



Twinning Project AZ/13/ENP/SO/24 Support to the State Social Protection Fund on the introduction of funded element within the insurance-pension system, establishment of non-state pension funds and development of legal framework for regulating their activity

Pillar III – Private Pension Funds in Latvia

<u>Activity 4.1.</u> In-depth presentation of the state pension system of the EU MS to relevant SSPF staff and other stakeholders

Dace Brencena Expert, MoW of Latvia 22nd July, 2014



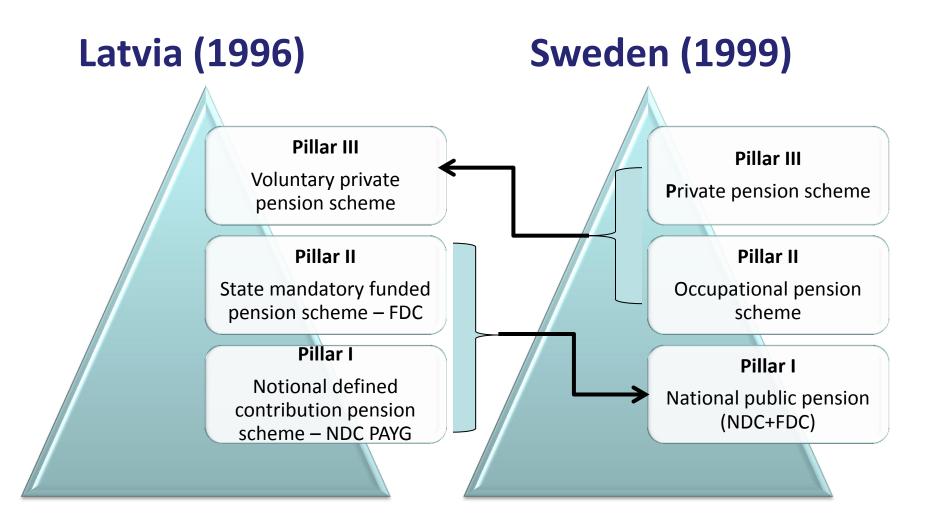


Gesellschaft für Versicherungswissenschaft und -gestaltung e.V.



1

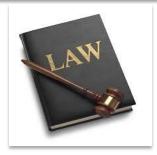
New Pension Systems



Administration of Private Pension Funds

Pillar III Latvia

Legislation for Private Pension Funds



Law on Private Pension Funds (1998)



Rules of Cabinet of Ministers on Special professions (1998, 2014)

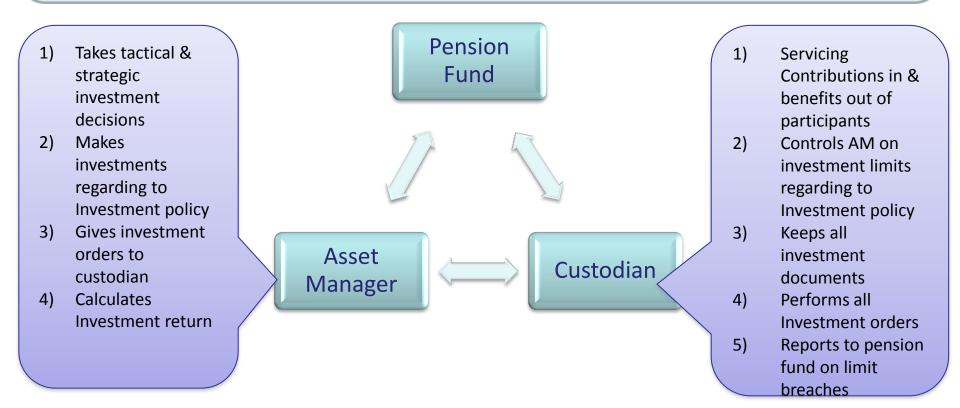


Rules of Financial and Capital Market Commission (FCMC)

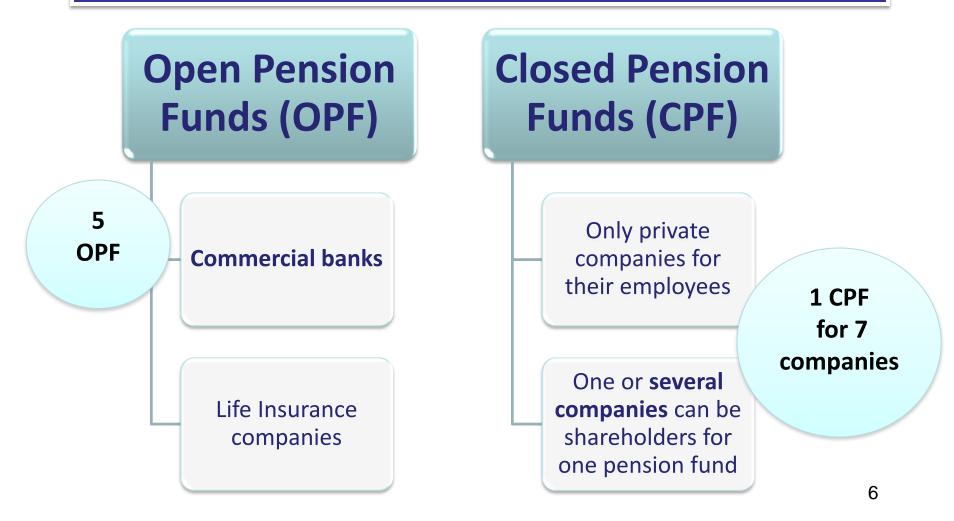
Supervisor of all Financial and Capital market participants

