The European Federation for Retirement Provision (EFRP) is the leading representative organisation for workbased pension plans throughout the European Union. It is recognised as such by the European Institutions and other EU level bodies.

The EFRP recognises the diversity of financing vehicles for supplementary pension schemes within the Member States. The Federation supports supplementary pension arrangements in the EU Member States whatever form they take in the national environment.

EFRP Members are spread over 16 EU-Member States and 5 non-EU Member States (Croatia, Guernsey, Iceland, Norway and Switzerland).

EFRP members provide for the financing of private supplementary pensions of 83 million EU citizens and represent approximately €3.6 trillion of assets managed for future pension payments (2005).

In 2006 the EFRP decided to set up a Central and Eastern European Countries Forum - CEEC Forum. It is providing a platform for discussing specific issues of concern to that region.

The CEEC Forum brings together pension institutions - operating both mandatory and voluntary schemes - from new EU Members that over the past decade have introduced multi-pillar pension reform.
Ladies and gentlemen,

It is great honor and pleasure for me to address you on my behalf and on behalf of the members of the Bulgarian Association of Supplementary Pension Security Companies /BASPSC/ from the pages of the Association’s 10th anniversary almanac. Supplementary retirement provision was launched in Bulgaria in 1994-1995 with the establishment of the first five voluntary pension funds, which decided in 1997 to set up BASPSC. In the days of our anniversary now, we cannot but extend our gratitude to our founders.

The pension reform in Bulgaria has already been acknowledged as one of the most important and probably the most successful reforms in the country in the period of its transition to democracy and market economy, and we are happy that, in effect, it was the pension companies that implemented and continue to work on the most important and substantial elements of this reform – building and operating the second and third pillars of the system.

The establishment of BASPSC was an important step in the development of the supplementary retirement provision sector, because it was the consolidation of activities and expertise of the newly established funds that enabled the organized pensions industry to participate in all the stages of preparation and implementation of the country’s pension reform, which, in turn, contributed significantly to defining the strategy and objectives of the reform, as well as to the quality of the relevant new legislation.

Looking back in time, today we are satisfied to report that during its ten years of existence the Association successfully established itself as a well-reputed, highly appreciated and respected non-governmental organization, both domestically and internationally. In my opinion and in the opinion of my colleagues from the Association’s management bodies, our most important achievement was that throughout all these years our Association has represented all pension companies operating in Bulgaria, without any exception. This is where our strength comes from. Unity, joint actions, ethical norms in the relations between the members, constructive expert level dialogue with the government and public institutions and with our partners – these are the main characteristics of the organizational image of the Association and its actions. We are all happy and proud that BASPSC does not restrict itself to representative functions only, but that it is rather a working institution with high management, administrative and organizational capacity to which all its members contribute.

Now that Bulgaria is already a member of the European Union and BASPSC is an active participant in the international pension funds organizations and forums, the Association faces new challenges and has set new goals for itself. One of the most important among them is to ensure the successful further development of supplementary retirement provision in the country, to reaffirm and improve the key principles and philosophy of the modern Bulgarian pension model and to promote, both within the European family and outside of it, the success stories and outcomes of its implementation. Of course, BASPSC will continue to pursue ever more actively and persistently the traditional objectives of its day-to-day activities – enhancing the regulatory framework, improving the operations of its member pension companies, further developing the quality and expertise of the human resources working in supplementary retirement provision, advancing the effectiveness of pension funds’ asset management to the best interest of the participants, expanding the scope of operations of supplementary pension funds with focus on voluntary retirement provision, raising the pensions awareness of all social strata, enhancing the role of the pension companies and turning them into institutional investors of national significance so that they can contribute even further to Bulgaria’s social and economic development.

I sincerely hope that the pages of this almanac will be a confirmation of the above and will give you a better idea about our organization and its activities!

Nikola Abadjiev, Ph.D.,
Chairman
BASPSC
Georgi Parvanov, President of the Republic of Bulgaria

I highly appreciate the efforts of the Bulgarian Association for Supplementary Pension Security Companies in the preparation for and implementation of the pension reform in Bulgaria.

Emilia Maslarova, Minister of Labor and Social Policy

Dear Mr. Abadjiev,

It is a great pleasure for me to congratulate you on the 10th anniversary of the Bulgarian Association of Supplementary Pension Security Companies. In my capacity as a minister of labor and social policy I appreciate highly your role in implementing the pension reform. Thanks to your active involvement, the Bulgarian Association of Supplementary Pension Security Companies contributed to the modernization of the Bulgarian pension model in strict compliance with the recognized international practices.

I am convinced that BASPSC was one of the factors thanks to which we have today a well developed supplementary retirement provision sector operating in an environment of modern legislation, expertise and loyal competition among the pension companies.

From its very establishment, BASPSC has worked for ensuring broad public trust in supplementary retirement provision operations and institutions. In doing so, you are protecting the interest of the workers and they may confidently plan for their future. The dynamic development of the sector towards maturity during the recent years is a proof of the successful efforts.

Over the past 10 years you managed to smoothly go through the period of your institutional development and today you are one of the most important partners of the Bulgarian Government in implementing the state pensions policy. I can assure you that in the present conditions of Bulgaria’s EU membership and in the light of the new challenges, we will have an even greater need of your support. We are confident that together we will attain our common goal – to ensure decent income for the old age of our mother and fathers.

Apostol Apostolov, Chairman, Financial Supervision Commission

On the occasion of the 10th anniversary of the Bulgarian Association of Supplementary Pension Security Companies, I would like to congratulate all its members - the pension companies, for their significant contribution to the development and institutionalization of this new market in our country. In the very first years of this sector's development, the establishment of the Pension Funds Association played and continues to play the role of a consolidating factor for the business, having an indisputable authority in solving many issues arising in the operations of this new industry.

I would like to specially commend BASPSC’s chairman Mr. Nikola Abadjiev for his personal efforts to create the positive public image of the Association.

I hope that the fruitful cooperation and good relations between the Financial Supervision Commission and the Association will be kept up to the benefit of the millions of Bulgarian workers with the aim of securing a stable and sustainable supplementary retirement provision market.

Dr. Hassan Ademov, Chairman, Parliamentary Labor and Social Policy Committee

Dear Mr. Chairman,

It is a great pleasure for me to address you and your members on the occasion of the 10th anniversary of the Bulgarian Association of Supplementary Pension Security Companies. For some, time flies, for others, it goes slowly by. Are ten years a long or a short period for an organization committed to work in such an important public sphere as social security? For all of us involved in the pension reform, this period went by quite quickly. Because it was a period of hardships, disputes, serious responsibilities and great dynamics. Since September 12, 1997, when it was established, your organization has set goals and persistently worked for their attainment. You aspired to unify, assist, defend and represent your members and you have achieved this. You wanted to act jointly, to be united and follow ethical norms in your relations, and this is a fact. You wanted a constructive and professional dialogue with the government institutions and organizations, and today we have it. You wanted to have an image of being a reliable and important partner, and no one can deny this. During the past ten years, the Association’s members turned into a source of knowledge, economic success and public authority. You are now threading on the path of international repute and acknowledgement.

