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*Pension reform
Regional comparison between
Russia and other Central
European Countries*

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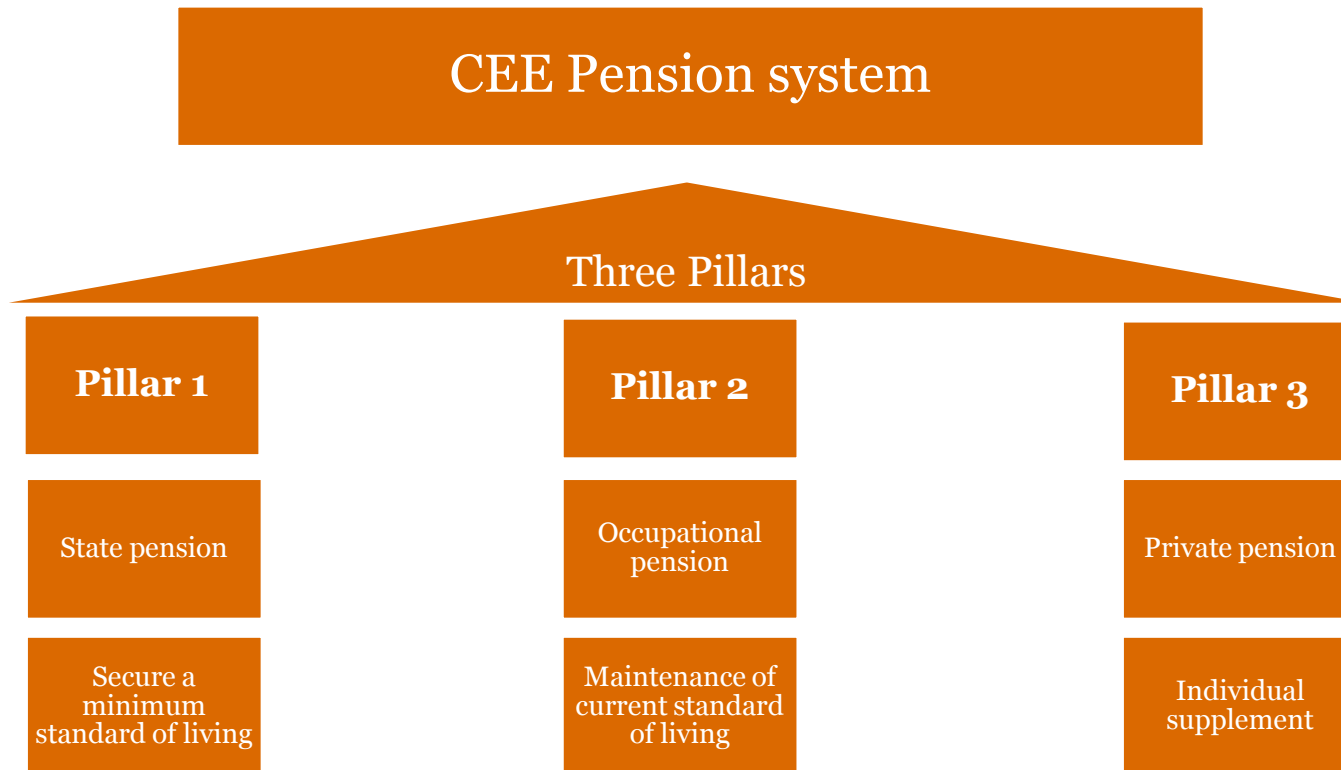
25 November

Agenda

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CEE pension system structure

World Bank proposed uniform 3-pillar pension system. It was successfully implemented in CEE countries



CEE pension system reforms timeline

Each CEE member chose different approach to implement a 3-pillar system.

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Czech Republic (1st pillar)																
→voluntary supplementary pensions (3 rd pillar – no mandatory 2 nd pillar)																
Hungary (first country to introduce mandatory 2 nd DC pillar)																
→ 4 th pillar - broad investment opportunities for voluntary savings																
Kazakhstan (reform of 1 st pillar + mandatory 2 nd DC pillar + voluntary 3 rd pillar)																
→pension law improvement																
Poland (1 st pillar on a notional DC basis + mandatory 2 nd pillar)																
→establishment of demographic reserve fund for future deficits																
→3 rd pillar																
Russia (1 st pillar - basic PAYG and insurance pension on a notional DC basis)																
→2 nd pillar (mandatory funded via state or non state pension fund)																
Slovakia (mandatory 2 nd DC pillar + 3 rd pillar)																
Romania (legal framework)																
→voluntary 3 rd pillar																
→mandatory 2 nd DC pillar																
Ukraine (1 st pillar + 3 rd voluntary pillar with contribution to NSPF)																
→mandat 2 nd pillar																