General scheme of Pillar III Private Pension Funds

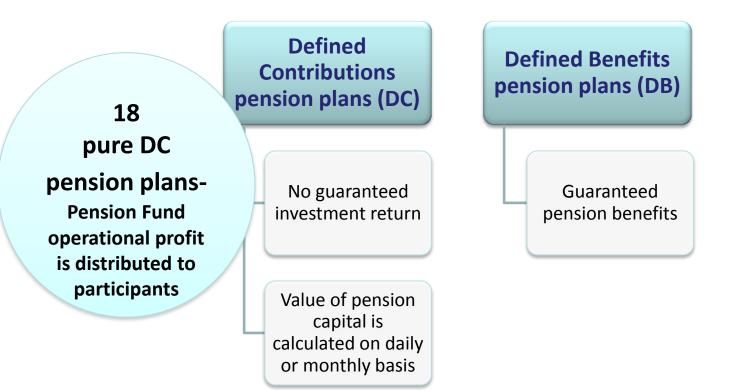
- 1) Accumulate all contributions and provides investments to participants regarding to pension plans rules
- 2) Provides administration of Individual accounts of participants & provides them with all information
- 3) Attracts new participants to pension plans (individuals & corporates)
- 4) Operates on competitive market with other pension funds
- 5) All assets of pension plans belongs to participants and they are kept outside of Pension Fund, Asset manager and Custodian balance sheets **no guaranty fund necessary**



Types of Private Pension Funds



Types of Pension Plans



Biometric risk coverage / guaranteed investment return 3 M EUR shareholders capital needed

Types of Pension plans by strategy & currency

Investment strategies

Contribution currencies

$(\mathbf{1})$ **CONSERVATIVE**



- 0% Equities
- Shortly before pay-out period or during payout period

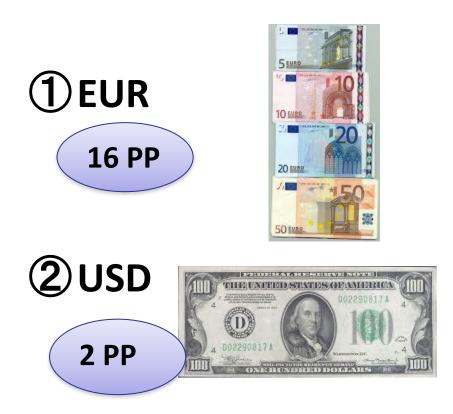
BALANCED



- **During Savings period**
- During Pay-out period
- 3 ACTIVE

13 PP

- Above 35% Equities
- During Savings period up to 45 years



How to become as participant in Open Pension Fund?

Individual Agreement

- Choose pension plan
- Choose regularity of contributions
- Choose the way of receiving information
- Choose beneficiary

Group agreement

- Company Chooses pension plan (usually balanced or by the choice of employees)
- Choose regularity of contributions
- Register employees in pension fund

Contributions

Individual contributions

- Only with bank transfer (regular or single)
- Through employer accountancy tax benefits receiving on contribution day
- No obligation to pay on regular basis free choice

Employer contributions

- Only with the bank transfer (regular or single)
- In lump sum and redistribution to employees by information table
- No obligation to pay on regular basis free choice

10

Employer's contributions or occupational pension schemes

Employment contracts or collective agreements of labor unions

- Selection criteria for contributions should be based on **objective criterion** profession, work experience, position and others objective criteria
- No discrimination on origin, property status, race, gender, or attitude to religion

Pension Plan Committees in Company – controls pension plan execution regarding to agreement between Pension fund and Company

- Number of members on equal representation from employees and employer side
- If number of employees are below 100 committee is not mandatory

Tax advantages for contributions up to 10% from gross salary

Individual contributions

• are tax exempt from personal income tax (24%)

Employer contributions

- Company are included in deductible expenses and no object of corporate income tax (15%)
- For individuals and company no state social insurance contributions needed for this type of personal income (Employer – 23,59%, Employee-10,50%)

How to receive Personal Income Tax benefits from Individual contributions

Pension Funds annually (in February) reports to State Revenue Service all individual contributions

Make contributions in pension funds

1

2

Submit <u>Annual</u> <u>Income Declaration</u> in State Revenue Service (from March.)

State Revenue Service transfers tax benefits to individual bank account in 3 months

Submit application to employer book keeping to make contributions in pension fund Employers book keeping deduct these contributions from applicable income & reports to State Revenue Service

Employer calculates tax benefits and transfers to individual bank account <u>together with</u> <u>monthly salary</u>

Individual accounts in Private Pension Funds

Individual contributions	Annual
Employer contributions	report to
Income from investments	participant
All fees (pension fund, asset manager, custodian,	FCMC)
Discounts if applicable	
Benefits paid out	
Start and End balance of account	

Auditor of Annual Accounts, Asset manager, Custodian

Rules for Individual accounts

From Law on Private pensions and Rules of FCMC

Contributions should be registered on Individual accounts **no later than on next day** when payment is received on pension plan account

Value of pension capital can be calculated:

1) On daily basis (NAV)

2) On monthly basis (Capital accounting method)

Communication Channels with Participants

Industry web pages	Pension Fund web page	Pension fund Internet bank	Post & e-mail & sms & telephone
Pension Funds Industry results	Pension plans and changes	Statement of accounts	Statement of accounts
Pension calculator	Investment policy for each pension plan	Individual agreement in pension fund	News & letters & campaigns
<u>www.bankasoc.lv</u>	Investment results	Regular payments	
<u>www.manapensija.lv</u>	Practical information and news	Application for pay-out and change of pension plan	
	Annual reports	News & letters & campaigns	