I wish BASPSC to be able to take up new challenges during the coming 10 years. May you work for the future success of the supplementary retirement provision sector in the country, promote the key principles and results of the implementation of the modern Bulgarian pension model, both domestically and within the Single European Community. Thanks to your efforts, our pension model has now a very positive public reputation. I wish you even greater success in turning it into a model to be replicated in other countries as “The Bulgarian Model”.

Yordan Hristoskov, Ph.D., Governor, National Social Security Institute

The 10th anniversary of the Bulgarian Association of Supplementary Pension Security Companies is a wonderful occasion for me to congratulate most sincerely my colleagues for the great job they have done and for the remarkable results they have attained in the funded private pensions system. Let us recall that in the times of financial and banking crisis in 1997, without having a regulatory framework to govern their operations, the “young” pension companies were able to preserve this newly developed business in Bulgaria. Today the scope of the private pension system in the country is enormous, enormous, too, are its potentials. All this was made possible thanks to the good public-private partnership, and today Bulgaria is rightly cited as one of the countries that has built one of the most modern three-pillar systems in Europe. Now the citizens of Bulgaria are able to make a choice about their old age, they have secure savings and good prospects.

Happy anniversary and good luck!
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The Bulgarian Association of Supplementary Pension Security Companies (BASPSC) is a non-governmental organization set up on September 12, 1997 and registered pursuant to the Non-Governmental Legal Entities Act. Founders of the Association were the first five voluntary retirement provision companies who started operating in the market in 1994-1995. Currently, members of the Association are all nine licensed pension companies offering supplementary retirement provision in Bulgaria and managing 27 voluntary, occupational and universal pension funds.

Key objectives

- Unite, support, protect and represent the interests of its members in Bulgaria and abroad;
- Coordinate and channel the efforts of its members regarding all issues of common interest in the area of supplementary retirement provision;
- Ensure the successful future development of supplementary retirement provision in Bulgaria;
- Promote the major principles, philosophy and results of the implementation of the modern Bulgarian pension model within the European family and outside of it;
- Work ever more resolutely and confidently for developing and reforming the pension systems to the greater benefit of the workers.

Priorities

- Supplementary retirement provision operations and assistance to the government and other institutions in promoting this industry;
- Drafting and submitting statements and participating in the development of acts and regulations on retirement provision;
- Awareness raising and implementing educational programs for different population strata on retirement provision related issues;
- Studying the international experience, active participation in the work of international organizations and forums, broadening and enhancing cooperation with leading international financial institution, dynamic involvement in the activities of the International Federation of Pension Funds Administrators;
- Strengthening further the organizational and institutional capacity, developing the Association’s activities and gaining a solid public reputation.
BASPSC hosted the international conference Funded Systems: Their Role in Solving the Pension Problem organized jointly with the International Federation of Pension Funds Administrators. FIAP’s General Assembly meeting took place parallel with the conference /May-June 2007, Golden Sands Resort, Varna/

▲ Mr. Guillermo Arthur, President of FIAP and Mr. Nikola Abadjiev, Ph. D. /right/, chairman of BASPSC deep in conversation

▲ FIAP’s annual meeting /2005, Santiago, Chile/
As an acknowledgement of Bulgaria’s significant achievements in the area of pension reforms, in February 2005 Sofia hosted an international conference (organized by USAID and BASPSC) with a focus on the Bulgarian pension reform.

One of the presenters - Ms. Zoritsa Apostolska, Director of the Macedonian Social Security Supervision Agency, next to her - Mr. Guillermo Arthur, President of the International Federation of Pension Funds Administrators (FIAP), and Mr. Nikola Abadjiev, Ph.D., Chairman of BASPSC.

Second meeting of the ad-hoc Sofia Group for CEE countries, February 2007, Budapest, Hungary.

BASPSC host the first meeting of international meeting of the presidents of Pension Funds Associations from CEE countries attended by participants from Bulgaria, Slovakia, Poland, Ukraine, Hungary, Croatia and the Czech Republic (August 2006, Sofia). The “ad hoc” Sofia Group for CEE countries is set up.
BASPSC’s visit to Russia to present the Bulgarian experience in supplementary retirement provision. Meeting with representatives of the Russian Parliament and the Russian Association of Pension Funds /2006, St. Petersburg, Russia /

Mrs. Sofia Hristova, Executive Director of Allianz Bulgaria, having a discussion with Mr. Hassan Ademov, Chairman of the Parliamentary Labor and Social Policy Committee

A photograph to remind us of the pleasant walk around the city

We can have fun, too
Mr. Pedro Corona, former President of the International Federation of Pension Funds Administrators, on a visit to Bulgaria in October 2001; meeting with Ms. Lydia Shuleva, then Minister of Labor and Social Policy.

BASPSC’s annual meetings gather Bulgaria’s elite together. Traditionally at these meetings BASPSC awards its big prize for comprehensive and professional coverage of supplementary retirement provision, and two special prizes for active journalist position and objective coverage. Prizes are also awarded to the media.

Study tour in Poland, 2002.
Pensions are a global issue. Many countries around the world are facing caused by the ageing population, deficits in their pay-as-you-go systems, etc. Therefore a lot of them have undertaken pension reforms. All countries are trying to find the model that suits their reality best. Therefore, they are interested to learn from the experience of those that are already several steps ahead or have launched their reforms. Some countries are reviewing their progress, seeking new paths for further development and updating the reform they have already made. Today there is hardly anyone who has doubts in the characteristics and effectiveness of the Bulgarian pension model. An indisputable proof of this is the acknowledgement of internationally recognized experts that Bulgaria is moving on the right track. Our challenge today is not how to make our reform, but rather how to develop further the pension model it rests upon. But let us go back in time and make an overview of the motives for a radical pension reform. Among them were the low and almost flat pension benefit rates /25-27% income replacement rate/, increasing contribution rates coupled with decreasing collection rates, lack of motivation to participate in the public social security system in combination with an escape to the shadow economy, and last but not least, growing future liabilities and looming huge financial deficits. In these conditions the pension reform philosophy adopted in Bulgaria was to preserve and modernize the solidarity pension system as a primary component and to build a supplementary fully-funded segment consisting of two elements - supplementary mandatory and voluntary retirement provision. A new classic three-pillar model of the pension system was introduced. The ultimate objective is to ensure a combined replacement rate from the three pillars of 70-80% - 40% from the first solidarity pillar, 20% from the second fully funded pillar and 10-20% from the third funded pillar. There are different projections and forecasts as to when this objective will be met. The results, however, show that we are progressing with a satisfactory pace towards this ultimate goal. It is an indisputable fact that the fully funded supplementary pension system proved to be among the fastest developing financial markets in Bulgaria. The resources that the pension companies manage placed them among the most significant institutional investors in the Bulgarian economy. Over 99% of the pension funds assets have been invested in the domestic economy. With the enactment of the pension reform’s legal framework in 1999-2000 and the setting up of the State Insurance Supervision Agency /SISA/ licensing and supervising the operations in this industry, Bulgaria moved on to the phase of fully fledged functioning of the three-pillar pension model. The first pillar encompasses public social security. It is publicly administrated based on the principles of mandatory participation and solidarity among the participants. It is built on a pay-as-you-go basis - contributions made by the workers are used to pay out benefits. 