Pension systems in CEE overview

I stream (first attempts of launching new pension system in CEE)

Country	Main characteristics
Kazakhstan (from 1998)	<ul style="list-style-type: none">• PAYG for those who started to work before 1998 (from state budget)• defined contribution (for those who started to work after 01.01.1998)• mandatory contributions (10% of salary) or voluntary contributions
Poland (from 1998)	<ul style="list-style-type: none">• 1st and 2nd pillars are complemented by voluntary pension savings• voluntary occupational pension plans• personal voluntary schemes encourages additional private savings (4th pillar)
Czech Republic (from 1995)	<ul style="list-style-type: none">• mandatory second pillar has not been established• two-pillar system with a public pay-as-you-go system in the first pillar and voluntary supplementary pensions (comparable to the third pillar in the other CEE countries)
Hungary (from 1998)	<ul style="list-style-type: none">• substantial contribution-based PAYG pillar• funded pillar is mandatory for new entrants and voluntary for those already covered by the PAYG plan• Mandatory and voluntary pension funds

Pension systems in CEE overview

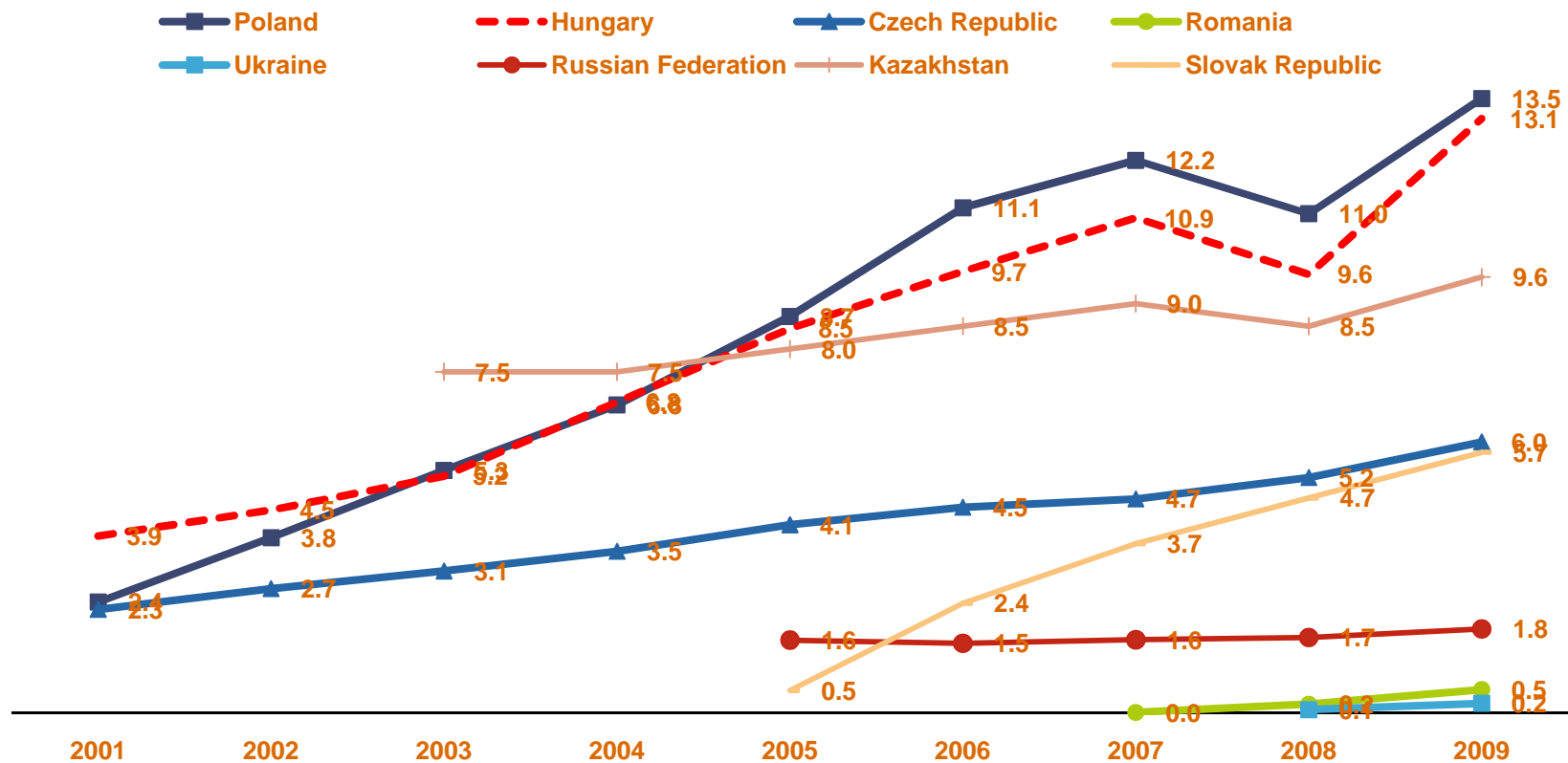
II stream (avoiding the major mistakes in the system implementation using experience of I stream)

