century. After independence, the first Slovenian Act on Pension and Disability Insurance was adopted in 1992. The new law introduced the legal basis for the establishment of different supplementary pension systems.

Further reforms of the pension system started already in 1994 when a group of experts started drawing the needed changes to make the system sustainable in the future, resulting in the new Act on Pension and Disability Insurance that was put in force in 1 January 2000. The main changes in the new act were towards lowering the public expenditure for retirement pensions, and to introduce a defined contribution supplementary pension insurance system.

The main benefits provided under the mandatory pension system include retirement, invalidity, and survivors' pensions. In December 2007, 95.4% of the active population was insured under the mandatory pension insurance (see Table 1 below).

Table 1. Basic information about coverage of mandatory pension system

Total labour force	Employed / self - employed	Proportion women of employed/self-employed	Proportion men of employed/self-employed	Included in mandatory pension insurance
932,772	864 361 (92.7% of total labour force)	374 582 (43.4%)	489 779 (56.6%)	889 724 (95.4% of total labour force)

The mandatory pension system is funded by insured persons, employers, the Republic of Slovenia, and other sources. The contribution rates are 15.5% and 8.85% for insured persons and employers respectively. In years when the revenue from contributions do not suffice, the Republic of Slovenia makes up the difference.

The earliest retirement age for men is 58 years, and for women 56 years. Full pensionable age for men is 63 years and for women currently 58 years but will increase to 61 years from year 2023. Qualifying periods for full retirement pension levels varies from 15 to 40 years (38 years for women) depending on age at retirement.

The salary base upon which the pensions are calculated is not individual but collective, and the same as from which the contributions into the pension and invalidity insurance scheme are calculated. The base has gradually been changed from the most favourable 10 years in 1999, to 18 years in 2008, the consequence being a lower level of pension base. The minimum pension base is 35% of the base salary, and the maximum is four times the base salary.

An average old-age pension was 67.1 % of average net salary, paid out in the year 2007, in comparison with the year 2000, when the percentage was 75.3%. In 2060 the average replacement rate is estimated to fall to 56.8%. In 2007, the average net monthly mandatory retirement pension amounted to € 559.55. Average gross monthly salary was 1,284.79 € in 2007.

Should the current legislation framework not be changed, it is expected that public pension expenditure will increase from 10.1% of GDP (2007) to 18.3% of GDP in 2050. Slovenia is looking at measures that will provide for the financial sustainability of its pension system in the coming decades, and there is already a draft version of amendments to the Pension and Invalidity Insurance Act. The proposal includes for instance measures to extend pensionable years and to further encourage later retirement.

II. The Slovenian Private Pension System

The voluntary supplementary pension system in Slovenia was first established with the Pension and Disability Insurance Act of 2000 (PDA), and the first pension providers were in place in 2001.

The slightly increasing awareness of decreases in retirement benefits from the mandatory public pension system has put some focus on the importance of the voluntary supplementary system. However, the current levels of pension contributions are low and do not suffice to compensate the projected decrease in public pensions. While contributions are expected to rise in the future, there is concern over the law's permission to access retirement savings without penalty (beyond income taxes) after a period of ten years.

The average contribution is 28 € per month for public employees and approximately 35-38 € per month for the private sector. Public servants contribution is equivalent to approximately 2% of gross salary. In the private sector the contributions are higher. Average total savings per individual is 1,511 € for public servants and 2,865 € for private sector employees (December 2008).

There are tax incentives to ensure the broadest possible access to plan membership and participation. An employer paying the contributions to a pension plan can lower his tax base, and the contributions are not included in the base for the Social Security contributions. Pension contributions from both the employer and the employee benefit from tax relief up to 5,844% of the gross wage of the employee, and are capped at 2.526,23 € (in 2008) per year and employee. This maximum also includes premiums paid by the employee to individual pension schemes, with the employer having first priority to the scope of tax relief.

Table 2. Summary of main characteristics for the Slovenian Private Pension system

	Description
Pension plans	Collective (company sponsored) and individual
Pension plan design	Defined contribution, with a minimum guaranteed return
Financing vehicles	Fund (with property units) or insurance (with technical reserves)
Pension providers (number of)	Mutual pension fund (6), Insurance company (3) or Pension company (3)

II.1 Types of Private Pension Plans

The voluntary supplementary system is a defined contribution system, and no defined benefit plans are allowed according to law. There are two types of supplementary pension plans;

- Occupational (or collective) pension plans fully of partly sponsored by the employer, where the employees can be included

- Personal (or individual) pension plans paid by the individual

Collective company sponsored pension plans have a much higher participation than individual pension plans. There are 19 different occupational pension plans and 11 individual pension plans, but 94.2% of all persons insured were members of collective occupational pension plans (December 2007).