Leading Pensions Experts:

Bulgaria Is on the Right Track

History in advance
On May 9, 2007 Doverie Pension Company marked its 13th birthday. Over the past 13 years the Company has grown to become one of the largest financial institutions in Bulgaria. This was possible due to its professional management based on innovations, long-term objectives and best international practices in the area of supplementary pension provision.

The focus of Doverie’s management is on customer satisfaction. All Company’s employees are convinced that it is the customer who is most important and on whom the entire business depends, and all their actions are based on this creed. Perhaps this is the reason why through 30.06.2007 the number of people who have chosen to become Doverie’s clients was 1,218,959 and the assets under management amounted to BGN 602.162 million.

Everyone working in the Company is aware of and believes in yet another thing - winning somebody’s trust and convincing them to become your client is hard and important, but even more difficult and vital is to retain this trust for many years to come. The approach Doverie Pension Company applies to ensure this long-term partnership with its clients is maintaining high quality of services.

Its large market share, both by number of affiliates and by size of the assets under management, predefines Doverie’s huge social responsibility. The post retirement living standard and the future pension benefits of more than 1,200,000 persons and their families depend on how Doverie Pension Company manages their second pension money today. Guided by this responsibility the Company has a balanced investment policy avoiding high risks. Its key objective is to safeguard the money of its clients and to ensure their real growth in the long run. Through August 2007, Doverie is still the only Company on the market to have officially introduced social accountability in its investment policy, which translates into the fact that the Company voluntarily gives up yields, no matter how high, from investments related in any way to harmful productions and from transactions with issuers holding capital of dubious origin or involved in corruption practices, etc. This is only one of the ways through which Doverie contributes to attaining the high standards that Bulgaria should meet, now that it has joined the EU.
to the current pensioners. Participation in the first pillar gives entitlement to a length-of-participation and old-age pension. Second pillar - supplementary mandatory retirement provision, is fully funded, i.e. the size of the supplementary retirement benefit is directly linked to the person’s individual account accumulations from mandatory contributions and the return on their investment. The second pillar encompasses participation in universal and occupational pension funds that are established and managed by licensed pension companies. Everyone born after 31.12.1959 is obliged to participate in a universal fund. This obligation occurs as of the moment the person enters the workforce. Within three months after that they have to select a universal fund to affiliate to. In case the person fails to meet this deadline, they are administratively distributed to a fund. The contribution size is defined in the Social Security Code /SSC/ and is shared between the employer and the employee. Participation in universal funds entitles the affiliates to supplementary life retirement benefit received parallel with the length-of-participation and old-age pension from the first pillar.

Participants in occupational pension funds are people working under arduous labor conditions. The contribution in these funds is paid in full by the employer. It amounts to 12% on the gross monthly salary for category I workers and 7% for category II workers. Participation in occupational funds results in entitlement to a supplementary retirement benefit in the form of a programmed withdrawal for Ist and IInd category workers until they come of age that gives them entitlement to a pension under pillar I. Each worker in Bulgaria is obliged to participate in the supplementary pension system but has the right to choose alone which fund to affiliate to.

The third pillar is supplementary voluntary retirement provision in voluntary pension funds. Participation in these funds is conditioned upon the person’s will and on whether they can afford to invest in a supplementary post retirement income. The third pillar is also fully funded and the contributions accumulate in the individual accounts of each PF member. In fact, although the regulatory framework was not yet fully developed, voluntary retirement provision in Bulgaria started back in 1994 with the setting up of the first pension companies. From the moment of its establishment in 1997, the Bulgarian Association of Supplementary Pension Security Companies organizes all pension companies providing supplementary retirement provision in the second and third pillar of the Bulgarian system.

Participation in occupational and universal pension funds started in 2001 and 2002. During this period the pension companies concentrated their efforts on the initial affiliation campaigns. Over a very short period of one year, they succeeded in affiliating some 1.5 million people. The total number of members of all three types of funds is 2 million. 2002 was the year marking the completion of the three-pillar system. A regulatory milestone for the development trends of the retirement provision sector was the adoption at the end of January 2003 of the Financial Supervision Commission Act. With the effect of this act on March 1 of the same year, there started a transition to a centralized model of synchronized regulation and supervision over the entire non-banking financial sector. It was during the same year that the social security regulatory framework was codified with the adoption of the Social Security Code. The most significant, and probably the most vital decision for the pension system was the elimination of the requirement for a minimum number of affiliates in the occupational and universal pension funds. In contrast to the legislation in
Currently the Company manages three pension funds - universal, occupational and voluntary. Through 30.06.2007 the number of affiliates in these funds was **383 452**. The total net assets of the funds managed by the company were **BGN 199 million** for the same period. According to data of the Financial Supervision Commission through June 29, 2007 the annual yield from investing the assets of the pension funds under management for a 24-month period was as follows: Universal Pension Fund Saglasie - **12.13%**, Occupational Pension Fund Saglasie - **13.82%**, Voluntary Pension Fund Saglasie - **11.69%**.
effect to this moment, the new code introduced a restriction as to the number of custodian banks with which the pension company may enter into contracts. Until then, each pension company was allowed to have contracts with an unlimited number of custodians. The Code introduced the requirement one custodian bank per fund. Another significant change was the introduction of a mechanism to guarantee a minimum rate of return for the mandatory pension funds. This ensured greater equality of the pension fund participants. Many are of the opinion that since the participation is mandatory, the government should define the acceptable margins in the investment performance of pension companies.

It should be noted that 2003 marked the start of market consolidation. The merger of the Bulgarian Pension Company into Pension Company Doverie was the first merger both in the retirement provision and in the entire non-banking financial sector. Observers also point out the ever-increasing competition among pension companies, both by reported rate of return and by quality and diversity of the services they are offering to their clients. 2004 was a challenging year for the retirement provision industry. It started with the introduction of more liberal procedures for transferring affiliates among pension funds, and the companies moved to daily valuation of assets and introduced accounting units. After the effect of the Regulation on Pension Fund Members Transfers on January 1st, each affiliate was given the right to switch pension fund and transfer their individual account accumulations into another supplementary pension fund. The reporting of the individual account accumulations not only as an absolute amount but also in units was introduced on July 1st. The unit is a measure indicating a proportional part of the fund's net assets. Its value is calculated dividing the fund's total assets by the number of units at the end of each working day. The change in unit value is an indicator of the investment performance.

In 2004 supplementary retirement provision started to turn into a profitable business for the pension companies. Half of them reported current profit. This was, in fact, the period of introducing new criteria for administrative distribution - according to the rate of return realized by the pension fund through the end of the quarter preceding the administrative distribution for the previous 24-month period, the size of the company's management fee and the number of membership applications received by the company during the same period. The weight of the yield factor is 34%, and that of the other two - 33% each. Until then, the distribution of workers who failed to choose a supplementary mandatory pension fund was made in proportion to the number of affiliates in the pension funds. Undoubtedly, 2005 was yet another successful year for the pensions industry. In September, the total net assets accumulated in the pension funds exceeded the psychological boundary of BGN 1 billion and reached BGN 1.019 billion at the end of the month.