Country	Main characteristics
Russia (from 2002)	<ul style="list-style-type: none">• 1st pillar - publicly managed pay-as-you-go scheme• assets invested by Pension Fund of Russia• mandatory individual accounts• privately managed component in which individuals are given choice of investment managers (NSPF)• voluntary private pensions
Ukraine (from 2004)	<ul style="list-style-type: none">• 1st pillar is the solidarity system (State Superannuation fund)• 2nd pillar is the obligatory state pension insurance (in the future)• 3rd pillar non-state pension insurance (NSPF operates in 3rd pillar only)
Romania (from 2004)	<ul style="list-style-type: none">• World Bank multi-pillar model was adopted• started with the launch of the voluntary system (3rd pillar) in 2007• continued with the mandatory pensions (2nd pillar) and became operational in May 2008
Slovak Republic (from 2004)	<ul style="list-style-type: none">• mandatory second-pillar pension system• defined contribution schemes• privately managed by pension funds• Individual accounts financed by employer and employee contributions.

Plan assets in NSPF

Pension assets in NSPFs are still a negligible percentage of GDP for CEE countries but increasing tendency is observed.

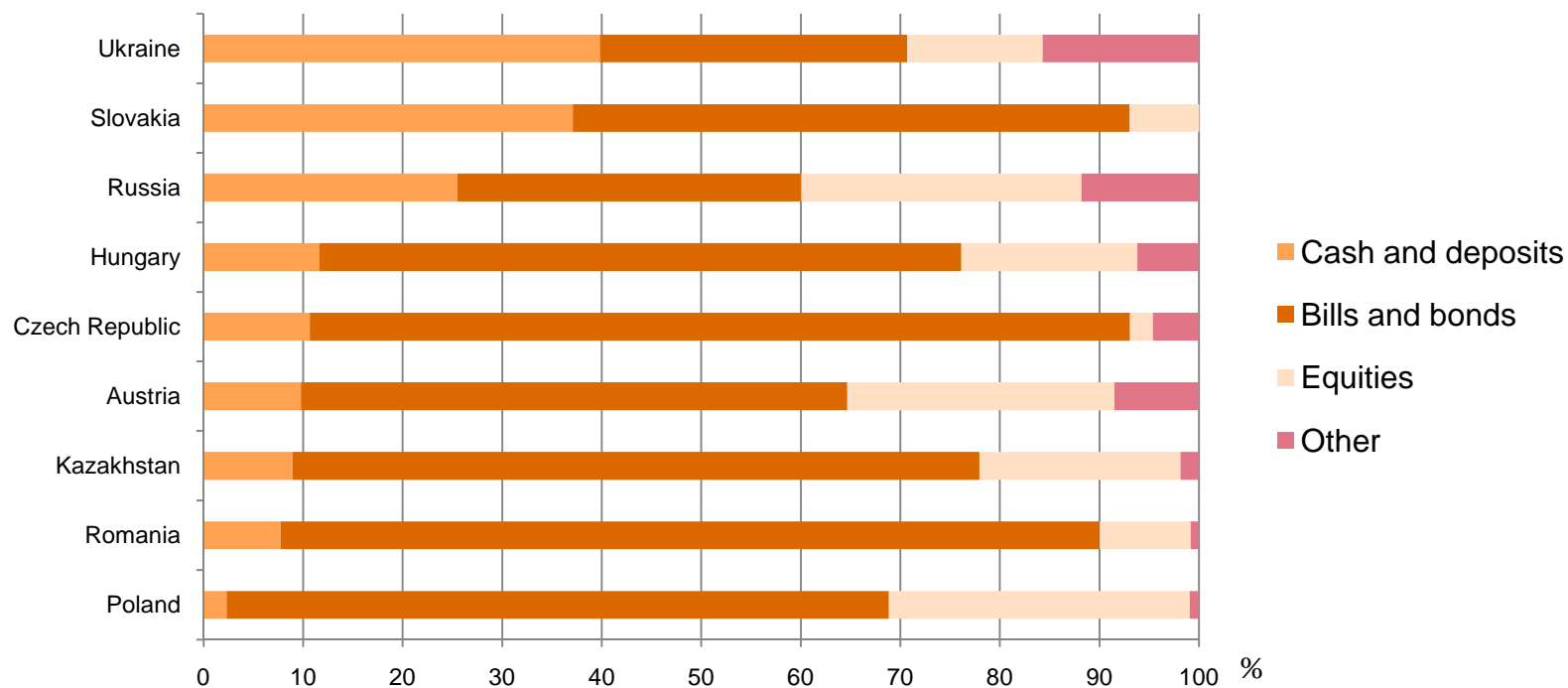
Pension assets in NSPFs as % of GDP, 2001-2009