The law stipulates a defined contribution system with individual personal accounts, and with immediate vesting. Once contributions have been paid into the personal account of an insured person all funds deriving from those premiums belong to the insured person. All the insured persons under the same pension scheme participate in the same investment strategy, and there is no possibility for individual choices or different asset allocations due to age or risk profile.

According to law, there is a minimum guaranteed rate of return on the paid in net premium, and it should not be lower than 40% of the average annual interest on government securities with the maturity exceeding one year (minimum guarantee 1.62% in 2007). The guaranteed return is guaranteed over the whole period of the active participation in the supplementary pension scheme (until the acquisition of the rights), and is guaranteed by the pension scheme provider (no liabilities left on the employer's part). Underfunding is not allowed according to Slovenian legislation, and should a shortfall occur, the pension provider has to use its own assets or funds to withhold the guarantees.

At retirement, the law allows only lifetime annuities. However, there are some possibilities to withdraw the capital as a lump sum, and there are also portability rights according to law.

II.2 Type of providers and main differences

The main conditions for setting up a pension plan do not differ between different providers; a pension plan has to be approved by the Ministry of Labour, Family and Social Affairs. The tax advantages of the employer or insured persons included into different pension funds do not differ, and tax advantages are applied on the approved pension scheme, not based on the type of provider.

There are three types of pension providers:

- Mutual Pension Fund

- Pension Company

- Insurance Company

The basic differences between the mutual pension fund and pension plans provided by a pension or insurance company are in the manner the funds are operated, the law that governs their operation, and the form of benefits. Unlike the pension or insurance company, a mutual pension fund has no legal personality, and is just a pool of assets of the plan members. Therefore, there are basically two financing vehicles for supplementary pensions; mutual pension funds operated by banks, pension companies or insurance companies (with property units), and pension insurance contracts offered by a pension company or an insurance company (with technical reserves).

This difference between mutual pension funds and pension and insurance companies has also an important effect on the way returns are accrued to the members' accounts. While mutual pension funds must accrue the actual market return on the individual accounts, pension and insurance companies offering insurance-type contracts need only accrue the minimum stipulated by the law. The difference between the accrued and the actual return is set aside in a reserve to meet future shortfalls. The different return calculation methods can make performance comparisons between providers hazardous and given the right to portability set in the law, may lead to opportunistic switching behaviour by informed plan members.

For insurance and pension companies, the investment return guarantees must be financed either from the reserve funds established during times of higher returns or, if there are no reserves, the managing company must pay the difference from their own assets. For mutual pension funds, the law stipulates a possibility for the managing company to set aside reserves from its own funds in the case of a shortfall. However, the established pension plans operated via mutual pension funds mostly stipulate that the managing company will pay the difference directly into the fund whenever a shortfall occurs.

The management company of mutual pension fund must valuate pension fund assets according to Slovenian accounting standards, which stipulates market value of assets and differs from the International Financial Reporting Standards valuation techniques used by the pension and insurance companies, which is based on fair value but allows book values for fixed income securities. These different valuation techniques complicate further the comparison of investment performance, asset values and portfolio composition across different providers.

At retirement pension annuities cannot be paid out directly from mutual pension funds but must first be transferred to a pension or insurance company. It should be said that in practice, most pension companies do not handle pension insurance annuities. They are also normally transferred to an insurance company, which is usually an important shareholder in the pension company.

Mutual Pension Fund

Mutual funds do not have a legal personality. As a consequence they have to be managed by a bank, insurance or pension company. There are two types of mutual pension funds; closed and open mutual pension funds. There are 5 open, and one closed Mutual Pension Fund (the latter for civil servants).

A closed mutual pension fund is a pension fund founded by an employer (separately or jointly with other employers) into which only the employees of the founding employers can be included. Open funds may support plans with unrestricted membership.