Almost 11 years after the start of supplementary voluntary retirement provision, the first promotional campaign focused entirely on this sector was launched in Bulgaria. During the preceding years the companies concentrated their efforts mainly on the mandatory funds - occupational and universal. 2005 marked the introduction of the next amendments to the Social Security Code. The existing EU ban on privileged government access to the funds of private financial institution made it necessary to amend the legislation. Our
Pension Insurance Company DSK - Rodina was established in 1997. Since February 2003 the Company’s major shareholder has been DSK Bank, EAD. Shareholders of DSK - Rodina are:

- DSK Bank, EAD - 97.00%
- Central Cooperative Union and others - 3.00%

Pension Insurance Company DSK - Rodina is part of the group of DSK Bank, EAD. OTP RT Bank Hungary represents the mother company in the international financial group OTP (OTP Group) and owns 100% of DSK Bank, EAD. DSK Leasing, DSK - Tours, DSK - Asset Management, Insurance Company DSK - Garancia, Life Insurance Company DSK - Garancia, Pension Insurance Company DSK - Rodina and DSK Bank are the companies within the group of DSK Bank, EAD operating in Bulgaria.

Pension Insurance Company DSK - Rodina performs supplementary pension insurance in terms of Licence 04 - Decision №1 of the Supplementary Social Insurance Council on 21.09.2000. The Company manages and represents three pension funds:

- Voluntary Pension Fund;
- Occupational Pension Fund;
- Universal Pension Fund.

In August 2007 DSK - Rodina was granted a permit for managing a voluntary fund of occupational pension schemes.

The products of Pension Insurance Company DSK-Rodina are part of the integrated banking, insurance and retirement provision products offered by the OTP Group operating in nine CEE countries. DSK-Rodina’s clients have access to the integrated pension, insurance, leasing, investment and banking services provided by the separate companies in the DSK Bank Group.

The Company’s policy is customer-oriented. Clients of the pension funds of DSK - Rodina have access to services in any of the 360 bank branches throughout the country.

The company’s investment strategy is targeted at achieving real growth of the assets’ value by maximizing the return on their investment at a low to medium risk level. The Company’s efforts are focused on achieving investment return that is higher than the market’s average.

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country committed to eliminating before joining the EU the requirement in the Social Code that a certain percentage of the portfolio should be invested in government securities. The second requirement of the Union is for the introduction of identical provisions to regulate investments in domestic instruments and in their analogous instruments issued in EU member-states. The change in the pension funds’ investment regime, which was the most important step towards liberalization since the introduction of the regulatory framework governing supplementary retirement provision in 1999, was effected at the beginning of 2006. The second significant regulatory change was that of the legal framework governing occupational schemes and voluntary funds for retirement provision in occupational schemes - a new product that our pension system will start offering to the workers. This is the fourth type of fund in the supplementary retirement provision system, or the second type of fund in the third pillar - the voluntary one. The beginning of 2007 saw the launching of supplementary voluntary funds for retirement provision in occupational schemes. These funds will be organized and will function in accordance with the same principles by which the existing supplementary voluntary pension funds abide, and will be managed by the companies that are currently performing this type of operations. Unlike the supplementary voluntary pension funds, the contributions in occupational schemes will be paid in full by the sponsoring company. The occupational pension schemes will be set up based on a collective agreement or a collective labor contract between the employer and the employees. These contracts will define the workers’ rights and the extent to which the employer will participate in the management of the scheme. Once such a contract is signed, the next step will be to enter into a contract with a pension company that will manage the scheme. The first occupational schemes in Bulgaria are already a fact. However the entire pension industry is of the opinion that a lot of efforts need to be put into raising the public awareness of the opportunities that they offer and a lot of practical work needs to be done to enable their effective operations. The introduction of occupational schemes and the transposing of EU directives into the Bulgarian legislation created grounds for cross-border operations of the Bulgarian pension companies. The next challenge and short-term objective of the pension industry is the introduction as of January 1, 2008 of multifunds in the supplementary retirement provision operations. This will give each PF member the chance to select the risk profile for the management of their money. The idea is to introduce the multifunds first in the supplementary voluntary system and later on in the mandatory one. The system will be launched with a small number of portfolios - three: conservative /low risk/, balanced and aggressive /high risk/, and on a later stage their number could be increased. The system of multifunds offers very good alternatives regarding the risk-return ratio and is an excellent opportunity for the capital market’s development and active participation of affiliates in the dynamics of their pension savings, experts believe. The objective behind the introduction of multifunds in Bulgaria is to provide incentives to young people to participate more actively in the supplementary retirement provision processes, to increase and stimulate their interest in accumulation, management and the future performance of their individual savings.
Allianz Bulgaria Pension Company AD is part of Allianz SE Group - one of the five largest financial service providers in the world. The assets under Allianz management are more than one trillion euro. The companies of Allianz Group offer financial and insurance services in more than 70 countries and have more than 60 million clients all over the world. More than 180 000 employees contribute to the clients’ safety and security.

The main shareholders of Allianz Bulgaria Pension Company AD are:
- Allianz Bulgaria Holding AD /main shareholder Allianz/ - 66%
- National Electric Company EAD - 34%

For 14 years now Allianz Bulgaria Pension Company AD has been working for the safe and dignified future of its clients. It has established four pension funds:
- Allianz Bulgaria Voluntary Pension Fund
- Allianz Bulgaria Compulsory Occupational Pension Fund
- Allianz Bulgaria Compulsory Universal Pension Fund
- Allianz Bulgaria Voluntary Pension Fund with Occupational Schemes

In July 2007 the net assets of the pension funds of the company (the voluntary one, the occupational one and the universal one) exceeded 600 million BGN. There are more than 800 000 members in the three pension funds of Allianz Bulgaria. According to Financial Supervision Commission data at the end of the first half of 2007, Allianz Bulgaria Voluntary Pension Fund is managing 53% of the voluntary pension fund assets in Bulgaria. Allianz Bulgaria Pension Company AD has recently obtained the first permission in Bulgaria for management of a voluntary pension fund with occupational schemes and has registered Allianz Bulgaria Voluntary Pension Fund with Occupational Schemes.

The experience and professionalism of Allianz Group and of Allianz Bulgaria Pension Company AD in financial asset management provide for a long-term reliable partner in an activity where the investment yield is extremely important. The annual average yield, attained by management of Allianz Bulgaria Voluntary Pension Fund assets for the previous five-year period (2002 - 2006), is 8.77%.

The yield quoted has been calculated as the geometric mean according to the Financial Supervision Commission instructions. It is in compliance with the officially published data and does not necessarily relate to future performance.

The clients of Allianz Bulgaria Pension Company AD have the exclusive possibility to benefit from the special offers and to contract favorable individual conditions according to «Allianz Loyalty» program of Allianz Bulgaria Commercial Bank.

All this reveals the social engagement of the companies of Allianz SE Group in Bulgaria and their dedication to the wishes and needs of its present and potential clients.
Pensions Industry is Developing at an Outstanding Rate

Supplementary retirement provision in Bulgaria gradually became the most steady developing non-banking financial subsector. The high growth rate of assets accumulated in pension funds over the years resulted in an increase in their share of the GDP from 1.02% in 2002 to 3.09% in 2006. This indicator, also called retirement provision penetration rate, in some countries such as the Netherlands exceeds 100% in 2005, and in Chile is reported at 64.9%. In the OECD countries the share of accumulated assets is 55% of the GDP. These data, when compared to the Bulgarian figures reported for the same period - 2.60%, are a solid proof of the potential for future development of the Bulgarian pensions industry.