Industry web pages

Norde saturanelas parsigning EUR fizz 25% 18:10:11 3:160 3:06 1:26 4:15 rvid rvid 4:07 4:44 4:57 4:44 5:57			Results	of Private Pe	ension Funds (Pillar III) on 3	31st of Ma	y, 2014						
Name of Pension Plan of Pension of Pension Status of Pension Number of Unit Exrit Number of Unit Exrit Number of Number of Unit Exrit Number of Number of Unit Exrit Number of Number of Unit Exrit Number of Number of Numb		Currency Max limit on					RATE OF RETURN AFTER ASSET MANAGEMENT AND CUSTODIAN FEES %%*							
Balanced Pension Plans Clanders Substances dams One of the substances dams	Name of Pension Plan	of investme	investments	ts of Pension	Value of Assets		YTD***	1 Y**	2 Y**	3 Y**	5 Y**	10 Y **		
Classical guardination months (LIR, Bitz, 25%) Sold Sold (LIR, Bitz, 25%) Sold Sold (LIR, Bitz, 25%) Sold (LIR, Bitz, 25%) <th< td=""><td></td><td></td><td></td><td>Pens</td><td>sion Plans of Open</td><td>Pension Funds</td><td></td><td></td><td></td><td></td><td>I</td><td></td><td></td></th<>				Pens	sion Plans of Open	Pension Funds					I			
Norde saturanelas parsigning EUR fizz 25% 18:10:11 3:160 3:06 1:26 4:15 rvid rvid 4:07 4:44 4:57 4:44 5:57					Balanced Pensio	on Plans								
"SEB : Stabilization" pension plane EUR litz 25% 11 0700 62.300 178 178 4.46 2.99 4.67 4.44 4.98 Seedbark pension plane EUR litz 25% 14 07 03 16.20 22.87 2.99 3.66 5.38 4.21 6.19 2.91 2.94 Total: Balanced Pension Plans EUR litz 25% 14 07 03 16.20 2.87 2.93 3.76 5.38 4.41 5.73 Clinadio Athruis EUR litz 50% 21 03.00 7.467 2.080 3.66 5.38 5.34 4.44 6.55 Tinats plant "Contan- Activate" EUR litz 50% 21 03.00 7.467 2.90 3.66 3.37 6.62 3.44 6.05 3.87 4.44 6.56 Tinats plant "Contan- Activate" EUR litz 50% 10.00 0.064 3.08 3.07 4.44 6.05 3.83 5.38 6.38 5.38 6.38 5.38 6.38 6.38 6.38 6.36<	Citadele Sabalansētais	EUR	līdz 20%	30.09.99	21,870	27 142	3,08	4,19	6,02	3,72	6,39	3,93	5,83	
Swetchank pendju plans Stabilitate-25 EUR Bidz 25% 14.07.03 16.200 22.877 2.99 3.86 5.88 4.21 6.19 2.91 2.91 Total: Balanced Pension Plans EUR Ind. 25% 94.375 2.53 2.73 4.96 3.46 5.39 4.41 5.72 Chadele Advivai EUR Bidz 50% 21.007 4.767 20.60 3.08 5.38 4.21 6.19 3.07 5.38 Chadele Advivai EUR Bidz 50% 12.10.07 4.7067 3.965 2.34 3.59 5.38 3.27 4.74 n/d 5.38 Finasta plans "Suchas-Konservativais" EUR Bidz 50% 0.001.00 0.0640 1782 3.24 6.06 3.82 3.66 n/d 4.55 Finasta plans "Suchas Suchas Sucha	Nordea sabalansētais pensiju plāns	EUR	līdz 25%	18.10.11	3,150	3 049	3,08		4,15	n/d	n/d	n/d	4,51	
Table Banced Pension Plans EUR 103.523 94 375 2,53 2,73 4,96 3,46 5,39 4,41 5,73 Critable Attivuis EUR Bdz 50% 21.03.00 7.407 20.065 3.001 4.44 6.05 3.77 5.63 Critable Attivuis EUR Bdz 50% 22.1007 7.407 3.008 4.44 7.00 4.44 6.05 3.77 5.63 Finasta plans Durinters Four plans EUR Bdz 50% 22.10.08 0.514 541 6.15 7.20 7.59 6.38 2.94 4.74 7.06 5.22 6.68 3.92 4.96 not 5.95 7.17 1.15 2.50 7.69 6.38 2.96 not 5.96 7.66 0.03 3.92 4.97 not 5.45 1.13 2.26 5.07 6.00 3.82 4.97 not 5.45 1.61.07 0.61 4.84 0.83 2.84 1.03 0.24 1.71 1.	"SEB - Sabalansētais" pensiju plāns	EUR	līdz 25%	31.07.00	62,303	41 307	2,53	1,78	4,46	2,99	4,57	4,44	4,96	
Active Pension Plans Citade Artivais EUR fide 50% 210300 7.467 20606 3.06 4.144 6.00 Sign Artivais Citade Artivais EUR ite 250% 201000 4.16 5.63 Citade Artivais EUR ite 250% 0.0000 3.261 5.236	Swedbank pensiju plāns Stabilitāte+25	EUR	līdz 25%	14.07.03	16,200	22 877	2,99	3,56	5,38	4,21	6,19	2,91	2,94	
Citade Attivis EUR Bitz 50% 21.03.00 7.467 20.000 3.08 4.74 7.30 4.44 6.05 3.77 5.63 Citadele Attivis EUR Bitz 50% 121.00.7 4.705 3955 2.24 3.59 5.38 3.27 4.74 n'd 3.37 Finasta plans "Daritars - Konservativals" EUR Bitz 80% 00.01.00 0.064 108 3.73 5.22 6.86 3.82 3.66 n'd 5.55 Finasta plans "Daritars - Konservativals" EUR Bitz 80% 00.01.00 0.064 108 3.73 5.22 6.86 3.82 3.66 n'd 4.55 Finasta plans "Statle - Stabalanostals" EUR Bitz 50% 07.03.08 0.040 1782 3.24 5.07 6.00 3.82 4.97 n'd 5.38 Citadele plans "Visits" EUR Bitz 50% 10.04.07 0.040 219 0.55 0.15 2.12 0.76 0.37 n'd 0.38 Visitary Pansju plans Diamika+00 EUR Bitz 50% 10.04.07 3.040 <t< td=""><td>Total: Balanced Pension Plans</td><td>EUR</td><td></td><td></td><td>103,523</td><td>94 375</td><td>2,53</td><td>2,73</td><td>4,96</td><td>3,46</td><td>5,39</td><td>4,41</td><td>5,73</td></t<>	Total: Balanced Pension Plans	EUR			103,523	94 375	2,53	2,73	4,96	3,46	5,39	4,41	5,73	