Source: pension statistics for OECD, PwC analysis

CEE 2nd and 3rd pillar pension assets allocation

Pension asset portfolio of each CEE member depends on history of implementation and internal regulations

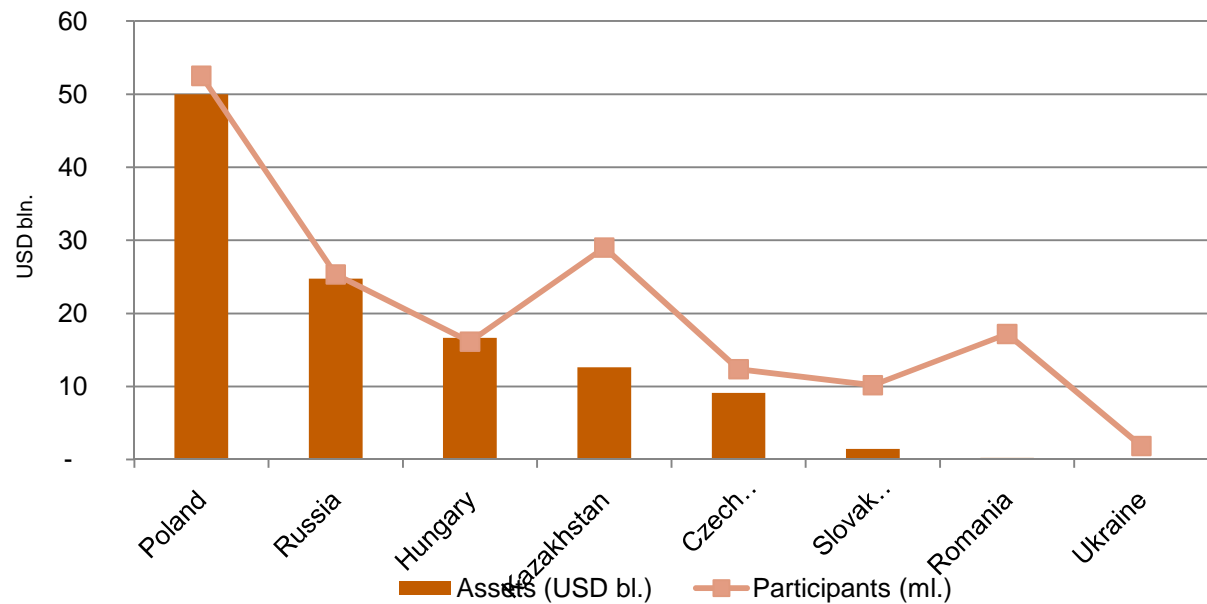


Source: pension statistics for OECD, PwC analysis

CEE 2nd and 3rd pillar pension assets and membership breakdown

Largest markets in CEE: Poland, Russia and Hungary in term of market balance (assets/participants).