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</tbody>
</table>

* Source: data from the Financial Supervision Commission and the Bulgarian National Bank

Another indicator is the coverage rate of the supplementary retirement provision industry /number of participants in the fully funded schemes to the total working age population/. At the end of 2006 it reached 66.38% compared to 38.27% in 2002. Of course, we should bear in mind that one person may participate simultaneously in all three types of pension funds. Together with this one should also consider the fact that by law the people born before 31.12.1959 may not participate in universal pension funds.

<table>
<thead>
<tr>
<th>Type of pension fund</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universal</td>
<td>24.70</td>
<td>34.03</td>
<td>41.93</td>
<td>46.50</td>
<td>50.65</td>
</tr>
<tr>
<td>Occupational</td>
<td>3.29</td>
<td>3.48</td>
<td>3.69</td>
<td>3.79</td>
<td>4.00</td>
</tr>
<tr>
<td>Voluntary</td>
<td>10.28</td>
<td>10.88</td>
<td>11.20</td>
<td>11.42</td>
<td>11.73</td>
</tr>
<tr>
<td>Total coverage</td>
<td>38.27</td>
<td>48.39</td>
<td>56.82</td>
<td>61.71</td>
<td>66.38</td>
</tr>
</tbody>
</table>

* Source: data from the Financial Supervision Commission and the National Institute of Statistics

At the same time, the pension industry’s assets under management reached BGN 1.852 billion through the end of the first half of 2007. Of these BGN 936.658 million are the assets accumulated in universal funds, BGN 355.870 million in occupational funds and BGN 559.563 million in voluntary pension funds. At the end of 2006 the industry reported accumulations of BGN 1.517 billion compared to only BGN 332.465 million through the end of 2002, when all three types of pension funds - universal, occupational and voluntary - already had fully fledged type of operations. Thus, through the end of 2006 retirement savings accounted for 6.4% of the financial wealth of the Bulgarian population. According to forecasts, in 2010 pension funds accumulations will reach BGN 4.094 billion.
ING is a global financial institution with more than 150 years of experience in banking, pensions, life insurance and asset management. It serves 75 million clients in more than 50 countries.

Pension Insurance is a core business of ING. The Group has established pension funds in 30 countries. Its pension funds’ total assets under management exceed euro 220 bn.

ING Group started its pension business in Bulgaria in April 2001, only after the inception of the three-pillar model of pension insurance.

ING Pension Insurance has registered and manages three pension funds: ING Voluntary Pension Fund, ING Universal Pension Fund and ING Professional Pension Fund. The company serves over 280,000 individual and 200 corporate clients.

ING Pension Insurance offers individual and group pension schemes to help clients satisfy their financial needs and plan their financial future.

Let’s talk about your future!
For the first time in 2005 universal funds reported greater volume of accumulated assets than the voluntary funds. This was, of course, due mainly to the gradual growth in contribution rate [from 2% in 2002 and 2003 to 3% in 2004 and 2005 and to 4% in 2006] and the constant increase in the number of people entering the workforce and actively participating in the employment processes. In 2006 only, the number of new affiliates in UPFs reached 202,362. The new occupational and voluntary pension funds members were respectively 14,364 and 32,076.

The number of supplementary pension funds participants grew from 1,804,469 in 2002 to 3,201,326 in 2006, representing a growth rate of 77.41%. Through the end of the first half of 2007 their number already reached 3,299,451, of whom 2,528,391 were universal pension funds clients, 198,096 were the members of occupational pension funds and 572,964 were voluntary pension funds’ members.

Pension companies succeeded in establishing themselves as major institutional investors. Indicative of this is their growing role for the development of the domestic capital market. Over 99% of their financial resources are invested in the domestic economy. Since they are generating demand, pension companies are also stimulating the development of new alternative investment instruments. In fact, currently the pension funds’ portfolios contain a great diversity of instruments - bonds /government, mortgage, municipal, corporate/, stocks, deposits, real estate and all of these are denominated in major currencies, diversified by geographic and sectoral principle and, last but not least, diversified with instruments by foreign issuers. Data show a decrease in the share of government issued or guaranteed securities – from 28.98% at the end of 2006 to 22.06% six months later, mainly against the increase of investments in stocks - from 20.82% at the end of last year to 29.05% at the end of the first six months of 2007. There has also been an increase in investments abroad - from 8.41 to 10.93%, and a decrease in the investments in bank deposits - from 21.79 to 19.48%.

Pension Funds’ Investment Portfolio through 30.06.2007

Pension Funds’ Investment Portfolio through 31.12.2006

Source: Financial Supervision Commission; forecast by BASPSC
**Scope of business operations**

The scope of business of Pension Company CCB - Sila is setting up and managing supplementary pension funds.

**Establishment and development**

Pension Company CCB - Sila was the first retirement provision company established in Bulgaria more than 12 years ago on 23.02.1994 under the name Sila Fund. The fund was among the pioneers of voluntary retirement provision and back in 1998 it had more than 10,000 affiliates. On 26.10.2000, pursuant to the recently adopted Supplementary Retirement Provision Act, the Supplementary Insurance Council issued decision No 8 granting a license to the Company for supplementary retirement provision. The voluntary pension fund managed by the Company was set up on 28.11.2000; the occupational fund was established on 13.12.2000 and the universal fund - on 19.02.2001.

In November 2002, Chimimport AD bought 95% of the Company from the Czech financial group Newton Finance Bulgaria. The Company’s name was changed to CCB - Sila and it started offering services to its customers via the offices of Central Cooperative Bank.

On 31.12.2002, the net assets of the three funds managed by CCB - Sila amounted to BGN 6.124 million and the total number of affiliates was 57,284. On 30.06.2007 the net assets of the funds managed by the Company are BGN 53.436 million and the total number of affiliates is 150,267.

The annual rate of return on the investments of the managed pension funds’ assets from 29.06.2005 to 29.06.2007 are as follows:

- Voluntary Pension Fund CCB - Sila - 15.50%
- Universal Pension Fund CCB - Sila - 15.47%
- Occupational Pension Fund CCB - Sila - 14.78%

**Capital and Shareholders**

The equity capital of Pension Company CCB - Sila amounts to BGN 5,500,000 divided into 550,000 ordinary shares of BGN 10 each. Ordinary equity holders have the right to one vote in the company’s general assembly.
The most important indicator of effective operations and of the system’s progress is the investment return allocated to the individual accounts of PF participants, which is directly influenced by the pension fund’s investment policy.

As a result of the effective management of pension funds’ money, the average accumulations per individual account in UPFs through the end of the first half of 2007 amounted to BGN 369.81, compared to BGN 289.64 through the end of 2006; in OPF - BGN 1792.48 through June 2007, compared to BGN 1628.82 at 2006 year-end; and in VPF - BGN 973.69 through the end of the first half of 2007, compared to BGN 872.30 through the end of 2006.