Citade Attivis EUR Bitz 50% 21.03.00 7.467 20.000 3.08 4.74 7.30 4.44 6.05 3.77 5.63 Citadele Attivis EUR Bitz 50% 121.00.7 4.705 3955 2.24 3.59 5.38 3.27 4.74 n'd 3.37 Finasta plans "Daritars - Konservativals" EUR Bitz 80% 00.01.00 0.064 108 3.73 5.22 6.86 3.82 3.66 n'd 5.55 Finasta plans "Daritars - Konservativals" EUR Bitz 80% 00.01.00 0.064 108 3.73 5.22 6.86 3.82 3.66 n'd 4.55 Finasta plans "Statle - Stabalanostals" EUR Bitz 50% 07.03.08 0.040 1782 3.24 5.07 6.00 3.82 4.97 n'd 5.38 Citadele plans "Visits" EUR Bitz 50% 10.04.07 0.040 219 0.55 0.15 2.12 0.76 0.37 n'd 0.38 Visitary Pansju plans Diamika+00 EUR Bitz 50% 10.04.07 3.040 <t< td=""><td></td><td></td><td></td><td></td><td>Active Dension</td><td>Diana</td><td></td><td></td><td></td><td>I</td><td></td><td></td><td></td></t<>					Active Dension	Diana				I				
Cladede Aktivals EUR EUR IIdz 50% 12:10:07 4.76 3.969 2.34 3.69 5.88 3.27 4.74 nrd 5.32 Finasta plans "Jonar - Konsvativals" EUR IIdz 30% 0.514 6.15 7.20 7.59 5.33 5.94 nrd 5.54 Finasta plans "Jonar - Activals" EUR IIdz 30% 0.0010 0.064 108 3.73 5.22 6.86 3.92 3.66 nrd 4.52 Finasta plans "Jonar - Activals" EUR IIdz 50% 0.0100 0.064 108 3.73 5.22 6.86 3.92 3.66 nrd 4.52 Cladede plans "Kumba" EUR IIdz 50% 0.064 0.289 1.41 1.03 0.24 1.73 1.15 2.56 nrd 1.45 Nordea progressing plans EUR IIdz 50% 10.04.03 2.911 3.38 4.01 6.15 7.70 6.32 3.84 3.77 3.85 4.44 6.84 5.92 3.76 <	Citadele Aktīvais	EUR	līdz 50%	21.03.00			3.08	4 74	7 30	4 4 4	6.05	3 77	5.63	
Finasta plans "Derivar - Activar" EUR lidz 30% 23:10.98 0.514 544 6.15 7.20 7.59 5.38 5.94 n/d 5.95 Finasta plans "Darivar - Activar" EUR lidz 80% 00:01:00 0.064 108 3.73 5.22 6.86 3.92 3.66 n/d 5.95 Finasta plans "Darivar - Activar" EUR lidz 80% 00:01:00 0.064 1782 3.24 5.07 6.00 3.82 4.97 n/d 5.95 Citadole plans "Twists" EUR lidz 80% 00:04:07 0.040 219 0.55 0.15 2.12 0.76 0.37 n/d 5.85 Oridae progressival pensity plans EUR lidz 50% 10:04:07 0.040 219 0.55 0.15 2.12 0.76 0.37 n/d 5.85 Sted Advals" pensity plans EUR lidz 50% 10:04:07 0.040 31:07 3.86 2.73 3.46 4.40 8.44 5.02 7.18 3.86 3.77 Swedbank pensity plans EUR lidz 60% 10:04:06 <th< td=""><td></td><td></td><td></td><td></td><td></td><td></td><td>,</td><td>,</td><td>,</td><td></td><td></td><td></td><td>3,30</td></th<>							,	,	,				3,30	
Finasta plans "Jara - Advivals" EUR fize 30% 000100 0.064 108 3.73 5.22 6.86 3.92 3.86 nrd 4.54 Finasta plans "Jara - Advivals" EUR fize 50% 076.00 1782 3.24 5.07 6.00 3.82 4.97 nrd 5.54 Cladele plans "Jaure - Sadalmasta" EUR fize 50% 08.010 0.269 1.641 103 0.24 1.73 1.15 2.66 nrd 1.83 Nordea progressivals pensigu plans EUR fize 50% 18.011 2.049 2.371 3.38 4.01 6.15 nrd nrd nrd 5.25 Swedbank pensigu plans EUR fize 50% 15.00.03 2.914 3623 3.46 4.40 8.44 5.02 7.18 3.86 3.77 3.86 3.77 4.19 6.22 3.84 3.97 Swedbank pensigu plans Dinamika+100 EUR fize 50% 01.04.06 0.891 701 2.15 2.26 2.26 9.28 nrd 4.91 5.02 2.88 4.96 nrd 4.91 <td></td> <td>5,56</td>													5,56	
Finast plans "Saule - Sabalans&tais" EUR Rdt 50% 07 03.06 0.640 1.782 3.24 5.07 6.00 3.82 4.97 n/d 5.44 Citadele plans "Stute" EUR Ridt 20% 0.801 0.289 1.641 1.03 0.24 1.73 1.15 2.56 n/d 0.382 4.97 n/d 5.44 Citadele plans "Twists" EUR Ridt 20% 1064.07 0.040 219 0.55 0.15 2.12 0.76 0.37 n/d 0.382 Citadele plans "Twists" EUR Ridt 20% 150.04 31017 351.48 2.23 2.83 5.99 3.40 4.41 n/d 5.22 SweeDank pensity plans Dinamika+00 EUR Ridt 20% 510.803 2.914 362.86 3.45 4.40 8.44 5.02 7.78 4.62 3.88 3.07 4.12 2.83 1.63 3.65 5.02 7.78 4.52 2.24 7.64 4.52 2.24 7.69 4.14 6.12 6.50 2.68 4.36 n/d 4.97 n/d 4.97					,			,	· · ·				4,50	
Cladele plans Rumba" EUR Rdz 30% 08.01.05 0.269 1.641 1.03 0.24 1.73 1.15 2.56 nrd 1.83 Cladele plans "Tvist" EUR Rdz 50% 10.0407 0.040 219 0.55 0.15 2.12 0.76 0.37 nrd 0.38 Norkes progrestvais pensiu plans EUR Rdz 50% 15.09.04 31.017 35.148 2.63 2.83 5.99 3.40 4.81 nrd 5.27 Swedbank pensiu plans Dinamika+600 EUR Rdz 100% 0.10.803 2.941 4.36 238 3.45 4.40 6.84 5.02 7.18 3.88 3.73 3.976 3.471 5.25 12.76 4.32 9.28 nrd -1.37 3.976 3.471 5.25 12.74 4.19 6.22 3.84 3.97 3.97 4.91 14.93 14.97 3.97 3.92 7.88 4.84 3.97 3.92 7.88 4.86 2.53 3.22 2.53 3.32									- 1				5,41	
Norda progrestvals pensju plans EUR fldz 75% 18.10.11 2.049 2.371 3.38 4.01 6.15 n/d n/d n/d 5.65 Step Attivas EUR fldz 50% 15.09.04 31.017 35.448 2.63 2.53 5.99 3.40 4.81 4.52 9.28 n/d 5.55 Swedbank pensju plans EUR fldz 60% 01.08.03 2.9814 36.238 3.45 4.40 8.84 5.99 3.40 4.52 9.28 n/d 5.17 Swedbank pensju plans EUR fldz 60% 01.04.06 0.891 7.01 2.16 2.24 5.39 2.68 4.36 n/d 4.91 Swedbank pensju plans USD fldz 60% 01.04.06 0.891 7.01 2.16 2.24 5.39 2.68 4.36 n/d 4.91 Swedbank pensju plans USD fldz 60% 01.0.06 0.891 7.01 2.16 6.12 2.68 4.36 7.12 2.53													1,83	