The open pension fund is founded by an insurance company or a bank. If an employer does not wish to found a closed mutual pension fund, it is also possible to join an approved pension scheme of the collective insurance type provided by open mutual pension fund. Such mutual pension funds are not restricted to only the employees of one employer, but are open for different employers to join and include their employees. Four of the five open mutual pension funds currently in operation are run by banks. The only closed mutual pension fund is run by the Kapitalska Druzba, the Slovenian privatisation agency, which has a special public sector corporation status. Kapitalska Druzba also operates an open mutual pension fund.

Pension Company

There are 3 pension companies in Slovenia. A pension company is a legal entity with the authorization to provide exclusively voluntary supplementary insurance services. It must have a minimum of 15,000 persons insured under the voluntary supplementary insurance (no minimum limit the first year). A pension company may be organized solely as a joint-stock company.

Insurance Company

There are 3 insurance companies in Slovenia, providing supplementary pension insurance. An insurance company is a public limited company that has been granted an authorisation to perform insurance business by the Insurance Supervision Agency.

II.3 Regulatory and Supervisory Framework

In order to obtain tax relief for contributions, the pension plan has to be approved by the Ministry of Labour, Family and Social Affairs. The ministry approves the pension plan, if the plan content and rules are in line with the minimum requirements of the law. In practice, the ministry awaits the opinion of one of the Agencies (depending on the type of pension provider) before approving the plan. The Ministry is also in charge of ensuring the implementation of the provisions of the Pension and Disability Insurance Act with respect to the pension plan, in particular those related to the rights of insured persons.

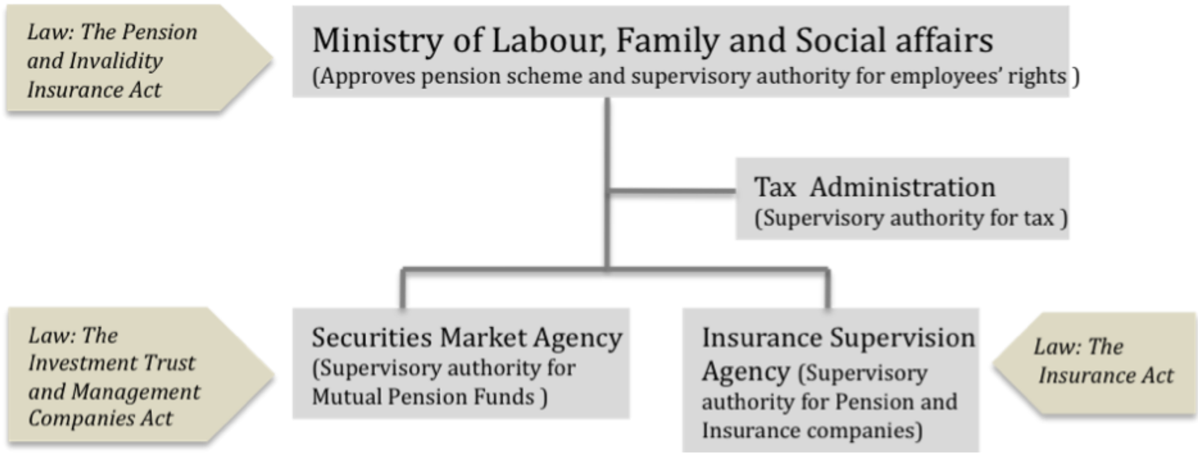
In practice, it appears that the Ministry only plays a role in the approval stage of pension plans and does not engage in any meaningful on-going monitoring. One area that does not seem to be regulated or supervised is late payments of contributions by employers. The reconciliation of contributions against tax records is done only once a year by the tax authority. There is no information available on non-compliance with contribution schedules agreed in the plan rules.

In Slovenia there are two independent Agencies supervising pension plan providers. Both of them have the jurisdiction for a specific form of provision. The Securities Market Agency supervises the management of mutual pension funds and the Insurance Supervision Agency supervises the operations of pension and insurance companies. The different forms of pension provision in Slovenia differ mainly on the structure of the financing vehicle and the law governing their operation.

The Tax Administration supervises the implementation of the provisions with respect to the acquisition of tax and other reliefs in accordance with a special law regulating tax service and taxation procedure.