Assets under management and participants in 2nd and 3rd pillars, 2009



National population

Country	People mln
Poland	38
Russia	141
Hungary	10
Kazakhstan	16
Czech Rep.	10
Slovakia	5
Romania	21
Ukraine	46

More than 30% of population in Czech Rep., Hungary, Slovak Rep. and Poland are members of 2nd and 3rd pillar
 Russia and Ukraine – below 5%

Source: pension statistics for OECD, PwC analysis

CEE non-state pension funds

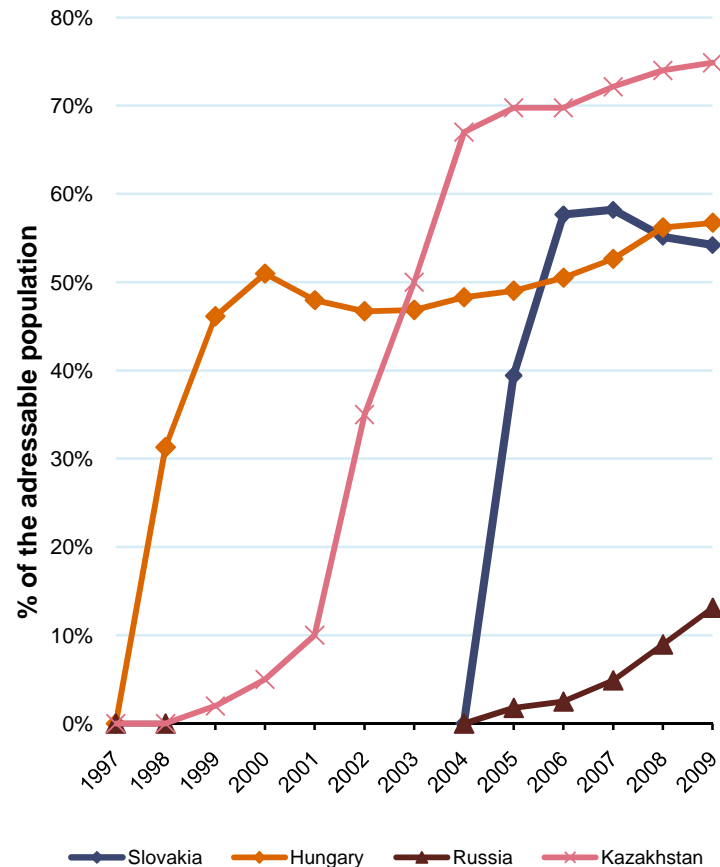
Even in Russia there are more than 100 funds, significant part of assets under management are concentrated in three biggest NSPFs.

Country	Number of NSPFs	Number of participants (mln)	Market share of top-10 NSPF
Russia	160	6.7	55%
Ukraine	74	0.5	no data
Kazakhstan	14	7.7	88%
Poland	14	14	85%
Romania	18	4.5	99%
Czech Republic	10	3.3	100%
Slovak Republic	18	2.7	80%
Hungary	114	4.3	no data
Total	422	43.7	

3 biggest funds in Russia: Gazfond, Blagosostojanie and Lukoil-Garant.

CEE 2nd pillar penetration development

2nd pillar pension - penetration development



Slovakia

- Voluntary scheme – contributors may opt-out from the 1st pillar and invest a part of their pension contribution to 2nd pillar funds
- Penetration increase in initial years driven by significant government and public support
- Decrease in 4th and 5th years driven by people opting out back to the 1st pillar – due to negative results of 2nd pillar funds

Hungary

- Obligatory scheme for people who became economically active after 1998 (carrier starters)
- Voluntary for all others – may opt-out from the 1st pillar and invest a part of their pension contribution to 2nd pillar funds
- Decrease in 4th – 5th years due to higher number of contribution switching back to 1st pillar as a result of the lack of the left-wing government support and decline in financial markets in 2000-2002

Russia

For people, born after 1967, up to 7% of social security contributions can be paid into the funded part with the state of NSPF (voluntary).

Kazakhstan

- As the reform began special pension fund was created to accumulate all pension assets (State Accumulating Pension Fund)
- Increase in 3rd – 4th years due to private funds started to fully operate and people were allowed to switch to NSPF.