"SEB Attivals" pensiju plåns EUR fløz 50% 15.09.04 31.017 35.148 2.63 2.83 5.99 3.40 4.81 rv/d 5.21 Swedbank pensiju plåns Dinamika+100 EUR lidz 60% 010.603 29.81 36.238 3.45 4.40 8.64 5.02 7.18 3.80 3.137 Active Pension Plans EUR lidz 100% 27.12.06 8.370 13.976 3.471 5.25 12.76 4.52 9.28 nod 1.37 Active Pension Plans EUR lidz 50% 01.04.06 0.891 701 2.15 2.24 5.39 2.68 4.36 nod 4.91 Swedbank pensiju plåns Dinamika+(USD) USD lidz 60% 14.07.03 1.678 1553 4.16 6.17 6.50 2.88 4.36 nod 4.91 5.24 2.83 4.36 nod 4.91 5.25 2.75 2.75 2.75 2.75 2.75 2.75 2.75 2.75 2.75 2.75 2.75 2.75 2.75 2.75 2.75 2.75 2.75 2.75		EUR	līdz 50%	10.04.07	0,040	219	0,55	0,15	2,12	0,76		n/d	0,36	
Swetbank pensju plans Dinamika+00 EUR lidz 60% 01.08.03 29.814 36.26 3.45 4.40 8.84 5.02 7.18 3.86 3.77 Swetbank pensju plans Dinamika+100 EUR lidz 100% 27.12.06 8.370 13.976 3.47 5.25 12.76 4.52 9.28 n/d -1.37 Swetbank pensju plans Dinamika+100 EUR lidz 100% 27.12.06 8.370 13.976 3.47 5.25 12.76 4.52 9.28 n/d -1.37 Swetbank pensju plans Dinamika+100 USD lidz 50% 01.04.06 0.891 701 2.15 2.24 5.39 2.68 4.38 n/d 4.91 Swetbank pensju plans Dinamika+(USD) USD lidz 60% 14.07.03 1.678 156.3 4.16 6.17 6.60 2.68 2.63 2.32 2.33 2.68 4.36 1.678 3.80 3.95 Total: Active Pension Plans USD lidz 60% 14.07.03 1.678 118.847 3.07 3.92 7.69 4.14 6.18 3.80 3.95 Total:	Nordea progresīvais pensiju plāns	EUR	līdz 75%	18.10.11	2,049	2 371	3,38	4,01	6,15	n/d	n/d	n/d	5,56	
Swedbank pensju plans Dinamika+100 EUR Fidz 100% 27.12.06 8.370 13.976 3.47 5.25 12.76 4.62 9.28 n/d -1.37 Active Pension Plans EUR Indz 100% 27.12.06 8.370 13.976 3.47 5.25 12.76 4.62 9.28 n/d -1.37 Active Pension Plans EUR Indz 50% 01.04.06 0.891 701 2.15 2.24 5.39 2.68 4.36 n/d 4.91 Swedbank pensiu plans USD Indz 60% 14.07.03 1.678 1.663 4.66 6.50 2.24 5.39 2.68 4.86 2.53 2.37 Veedbank pensiu plans USD Indz 60% 14.07.03 1.678 1683 3.07 3.92 7,69 4.14 6.18 3.80 3.95 Total: Active Pension Plans USD Indz 60% 10.10.08 87,518 118.847 3.07 3.92 7,69 4.14 6.18 3.80 3.95	"SEB Aktīvais" pensiju plāns	EUR	līdz 50%	15.09.04	31,017	35 148	2,63	2,83	5,99	3,40	4,81	n/d	5,21	
Active Pension Plans EUR 84,949 116 583 3,06 3,89 7,74 4,19 6,22 3,84 3,97 Citadele Aktivals USD USD IIdz 50% 01.04.06 0,891 701 2,15 2,24 5,39 2,68 4,36 n/d 4,91 Swedbank pensju plans Dinamika+(USD) USD IIdz 60% 14.07.03 1.678 1.563 4,16 6,17 6,50 2,68 5,12 2,53 2,33 3,25 Active Pension Plans USD IIdz 60% 14.07.03 1.678 1.563 4,16 6,17 6,50 2,68 5,12 2,53 3,32 Active Pension Plans USD 2,569 2,264 3,47 4,81 6,12 2,68 4,86 2,53 3,22 Total: Active Pension Plans 87,518 118,847 3,07 3,92 7,69 4,14 6,18 3,80 3,95 Total: Active Pension Plan 191,041 213 222 1162 30% 01.12.99 57,044 1	Swedbank pensiju plāns Dinamika+60		līdz 60%	01.08.03		36 236				5,02	7,18	3,86	3,73	
Citadele Aktivals USD USD Ildz 50% 01.04.06 0.89 701 2.15 2.24 5.39 2.68 4.36 n/d 4.91 Swedbank pensju plans Dinamika+(USD) USD Ildz 60% 14.07.03 1.678 1.563 4.16 6.17 6.60 2.68 5.12 2.53 2.37 Active Pension Plans USD Ildz 60% 14.07.03 1.678 1.563 4.16 6.17 6.60 2.68 5.12 2.53 3.28 Total: Active Pension Plans USD Ildz 50% 14.07.03 1.678 1.683 3.07 3.92 7.69 4.14 6.18 3.80 3.95 Total: Active Pension Plans 191.041 213 222			līdz 100%	27.12.06									-1,37	
Swedbank pensiju plåns Dinamika+(USD) USD lidz 60% 14.07.03 1,678 1 563 4,16 6,17 6,50 2,68 5,12 2,53 2,33 Active Pension Plans USD lidz 60% 14.07.03 1,678 1 563 4,16 6,17 6,50 2,68 5,12 2,53 2,33 Total: Active Pension Plans USD lidz 60% 14.07.03 1,678 1 563 4,16 6,17 6,50 2,68 5,12 2,53 2,33 Total: Active Pension Plans USD lidz 60% 14.07.03 1,678 1 563 4,16 6,17 6,50 2,68 5,12 2,53 3,25 Total: Active Pension Plan lidz 30% 191,041 213 222 lidz 30% 01.12.99 57,044 12 181 2,17 3,04 5,02 3,65 5,69 5,00 7,40 ToTAL: ALL PENSION PLANS OF PRIVATE PENSION FUNDS 248,085 225 403 248,085 225 403 10 10 lidz 30% <th c<="" td=""><td>Active Pension Plans</td><td>EUR</td><td></td><td></td><td>84,949</td><td>116 583</td><td>3,06</td><td>3,89</td><td>7,74</td><td>4,19</td><td>6,22</td><td>3,84</td><td>3,97</td></th>	<td>Active Pension Plans</td> <td>EUR</td> <td></td> <td></td> <td>84,949</td> <td>116 583</td> <td>3,06</td> <td>3,89</td> <td>7,74</td> <td>4,19</td> <td>6,22</td> <td>3,84</td> <td>3,97</td>	Active Pension Plans	EUR			84,949	116 583	3,06	3,89	7,74	4,19	6,22	3,84	3,97