In total, there are 4 supervisory authorities for pension plans and entities; The Ministry of Labour, Family and Social Affairs (who also approve the pension scheme), the Tax Administration, the Securities market Agency, and the Insurance Supervision Agency *(please note that the connection in the illustration below between the different supervisory units are illustrating collaboration only).*

Figure 1. Schematic description of supervisory authorities and main laws



The same regulations apply to both types of pension plans (occupational or personal), however, there are some differences in the legislation that govern different forms of pension providers (mutual pension funds, pension companies and insurance companies).

The main governing legislations are:

- Pension and Invalidity Insurance Act (OG RS , No. 19/06 – amendments included, 112/06 Odl.US: U-I-358/04-13, 114/06-ZUTPG, 91/07 Skl.US: U-I-325/05-5, 10/08-ZVarDod ; PIA)
- Insurance Act (OG RS, No. 109/06 – amendments included, 9/07, 102/07)
- Investment Trusts and Management Companies Act (OG RS, No.26/05 – amendments included, 68/05 Odl.US: U-I-127/03-44, 92/07 (19/2007 popr.))
- Banking Act (OG RS, No. 131/06, 1/08)
- Personal Income Tax Act (OG RS, No. 117/06, 33/07 Odl.US: U-I-198/05-12, 45/07 Odl.US: U-I-260/04-28, 90/07, 10/08)
- Different Regulations, Administrative decisions, Ordinances, etc.

II.4 Main Indicators of the Private Pension System

Assets

The total amount of assets accumulated in the Slovenian private pension system are small, at slightly over € 1bn in 2007. Table 3 below shows the development of the total assets in mutual pension funds, and pension and insurance companies, from the start of the voluntary supplementary system. Of the assets shown for mutual pension funds in 2007, close to 90% is with the provider Kapitalska Druzba. Approximately two thirds of assets are within the closed mutual pension fund for civil servants run by Kapitalska Druzba, and nearly one third with the Capital Mutual Pension Fund. The remaining 10% are with smaller mutual funds managed mostly by banks.

There are three pension and three insurance companies. Within this group of companies the assets are more evenly spread, with one company holding (roughly) 30% of the assets.

Table 3. Assets for mutual pension funds, and pension and insurance companies

(thousands EUR)

	31. 12. 2001	31. 12. 2002	31. 12. 2003	31. 12. 2004	31. 12. 2005	31. 12. 2006	31. 12. 2007
Mutual pension funds	4.782,7	24.290,5	88.933,1	151.302,2	240.629,8	335.401,1	439.085,8
Pension and Insurance companies	22.066,4	73.693,8	144.892,3	243.035,3	347.124,8	481.180,6	611.690
Total	26.849,1	97.984,4	233.825,4	394.337,5	587.754,6	816.581,7	1.050.775,8

Source: Ministry of Labour, Family and Social Affairs

In spite of its growth in recent years, the private pension system is underdeveloped by OECD standards. Seven years after the first pension providers started operating in Slovenia, private pension assets amount to only 3.13% GDP. The importance of insurance and pension companies as institutional investors is expected to increase in the future, as the growth of pension contributions and investments should take off in order to offset declines in public pensions. However, there is little indication that contribution rates are increasing and there is a risk of withdrawal of funds after the ten year minimum savings period expires (in 2011).

Asset Allocation

The investment regulations include some quantitative restrictions. Total assets can be invested as follows:

- Up to 70% in shares and corporate bonds traded on organised markets;
- Up to 30% in investments not traded on organised markets;
- Up to 30% in assets nominated in a currency other than the Euro.

There is no limitation for securities issued by the Republic of Slovenia, the Bank of Slovenia, a Member State of the EU, an OECD Member State, an international financial organisation or an entity for which one of the former acts as guarantor.

The Slovenian financial market has insufficient capacity (due to the lack of the long term investment-credit instruments) to absorb these annual increases in valuable long-term assets, so to a large extent private pension assets are invested outside Slovenia (EU and OECD). For example, the 2007 annual report of the largest pension entity in Slovenia, Kapitalska Druzba, shows that around 40% of their mutual pension fund investments were in foreign assets.

Investments are much more affected by the minimum return guarantee than quantitative restrictions. The minimum return requirement set out in the law leads mutual pension funds and pension and insurance companies to weigh the asset allocation heavily towards bonds and bank deposits (see Tables 4 and 5).