Gradually supplementary pension provision has grown from a business requiring huge start-up investments into a profitable undertaking. The sector reported a positive integrated financial result in 2004. Data show that while in 2003 only one pension company reported profit at year-end, in 2006 there were already seven of them. The current financial result of the pension industry at the end of the first half of 2007 was a profit of BGN 6.933 million.

Pension funds’ investment regime liberalization, the increasing size of the universal funds contribution /in 2007 it amounts to 5%/, as well as the reduced social security burden in combination with the ever more aggressive strategy for promoting voluntary pension funds account for positive future prospects for the development of the industry, experts say.
Scope of business operations

The scope of business of Pension Company Lukoil-Garant Bulgaria is setting up and managing supplementary retirement provision funds.

Establishment and development

Pension Company Lukoil-Garant Bulgaria was granted a license for supplementary retirement provision on 5.12.2000. The Company was founded by Lukoil Neftochim - Bourgas and Lukoil Bulgaria EOOD.

Lukoil-Garant Bulgaria manages three pension funds – voluntary, universal and occupational. It provides second life pensions for old age, programmed withdrawals of voluntary retirement benefits, programmed withdrawals of occupational retirement benefits, and survivor’s benefits.

Through 30.06.2007 the net assets under management in the three pension funds of Lukoil-Garant Bulgaria amounted to BGN 102.288 million, and the total number of their affiliates was 144,458.

The annual return on the investments of the assets of the three funds managed by the Company for a 24-month period through 29.06.2007 was as follows:

Voluntary Pension Fund Lukoil-Garant Bulgaria - 8.26%
Universal Pension Fund Lukoil-Garant Bulgaria - 10.11%
Occupational Pension Fund Lukoil-Garant Bulgaria - 8.78%

Capital and shareholders

The equity capital of Lukoil-Garant Bulgaria is BGN 5,000,000 divided into 5,000 registered shares of BGN 1,000 each.

In March 2007, Chimimport Invest acquired 94.6% of Lukoil-Garant Bulgaria. The other shareholders of the Company are Asset Bank with 9.4%, Lukoil Neftochim – Bourgas holding 3% and Lukoil Bulgaria EOOD holding another 3%.
“If one does not know to which port one is sailing, no wind is favorable”. These words spoken by Winston Churchill during the WWII are also true of supplementary retirement provision. The Bulgarian pensions industry proved once again that moving in the right direction cannot but bring the desired results - the most important expectation that the positive development of supplementary retirement provision will continue, was met once again. Data from the Financial Supervision Commission based on daily information from the pension companies, show that through 17.08.2007 the pension funds’ net assets exceeded EUR 1 billion /BGN 1.97 billion/. Through the same date the universal funds assets exceeded the psychological boundary of BGN 1 billion. It is almost certain that at the end of 2007 the total accumulations in the three types of funds - universal, occupational and voluntary will reach BGN 2 billion. Data indicate that since the beginning of 2007 the pension savings have grown by 29.96%, where the fastest growth was marked by the universal funds’ assets - 42.60%. BASPSC forecasts that, if the present contribution rate and the allotted additional yield remain unchanged, through the end of 2010 the pension funds’ assets will reach BGN 4 billion.

These results correspond to the findings from the study of the pension systems in 11 CEE countries carried out by Allianz Global Investors in 2007. According to it, in the following 8 years the CEE pensions market will grow by 19% annually, and in 2015 it will reach EUR 245 billion. In all countries covered by the report, there are projections for a serious increase in the share of the age group 65 and older. By 2050, one in every three Bulgarians will be aged over 65. In Hungary this age group will account for 28% of the population, and in Poland - 29%. Bulgaria, just like the majority of CEE countries /Croatia, Estonia, Hungary, Slovakia, Rumania/, opted for parametric reforms of the pay-as-you-go system. Unlike these countries, Poland and Latvia introduced notional DC systems in the first pillar, analysts say.

Bulgaria, Poland and Slovakia have set up demographic reserve funds, funded by privatization proceeds. The objective is to compensate for the loss of income in the public pillar due to realocating contributions to the second pillar. The World Bank forecasts that these losses will account for 0.3 to 1.3% of the CEE countries’ GDP. Out of the 11 CEE countries Bulgaria holds the 6th position by size of the second pillar contribution. There is still room for improvement bearing in mind that in Slovakia this contribution is at 9%, in Hungary - 8%, in Poland - 7.3%, in Estonia - 6%, analysts comment. They believe that the automatic adoption of other countries’ legislative solutions is not the right way to implement a pension reform. The reason is in the different purposes of the seemingly similar changes. A good example are the recently introduced voluntary funds for retirement provision in occupational schemes. The recent introduction of fourth pillars in Bulgaria, Hungary, Lithuania and Poland was prompted by different objectives, they say. The fourth type of fund in Bulgaria is introduced within the third pillar with the intent to provide voluntary occupational schemes similar to the ones...
Company name
Badeshte Pension Assurance Company (PAC Badeshte)

Establishment
Court registration 08.08.2003.
The Company holds a license for supplementary retirement provision No1/12.08.2003 permitting it to manage the following types of supplementary pension funds - voluntary pension fund (VPF), occupational pension fund (OPF) and universal pension fund (UPF).

Products
Voluntary Pension Fund
- Permanent access to individual account accumulations
- Tax incentives
- High yields guaranteed by the balanced and professional management of financial assets
- Benefits - programmed withdrawals, lump-sum withdrawals, annuities

Occupational Pension Fund
- Mandatory participation of category I and II workers
- Contributions paid in full by the employer
- Individual account accumulations are subject to inheritance

Universal Pension Fund
- Mandatory participation of persons born after 31.12.1959

- Full time access to information on individual account status
- Contributions paid jointly by employer and worker
- Full pay-out of individual account accumulations

The established network of offices and sales agents enables the company to constantly improve its performance. The volume of assets under management and the big number of affiliates serve as an incentive to the Company to strive at bigger investment returns in order to meet the high demands of its affiliates. To this end, PC Badeshte does its best to improve its performance in areas ensuring protection of the fund members’ interests. The Company’s key objective is to expand its network of offices and highly qualified sales agents providing timely and expert information to its present and future clients.
operated in Western Europe. The fourth pillar in Hungary was set up initially with the purpose of stimulating the development of the internal capital market. Lithuania introduced the legal framework regulating the occupational pension schemes, while in Poland its enactment was provoked by unpopularity of similar schemes in the third pillar, analysts explain.

The European Directive on occupational retirement provision is not adapted for the East European systems, which are predominantly DC individual account based with no employer participation in the second pillar, the report says. While this is fully true of Bulgaria as well, we should stress that so far this country hasn’t had any problems with the European Commission regarding the transposing of this directive, unlike some other countries that have been criticized by the Commission.

With its 7.7 million citizens Bulgaria is the fifth largest country by population size among the CEE states covered by the report, however, it holds only 1.5% of these countries’ total pension assets and ranks seventh by the latter indicator.