Swedbank pensiju plåns Dinamika+(USD) USD lidz 60% 14.07.03 1,678 1 563 4,16 6,17 6,50 2,68 5,12 2,53 2,33 Active Pension Plans USD lidz 60% 14.07.03 1,678 1 563 4,16 6,17 6,50 2,68 5,12 2,53 2,33 Total: Active Pension Plans USD lidz 60% 14.07.03 1,678 1 563 4,16 6,17 6,50 2,68 5,12 2,53 2,33 Total: Active Pension Plans USD lidz 60% 14.07.03 1,678 1 563 4,16 6,17 6,50 2,68 5,12 2,53 3,25 Total: Active Pension Plan lidz 30% 191,041 213 222 lidz 30% 01.12.99 57,044 12 181 2,17 3,04 5,02 3,65 5,69 5,00 7,40 ToTAL: ALL PENSION PLANS OF PRIVATE PENSION FUNDS 248,085 225 403 248,085 225 403 10 10 lidz 30% <th c<="" td=""><td>Citadele Aktīvais LISD</td><td></td><td>līdz 50%</td><td>01.04.06</td><td>0.891</td><td>701</td><td>2 15</td><td>2.24</td><td>5 39</td><td>2.68</td><td>4 36</td><td>n/d</td><td>4 91</td></th>	<td>Citadele Aktīvais LISD</td> <td></td> <td>līdz 50%</td> <td>01.04.06</td> <td>0.891</td> <td>701</td> <td>2 15</td> <td>2.24</td> <td>5 39</td> <td>2.68</td> <td>4 36</td> <td>n/d</td> <td>4 91</td>	Citadele Aktīvais LISD		līdz 50%	01.04.06	0.891	701	2 15	2.24	5 39	2.68	4 36	n/d	4 91
Active Pension Plans USD 2,569 2 264 3,47 4,81 6,12 2,68 4,86 2,53 3,25 Total: Active Pension Plans 87,518 118 847 3,07 3,92 7,69 4,14 6,18 3,80 3,95 Total: Active Pension Plans 191,041 213 222 118 847 3,07 3,92 7,69 4,14 6,18 3,80 3,95 Total: Pension Plans Open Pension Funds 191,041 213 222 223 224 248,085 25,04 12 181 2,17 3,04 5,02 3,65 5,69 5,00 7,40 Total: ALL PENSION PLANS OF PRIVATE PENSION FUNDS 248,085 225 403 248,085 225 403 217 * Rate of reum is calculated after asset management and custodian fees as annual rate of return. 248,085 225 403 17														
Total: Active Pension Plans 87,518 118 847 3,07 3,92 7,69 4,14 6,18 3,80 3,95 Total: Pension Plans of Open Pension Funds 191,041 213 222 213 222			1102 0070	14.07.00				,					3,25	
Total: Pension Plans of Open Pension Funds 191,041 213 222 Closed Pension Plan 191,041 213 222 "First Closed Pension Plan" (only for employees of shareholders of "First Closed Penion Fund" EUR lidz 30% 01.12.99 57,044 12 181 2,17 3,04 5,02 3,65 5,69 5,00 7,40 TOTAL: ALL PENSION PLANS OF PRIVATE PENSION FUNDS 248,085 225 403 248,085 225 403 17 * Rate of reum is calculated after asset management and custodian fees as annual rate of return. ** Historical rate of return is not guaranteeing the same return in the future 17					2,000		0,11	-1,01	0,12	2,00	1,00	2,00	0,20	
Closed Pension Plan EUR IIdz 30% 01.12.99 57,044 12 181 2,17 3,04 5,02 3,65 5,69 5,00 7,40 TOTAL: ALL PENSION PLANS OF PRIVATE PENSION FUNDS * Rate of reurn is calculated after asset management and custodian fees as annual rate of return. ** Historical rate of return is not guaranteeing the same return in the future	Total: Active Pension Plans				87,518	118 847	3,07	3,92	7,69	4,14	6,18	3,80	3,95	
"First Closed Pension Plan" (only for employees of shareholders of "First Closed Penion Fund" EUR Iidz 30% 01.12.99 57,044 12 181 2,17 3,04 5,02 3,65 5,69 5,00 7,40 TOTAL: ALL PENSION PLANS OF PRIVATE PENSION FUNDS 248,085 225 403 225 403 0	Total: Pension Plans of Open Pension Funds				191,041	213 222								
"First Closed Pension Plan" (only for employees of shareholders of "First Closed Penion Fund" EUR Iidz 30% 01.12.99 57,044 12 181 2,17 3,04 5,02 3,65 5,69 5,00 7,40 TOTAL: ALL PENSION PLANS OF PRIVATE PENSION FUNDS 248,085 225 403 225 403 0	Closed Pansion Plan													
TOTAL: ALL PENSION PLANS OF PRIVATE PENSION FUNDS 248,085 225 403 * Rate of reurn is calculated after asset management and custodian fees as annual rate of return. ** Historical rate of return is not guaranteeing the same return in the future 17	"First Closed Pension Plan" (only for employees of shareholders of "First Closed	ELID	IT-1- 200/	01 10 00	57.044	10 101	0.47	2.04	5.00	2.05	5.00	5.00		
* Rate of reurn is calculated after asset management and custodian fees as annual rate of return. ** Historical rate of return is not guaranteeing the same return in the future 17		EUK	11az 30%	01.12.99	57,044	12 181	2,17	3,04	5,02	3,65	5,69	5,00	7,40	
** Historical rate of return is not guaranteeing the same return in the future	TOTAL: ALL PENSION PLANS OF PRIVATE PENSIO	ON FUNDS			248,085	225 403								
	* Rate of reurn is calculated after asset management a	and custodia	n fees as annua	al rate of return.										
*** labsolute Growth of rate of return from the beggining of year	** Historical rate of return is not guaranteeing the same	e return in th	e future									1	7	
about oronar or tato or otari non alo boggining or you	*** labsolute Growth of rate of return from the begginir	ng of year												

