Press Release
29 January 2015

PensionsEurope deeply concerned with developments in Bulgaria

There are worrying developments for supplementary pensions taking place in Bulgaria. In order to improve public finances, the Bulgarian Government has decided to enable employees to transfer their pension funds' assets into the public pay-as-you-go pension system, which jeopardizes the existing multi-pillar pension system.

The Bulgarian pension system contains of three pillars: a mandatory PAYG system, a mandatory second pillar and a voluntary third pillar. The second pillar consists of Universal pension funds (UPFs) and Occupational pension funds (OPFs). The UPFs cover employees (regardless of their job category) and the self-employed. Participation in UPF is compulsory for all workers born after December 31, 1959. Those pension funds are fully-funded defined contribution schemes with individual accounts. 5% of the overall social security contributions (17.8%) are redirected to this funded pillar, members choose their provider. All workers born after 31 December 1959 participate also in the PAYG first pillar, however with a lower contribution of 12.8%. Occupational pension funds (OPFs) are early retirement schemes, targeted to employees working in hazardous environments. They are also fully-funded, defined contribution schemes with individual accounts. Contributions to occupational pension funds are made exclusively by employers and depend on the employee's job category[1].

The government is reforming the system in such a way that UPF members will have to choose whether to continue their parallel participation in a pension fund or to participate only in the public system and transfer all accumulated assets into the public pay-as-you-go system. Pension contributions which are currently channeled to the Universal pension funds will be paid into the public system. Accumulated pension savings in the individual accounts of the members will also be transferred to the public system. Bulgaria's public pension system does not have individual accounts, and thus the transferred funds would be swallowed up in the PAYG system. Employees joining the labor force after 1 January 2015 will have the opportunity to decide whether to participate in a pension fund within the first year of their employment. Once the decision made, it is irreversible. If an employee does not exercise this right to choose, he or she will enter the public PAYG system without an option to change the decision later. This reform in Bulgaria is remarkable, as employees

[1] 12% for Category I workers (are and not only: those working under ground, in the air, in the water or in contour 1 of atomic power stations), and 7% for Category II workers (are and not only workers in the chemical industry, drivers of buses and trolley buses and tram drivers of urban transport, crews of ships of sea and river fleet, workers in installation and maintenance telecommunications equipment, circus artists, acrobats, gymnasts, balancers and many others). The 5 % contribution paid to the UPF is split in two – 2.8 % are paid by the employer and 2.2% by the worker.

are made to choose between two systems of retirement provision that are non-comparable by nature: a PAYG and a fully-funded system.

Joanne Segars, Chair of PensionsEurope said:

"This pension reform clearly undermines the role of funded pension schemes in the pension system and the economy. Bulgaria faces severe demographic challenges. Those challenges cannot be overcome alone by the pay-as-you- go pensions and public finances on the long run. The EU pension policy from the Lisbon strategy until the White Paper on pensions has for more than a decade recognized the importance of funded occupational pensions in providing adequate and sustainable pensions. We very much support this goal. As the leading voice for the workplace based pensions in Europe, we are convinced that efficient multi-pillar pension systems are a key element in order to provide good, adequate and sustainable pensions for the people in Europe. We need more funded pensions, not less."

Matti Leppälä, PensionsEurope Secretary-General and CEO said:

"We are deeply concerned with the developments in Bulgaria. Funded pension schemes play a key role in providing for retirement benefits as well as the functioning of the economy and financial markets. They are major actors in the equity and fixed income markets. By transferring the assets from the universal pension funds to the state the three-pillar pension model functional since 2000 will be destroyed, while the economy of Bulgaria will be damaged on the long run. Funded pensions are needed for good retirement income in Bulgaria."

About PensionsEurope

PensionsEurope represents national associations of pension funds and similar institutions for workplace pensions. Some members operate purely individual pension schemes.

PensionsEurope has **24 member associations** in EU Member States and other European countries with significant – in size and relevance – workplace pension systems[2].

PensionsEurope has established a **Central & Eastern European Countries Forum (CEEC Forum)** to discuss issues common to pension systems in that region.

PensionsEurope member organisations cover the workplace pensions of **about 80 million European citizens.** Through its Member Associations PensionsEurope represents approximately **Ъ 3.5 trillion of assets** managed for future pension payments.

PensionsEurope Members are large institutional investors representing the **buy-side** on the financial markets.

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