Czech Republic – not presented in the graph

- 2nd pillar was not implemented

Romania – not presented in the graph

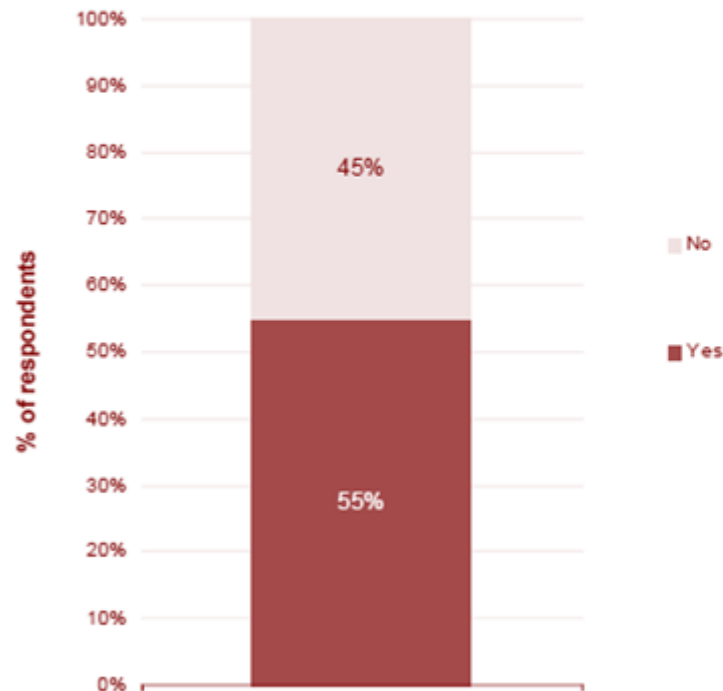
- 3rd pillar was implemented before the 2nd obligatory system

Poland, Ukraine – no statistics available

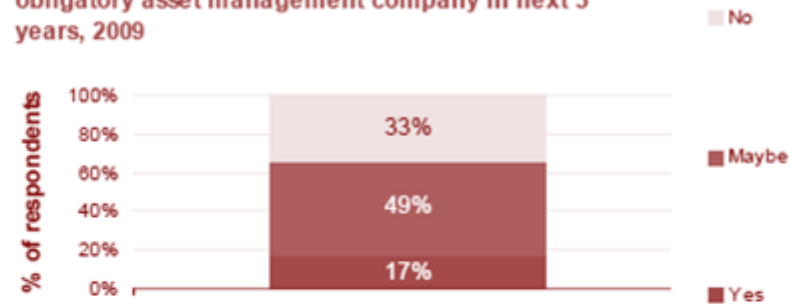
Russia - Obligatory Pension Insurance

Key hurdle is lack of awareness. For example, even within PwC employees awareness of second pillar pension is relatively low (55% of employees)

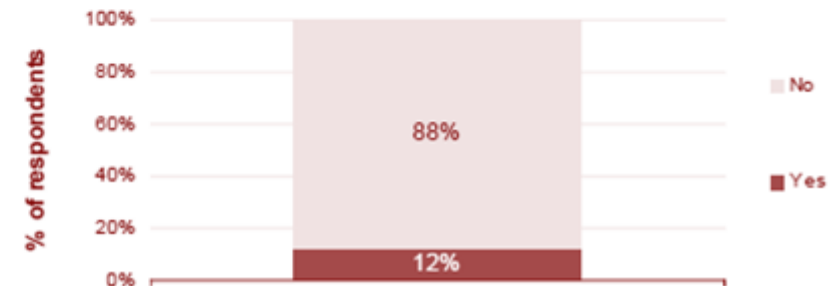
PwC survey - Awareness of the possibility to opt-out from the government pension fund, 2009



PwC survey - Are you planning to select your obligatory asset management company in next 3 years, 2009