Pay-out rules

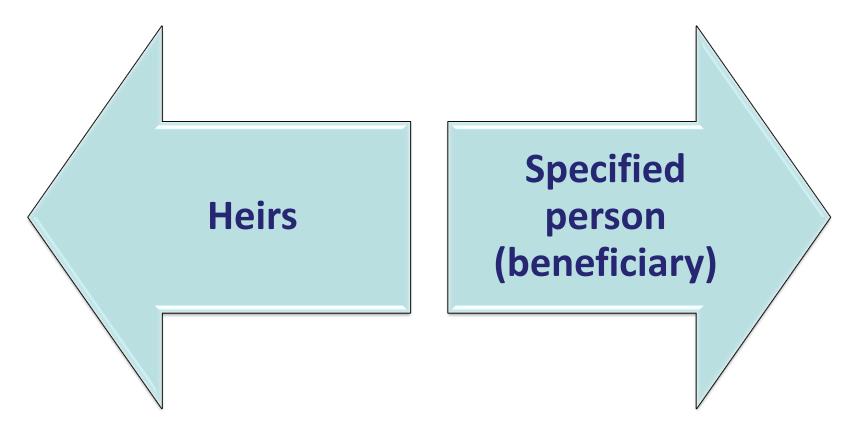
Not earlier than 55 years age

- In lump sum
- In regular installments
- In parts on the demand of participant
- It is not obligation to receive pension capital on 55 keep up to choice at any age above 55 years.