Table 4. Total assets of mutual pension funds, 2007

(by asset category)

	31.12.2007		31.12.2008	
	(in EUR)	%	(in EUR)	%
Total assets	**439.085.816**	**100**	**483.324.672**	**100**
Cash	6.159.467	1	5.507.349	1
Short-term securities	19.253.909	4	9.890.676	2
↘government securities	16.233.737	4	9.525.520	2
↘other securities	3.020.172	1	365.157	0
Bonds	268.537.900	61	294.185.091	61
↘government bonds	104.484.052	24	140.120.872	29
Shares	34.054.782	8	25.560.549	5
Other securities	3.049.286	1	3.273.061	1
Units in undertakings for collective investment in transferable securities (UCITS) and other investment funds	40.941.571	9	29.952.984	6
Bank deposits	66.793.130	15	114.056.516	24
Loans	0	0	0	0
Land, buildings and immovable-property rights	0	0	0	0
Other claims	295.772	0	898.446	0

Source: Securities Market Agency

Table 5. Total assets of pension companies and insurance companies, 2007

(by asset category)

Investment structure	Pension companies		Insurance companies	
	in EUR	%	in EUR	%
Government bonds	106.801.060	26,7	72.219.397	32,1
Debt securities	132.972.722	33,3	106.208.576	47,2
Shares traded	42.067.257	10,5	7.324.650	3,3
- of which issued by Slovenian comp.	26.960.133	6,7	927.889	0,4
- of which issued by non-Slovenian comp.	15.107.124	3,8	6.396.761	2,9
Investment coupons	31.110.021	7,8	8.756.886	3,9
- of which issued by Slovenian comp.	6.073.337	1,5	4.608.723	2,1
- of which issued by non-Slovenian comp.	25.036.684	6,3	4.148.163	1,8
Loans	0	0,0	0	0,0
Immovable property	0	0,0	0	0,0
Deposits	85.832.223	21,5	29.746.226	13,2
Other	635.774	0,2	758.272	0,3
TOTAL	399.419.057	100,0	225.014.007	100,0

Source: Insurance Supervisory Agency.

Investment returns

The historical returns presented in Tables 6 and 7 show the providers (mutual pension funds and pension and insurance companies) with the lowest and highest investment performance. Due to different models of valuing assets, profit reserving, and calculating investment returns, the figures reported by mutual pension funds, on the one hand, and pension and insurance companies, on the other cannot be directly compared.

Given the similarity in asset portfolios across providers of a given category and the fact that asset allocations are directed towards low risk investments, the wide range in investment performance across providers must be driven by different profit reserving policies in the case of pension and insurance companies. For mutual pension funds, since there is a mark-to-market requirement on account balances (profit reserving or smoothing is not permitted) the differences in investment returns appears to be driven by the decision of the largest provider, Kapitalska Druzba, to increase its funds' equity allocation over the period 2006-7 from under 10% to over 30% of total assets. Indeed, its open mutual pension fund was the worst performer in 2007. As shown in its 2007 annual report, the investment return was 3.16% (guarantee 1.62%) for the closed mutual fund for civil servants, and 2.47% (guarantee 1.62%) for the open mutual fund.

Table 6. Historical returns for mutual pension funds

	Dec 2002	Dec 2003	Dec 2004	Dec 2005	Dec 2006	Dec 2007
Minimal rate of return (%, 12 months)	10.78	10.92	8.02	3.28	3.56	2.47
Maximal rate of return (%, 12 months)	27.32	13.99	10.41	4.18	5.67	9.45

Table 7. Historical returns for pension companies and insurance companies

	Pension companies		Insurance companies	
	31.12.2006	31.12.2007	31.12.2006	31.12.2007
Minimal rate of return (12- months)	1,81	1,99	1,96	3,07
Maximal rate of return (12-months)	4,79	8,24	9,93	15,13
Minimal rate of return (36- months)	7,90	5,46	14,03	9,07
Maximal rate of return (36-months)	17,84	17,57	19,61	27,99
Minimal rate of return (60-months)	24,55	17,51	51,58	31,63
Maximal rate of return (60-months)	46,71	39,55	56,07	58,20

Source: Insurance Supervision Agency.

Fees

Slovenian law stipulates the maximum enrolment fee at 6% of paid in premiums, a maximum withdrawal fee at 1% of the insured persons' funds and a maximum 1.5% of management fee of yearly average net assets of the pension plan.