So far Bulgaria has been lagging behind with respect to multifunds’ introduction. Some East European countries have already made the first steps and are now requiring scheme portfolios with different types of asset allocation, also called lifecycle funds. They have different combinations of equities, bonds and instruments of the money market and usually fall into three categories: conservative /only bonds and money market instruments/, balanced /a small share of equities/ and progressive /high percentage of equities/. In Estonia, Latvia, Lithuania, Poland and Slovakia the pension funds may and are obliged to provide different risk profile portfolios. Several Eastern European pension schemes have already started drafting the legislation, which will govern the introduction of multifunds in the supplementary retirement provision system as of the beginning of 2008.

The assessment of the quality of pension reforms in all CEE countries in the light of demographic trends is very indicative of the foresight of the Bulgarian pension model. By this complex indicator Bulgaria stands ahead of Greece, Spain, Italy, Belgium, Portugal, Slovenia, Austria, France, Czech Republic, Poland, Hungary, Slovakia, Germany, Lithuania and Finland. However, it lags behind the UK and Ireland that lead the chart. According to the cited study, if there is a growth in wages and an increase in the number of pension fund participants, the future of supplementary mandatory pension provision seems promising /average annual growth of 24%/.

Forecasts show that by 2015 the total assets under management will reach EUR 1.27 billion. The Bulgarian pension reform is seen as a gradual process /“step-by-step”/ that has resulted in a three-pillar system: a reformed first pillar, a well reputed mandatory second pillar, an underdeveloped voluntary third pillar with a new fourth type of fund. The introduction of the fourth type of fund for voluntary pension provision in occupational schemes is a very interesting experiment, since it might become a precious incentives tool helping not only international but also Bulgarian companies to retain their personnel. Among the discussed future changes are the reduction of investment limits, introduction of individual investment choice in the mandatory and voluntary funds and financing of the reserve fund.

Most probably Bulgaria will continue to be a fast growing market for asset managers and will become even more attractive with the increase in wages. Against the background of the large CEE pension markets Bulgaria’s market is perceived as being small and poor, but ingeniously constructed. This definitely is a better option compared to having a large and rich market but with poor architecture, the study concludes.

In the context of investments, very topical is the forecast that the time is coming for big investors - companies, investment and pension funds that not only play according to certain rules, but also impose their own rules. The pension companies have been waiting for quite some time now to be allowed to invest directly or indirectly in infrastructure projects. The major advantages of pension funds to the other institutional investors are the long time horizon and low requirements for instant liquidity. This enables them to finance significant long-term projects such as infrastructure-related ones.

No one would argue against the statement that there is a huge potential in voluntary retirement provision. Still, the government has to assist the industry in raising the citizens’ awareness of the pension system, and to introduce additional tax incentives and other levers that will stimulate the participation of modern-thinking people and better-off workers. This is also to the best interest of the government, because the development of this type of retirement provision will reduce the social burden in the public social security system. Many are of the opinion that we need certain compensatory mechanisms and stronger incentives for the people not covered by the second pillar – the ones born before 1960. Greater tax incentives, for instance, may be a prerequisite for the broader participation of these people in the voluntary pension funds.
Toplina Pension Company is the youngest retirement provision company in Bulgaria set up in 2006 and holding a license No 02-PC/17.08.06 issued by the Financial Supervision Commission. The Company is registered in Sofia City Court on 27.09.06, company file No 9984/2006. Toplina’s capital is BGN 5 million.

Toplina is a member of the Bulgarian Association of Supplementary Pension Security Companies. Major shareholders in Pension Company Toplina are prominent financial companies and institutions with dynamic economic growth, ownership and significant economic influence in the areas of energy, financial services and trade like Brikel EAD; LM Impex EOOD and etc. Custodian bank of the funds managed and represented by Toplina Pension Company is Investbank.

Toplina Pension Company was set up based on the experience accumulated since the start of the pension reform in Bulgaria and in accordance with the trends defined in the EU Directive on the development of retirement provision in United Europe.

The Company manages three pension funds:

- Voluntary Pension Fund Toplina;
- Occupational Pension Fund Toplina;
- Universal Pension Fund Toplina.

The Company’s strategy is to establish structurally balanced sector-based funds, key sectors being energy and mining. Toplina Pension Company has a two-tier governance system.

Key objectives:

- Gain reputation as one of the most prominent, stable and secure pension companies in Bulgaria with highly qualified staff and a large sales force.
- Implement fund management practices that guarantee excellent administrative, information and consulting services to the affiliates.
- Prudent investment of pension fund assets resulting in maximum rate of return to the benefit of pension fund members, with minimum risk and in strict compliance with the legal requirements.
- Members of Toplina’s funds also have access to integrated services in the Company’s and its shareholders’ offices - not only retirement provision but also insurance, financial and other social services.

Sofia 1000, Orion Industrial Zone
34, 3020 Street
phone: + 359 2 821 99 95, 821 99 96
fax: + 359 2 812 07 77
e-mail: office@pod-toplina.bg
Interest in voluntary funds will grow

Sofia Hristova, Executive Director of Allianz Bulgaria Pension Company

Mrs. Hristova, what are your forecasts for the development of supplementary retirement provision in the coming years?

- My forecasts for the development of supplementary pension provision are in two directions. I am convinced that in the coming years we will witness increasing interest in the voluntary pension funds. I also expect that the individual interest and the personal pension savings will develop much more intensively compared to the employer pension schemes.

One of the musts for accumulating serious pension savings, however, is to finally successfully complete the project of introducing a multifund system - funds with different investment and risk profile.

Hand in hand with the development of voluntary retirement provision and in the light of the mandatory nature of universal funds and the expected growth in income, we will surely witness an ever faster growth in these funds’ assets. The accumulation of such large volumes of assets will once again raise the question of where to invest them, of the pension funds’ risk management and, naturally, of the possibility for the pension funds to manage investment portfolios with different risk profiles.

If I have to summarize my expectations, I would say that they are of parallel increase in the interest in supplementary retirement provision and growth in the volume of pension funds’ assets.

- How is the country’s EU membership likely to impact the pensions market in Bulgaria?

- Bulgaria’s EU membership may not but influence the supplementary retirement provision system, just as it will influence all other circles of the public life, of our economy, etc. I believe, however, that our EU membership will not have an abrupt and sudden impact, but just like in the other areas, changes will come gradually in the process of our integration into the European Community.

First of all, Bulgaria’s EU membership will provide additional security, both to the companies managing pension funds, and to the pension fund members. In this line of thought, there should be an increase of confidence in the system and especially in its second pillar, which, by the way, is currently enjoying a very good reputation.

Knowing the practice in the majority of EU member countries, I do not expect to see cardinal changes of the principles of the Bulgarian pension model, which is modern enough, market-oriented and European. Meanwhile, I am convinced that the integration of the East European pension systems will serve as a catalyst for the modernization and improvement of the European pension model as a whole, so benefits will, by all means, be two directional - both for the new and the old member states.

- Do you expect to see any consolidations and new players coming into the market?

- The Bulgarian pensions market has long been opened to foreign investors. The largest European financial companies, which by rule are interested in the CEE countries, are already present in our market. I am referring to Allianz, ING, Wiener Staedtische, OTP… I’m not ruling out the possibility that in the coming years some multinational players might enter the market, but I think that in order to find a market niche more successfully they should rather acquire some of the existing pension companies.