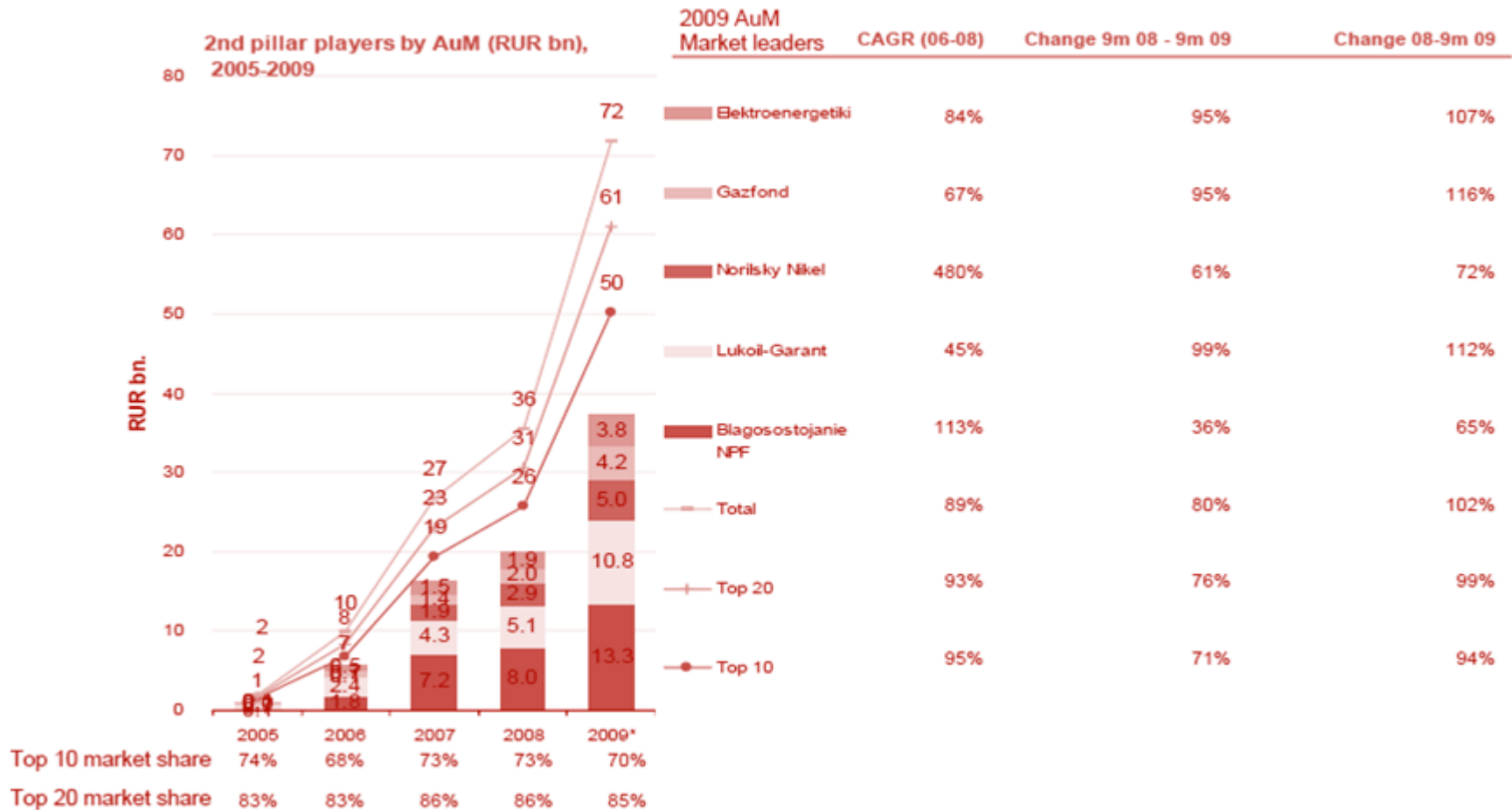


PwC survey - Did you select your obligatory asset management company?



Russia - Obligatory Pension Insurance

Non state 2nd pillar market is currently controlled by captive companies, some of which are already targeting free market as well due to its potential.



Source: National Insurance Regulators

Russia - Obligatory Pension Insurance

New players associated with banks and insurance companies which entered in the past 2-3 years are leveraging their existing networks (branches and agents) to gain share

Player	Description	Rank by AuM 2009*	Rank by no. of contracts sold before year 2009	AuM CAGR 2005-2008	AuM Change 3q2008-3q2009	2009* AuM market share
Generalli NPF	Insurance associated	51	40	-	6036%	0.2%
Sberfond Reso	Insurance associated	42	30	-	1012%	0.3%
Raiffeisen NPF	Bank associated	15	35	125%	77%	2%
Sberbank	Bank associated	10	18	157%	49%	3%
Bolshoi	Affiliated with Renova and SUAL,	6	5	29%	95%	5%
Rus'	Retail-focused	9	4	255%	95%	3%
Socium	Former Captive fund of GAZ auto manufacturer	7	3	435%	61%	5%
Lukoil-Garant	Captive, oil, finance	2	2	45%	99%	15%
Blagosostojanie NPF	Captive, rail monopoly	1	1	113%	36%	19%

Source: National Insurance Regulators

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