Administration costs are one of the means of competition possible to pension providers, and over the last few years there has been a trend towards lower fees. Given the asset allocation, the fees are from an international perspective relatively high, but it should be noted that the Slovenian voluntary pension system is both new and voluntary, and therefore the total assets are so far not significant. The number of providers is also relatively large given the size of the market, limiting the ability to reap economies of scale.

As shown in Table 8, the management annual management fee is about 1.3%, while the average enrolment fee is about 3.6%. The largest pension fund, the closed mutual pension fund for public servants has management fees of 0.5%, the reasons being its relatively larger size, but also non-profit nature of the provider.

Table 8. Management fees charged by mutual pension funds, pension companies and insurance companies

	OVERALL AVERAGE	Mutual Pension Funds	Pension Companies	Insurance Companies
Management fee*	1,27	1,27	1,29	1,25
Enrolment fee**	3,59	3,49	3,3	4,2
Withdrawal fee***	0,92	0,83****	1	1

Source: Ministry of Labour, Family and Social Affairs; Information as of 31.12.2006

* As a % of a yearly average net assets of the pension fund.

** As a % of a paid in premium.

*** As a % of funds of insured person in case of a transfer of funds or a lump sum.

**** Closed mutual pension fund for public servants does not charge withdrawal fee.

Coverage

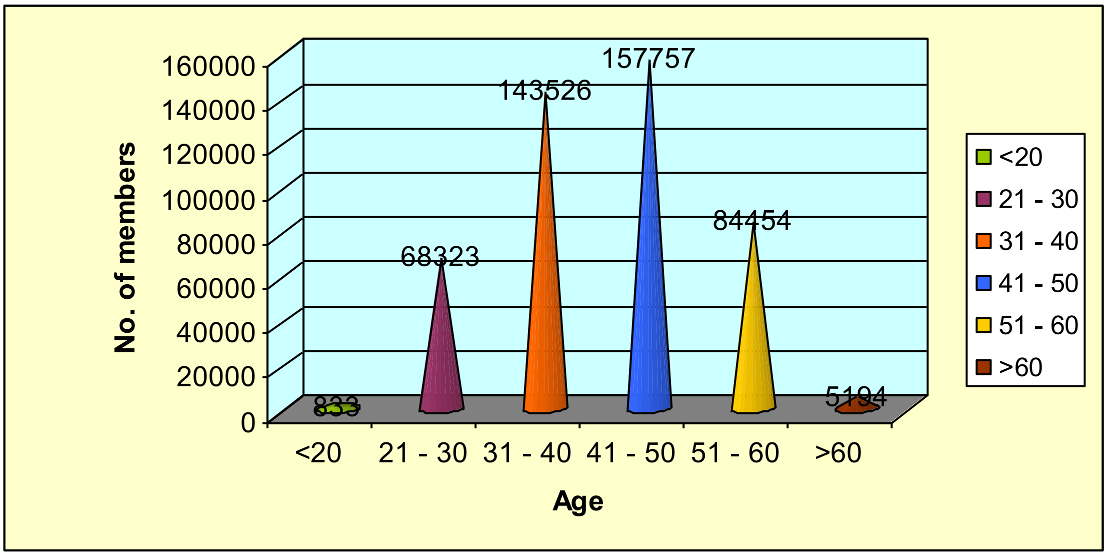
On December 31 2007, 55.19% of all insured persons under mandatory pension insurance (active population) were insured under voluntary supplementary pension insurance. Most of the active population was insured under collective insurance established by their employer (52%) and only 3.5% of insured persons under mandatory pension insurance were insured also under individual pension insurance (see Table 9). Most plan members are concentrated in the 30-50 age bracket (see Figure 2).

Table 9. Collective and individual insurance by type of pension provider and gender

Type/Provider	Mutual pension funds		Pension companies		Insurance companies		SUM number/%	
	Male	Female	Male	Female	Male	Female	SUM	SUM %
Collective insurance	80 939	133 461	103 915	87 116	15 311	8 614	429 356	93,3
Individual insurance	2 996	2 774	3 654	2 586	8 214	10 507	30 731	6,7
SUM	83 935	136 235	107 569	89 702	23 525	19 121	460 087	100,0

Source: Ministry of Labour, Family and Social Affairs; Information as of 31.12.2006.

Figure 2. Number of members by age intervals



Source: Ministry of Labour, Family and Social Affairs; Information as of 31.12.2006.