With regards to whether I expect consolidations, I will only remind you that three of the nine licensed pension companies are owned by companies from the Chimimport Group or by their related parties. Therefore, I believe the consolidation of these is a must, since otherwise we will not have a real pension market, but would rather create grounds for its gradual distortion and manipulation. Let me give you only a few examples - the methodology for administrative allocation of persons who do not choose UPF and OPF, the methodology for minimum rate of return calculation for the mandatory pension funds and the restrictions regarding the concentration of pension funds investments. All these regulatory provisions will cease to be effective, if one entity participates in the market through two or three companies owned by it.
Mrs. Petkova, what are your forecasts for the development of supplementary retirement provision in the coming years?

- In the coming years the pension funds’ assets will maintain the trend of growth. I expect that, unless there are significant changes in the legislation or any economic slumps in the country, in 2010 the assets will double compared to 2007 and will reach EUR 2 billion, and in 2015 - EUR 4 billion. By 2015 the universal funds will continue to hold the largest share, and in 2010 the assets of this type of funds only will exceed EUR 1 billion. Smallest, both by accumulated assets and by number of affiliates, will continue to be the occupational funds, and in 2010 the money accumulated in them will not have exceeded EUR 500 million. Though at a slower pace, the voluntary pension funds will surely grow, both by number of affiliates and by assets under management.

By 2010 there will be beneficiaries only of the voluntary pension funds. 2010 will mark the start of the first payout period for the occupational funds, and 2020 will see the first pensioners of the universal funds. The years with a more significant number of beneficiaries on the market, will mark the launching of a more serious competition among pension funds, because then the customers will start realizing that there is a difference in the size of retirement benefits that different companies pay out against the same size of individual account accumulations and all other things being equal. Clients will find out that some companies update pensions in shorter periods, others wait longer, etc., i.e. all these are important retirement provision issues, but in 2007 our market is not yet mature enough to analyze them correctly.

- How is the country’s EU membership likely to impact the pensions market in Bulgaria?

- Thoroughly, just like in all other areas. I expect that one of the significant changes influenced by the EU membership will be the improvement of customer service. Together with the improving financial positions of the pension companies I expect to see the launching of a new type of investments - not for attracting new customers, but with the aim of enhancing the services for the present members. Information technologies will start playing greater role in people’s everyday lives and this will redefine the way in which pension companies will operate in the future - huge IT systems for the databases, electronic payments of contributions and benefits, electronic communication with clients, etc. Companies that do not invest heavily in this area will naturally fall off the market.

- Do you expect to see any consolidations and new players coming into the market?

- With the present allocation of the market players, I do not expect that any new serious players will enter the market to start retirement provision operations by registering new pension funds. It would be very difficult and expensive to gain a market share by taking the place of any of the present players. The Bulgarian pensions market is too small for a significant number of serious players. Recently we’ve heard a lot of comments that market concentration is high and that the first four funds hold more than 80% of the market, but this is only natural, because the entire market has a potential for not more than 4 effectively operating companies. In this line of thought, it is possible to witness a future reduction in the number of companies and changes in the ownership of the existing ones. The interest towards acquiring majority packages of pension companies will grow with the growth in the assets accumulated in the pension funds. And when there is demand, there will for sure be supply.
Increasing the retirement income of this country’s pension system is largely dependent on the legislation in the country. First, the size of the UPF contribution should be defined. It will predefine the size of the benefits that the pensioners will receive from UPFs. The legislator should answer the question what will the replacement rate of the income of the present workers be when they start receiving pensions. In other words, the living standard of the future pensioners is defined once and for all. The strategy of the group to which the pension company will start operating in other EU countries. This depends on the strategy of the group to which the pension companies belong, and on the retirement provision and labor legislation in the respective country.

There is yet another aspect to Bulgaria’s EU membership. Gradually the interest of our prospective customers in the country’s pension funds is increasing. Fact is that people, who were approached by us two-three years ago with proposals to affiliate to our voluntary funds and refused, today contact us on their own initiative. In addition, confidence in the financial institutions as a whole has increased.

- Do you expect to see any consolidations or new players coming into the market?
- I would rather answer “yes”, because there are consolidation processes going on in all financial sectors and new players are coming in. We should point out that during the past more than ten years of pension companies’ existence a huge volume of work was done, their operations were placed on solid grounds and the costs were brought down. This is a prerequisite for the effective functioning of the companies, and capital is attracted by effectiveness and potentials for growth and profit. We can expect two or three companies to change owners in the coming one or two years. The reasons are in the extremely good financial results and prospects before the pension companies, the stable market development and the clear direction in the country’s pension reform. In addition, there are very evident trends towards forming financial groups - bank, insurer, pension company, investment company, voluntary health insurance company.
The Bulgarian Association of Supplementary Pension Security Companies works in close contact and cooperation with a number of international organizations and foreign associations among which the International Federation of Pension Funds Administrators (FIAP), the European Federation for Retirement Provision (EFRP), the World Bank, the International Social Security Association, the International Labor Organization, the Pension Funds Associations in the Czech Republic, Hungary, Croatia, Kazakhstan, Spain, Chile, Russia, Poland, Ukraine, UK and many other bodies. An important element of BASPSC’s international activities is the Association’s participation in all major international forums with the objective to present the Bulgarian pension model, the success stories and issues of the country’s pension reform.

BASPSC is member of the International Federation of Pension Funds Administrators. FIAP is an international organization aiming at promoting, encouraging and facilitating the development of pension systems based on savings and individual funding in pension schemes managed by financial companies or pension fund administrators. Currently FIAP’s members are institutions from 21 countries in America, Europe and Asia: Argentina, Bolivia, Brazil, Bulgaria, Columbia, Costa Rica, Chile, Dominican Republic; Dutch Antilles, El Salvador, Honduras, Kazakhstan, Mexico, Panama, Peru, Poland, Russian Federation, Spain, Ukraine, Uruguay, Venezuela. In 2005, 11 Collaborating Members representing the world’s larges asset management companies joined FIAP. In 2007, Bulgaria hosted for the first time a global forum on retirement provision – the General Assembly of the International Federation of Pension Funds Administrators and the International Conference „Funded Systems: Their Role in Solving the Pension Problem”. The Conference took place on May 31 and June 1, 2007 in Varna. It brought together representatives from more than 40 countries worldwide.

The European Federation for Retirement Provision (EFRP) was founded in 1981. It represents the Pension Funds Associations of the EU member states. During the recent years the organization opened its membership to individual financial institutions and multinational companies. At the end of August 2006, BASPSC hosted an international meeting: „Membership of CEE countries in the European Federation for Retirement Provision – current situation and trends”. The forum gathered in Bulgaria experts from seven countries – Bulgaria, Hungary, Poland, the Czech Republic, Slovakia, Ukraine and Croatia. The meeting was held at the initiative of the Hungarian and Polish pension associations, who asked BASPSC to host the meeting impressed by the Bulgarian pension model and the association’s activities. The international meeting discussed EFRP membership opportunities and prospects for the CEE countries. The associations of Hungary, Poland and Croatia have already become full members of the European Federation for Retirement Provision. BASPSC still has the status of an observer.