Below 55 years age

- In special professions adopted by Rules of Cabinet of Ministers (prepared by Ministry of Welfare)
- When participant becomes disabled person of 1st group for life

Heritage rules of Private Pension Capital



Options for receiving Private Pension Capital

2-5 days

if pension fund using NAV (net asset value) for pension capital valuation

1-2 months

if pension fund using pension capital valuation method on monthly basis

Tax regimes

for Private Pension Benefits

Participant

- Individual contributions – no personal income tax
- Employer contributions – personal income tax 24%
- Capital gains capital gain tax 10%

Heirs or specified person (beneficiary)

• No any tax applicable

Tax rules and advantages for long term savings

Taxation Rules Personal Income Tax 24%	EMPLOYERS CO	ONTRIBUTIONS INDIVIDUAL CONTRIBUTIONS			
Capital Gain Tax – 10%	PensionLifeFundsInsurance		Pension Funds	Life Insurance	
CONTRIBUTIONS	EXEMPT	EXEMPT	EXEMPT	EXEMPT	
24 % rate	Up to 10% of personal taxable income together PENSION FUNDS (PF) + LIFE INSURANCE (LI)				
CAPITAL GAINS 10% rate	TAXED	TAXED	TAXED	TAXED	
BENEFITS (contributions part) 24% tax rate	TAXED	TAXED	EXEMPT	EXEMP ₂₂	

Fees applicable to Pension Fund participants

	FCMC	PENSION FUND	ASSET MANAGER	CUSTODIAN BANK
	State supervision	Individual accounts administration and customer growth	Asset management services	Custodian services
From contributions	0,4%	Up to 2%	n/a	n/a
From Assets under Management	n/a	Up to 1,5% p.a.	Up to 0,9% p.a.	Up to 0,2% p.a.
			Performance fee on investment result can be applied	

Transfers between pension funds & pension plans in the same pension fund

Individual transfers

- Free of charge
- No limit for change

Employers transfers

• To other pension fund - only by permission of FCMC and written consent of employee.

Cross-border transfers of private pension capital

From LV to abroad (EU economic zone countries)

- Pension Benefits must not be paid before 55 years age
- Pension Benefits are heritable or must be paid out to beneficiary in case of death of participant

From abroad to LV

- General rules must fit with rules of LV pension plans
- From UK and Irland Latvian pension plans should be registered into QROPS (Qualified retirement overseas pension scheme) register of HMRC (Her Majesty Revenue Center)

Guaranties to pension plan participants

Participants without exceptions has rights on all pension capital in his individual account

Funds of pension plans, financial instruments and other property of pension plans has to be kept, accounted and managed separately from pension fund, custodian and asset manager own and others under management assets

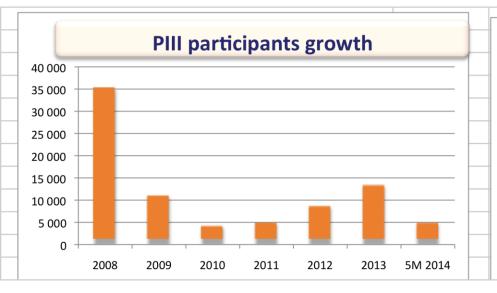
If pension fund, custodian or asset manager has become insolvent or liquidated, pension plan assets not allowed to include in property of debtor – pension fund, custodian or asset manager

All contributions made by participant or by other person on behalf of participant has to be accounted on individual account not later than on next day when payment is received on pension plan account

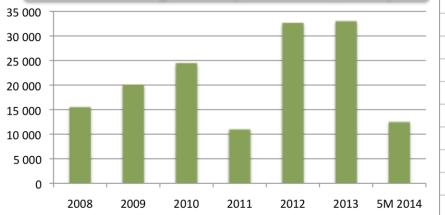
Accrued pension capital in individual account of participant can not become as property of asset manager, custodian or employer. Recovery of debt against pension capital of participant can be executed by court decision in case of offense punishable under criminal law to third parties.

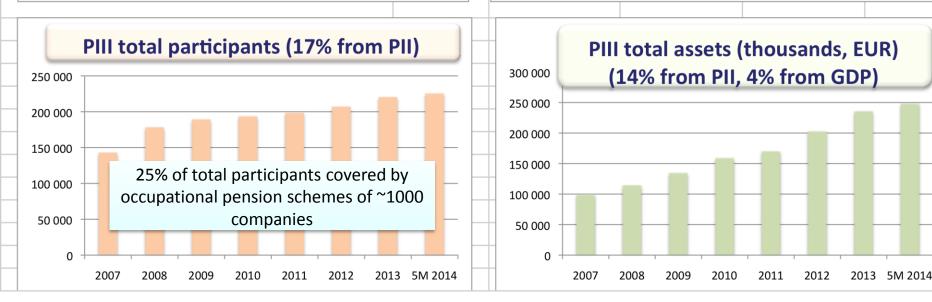
All rights on private pension capital retained in case if participants move abroad

PIII growth data



PIII assets growth (thousands, EUR)





Conclusions regarding to PIII

Individual participation developments

- Slow market growth annually 4% (17% from PII participants)
- Awareness, personal responsibility and trust to long term financial instruments, pension system as such
- Low monthly income (530 EUR gross salary)
- Average private pension capital 1600 EUR/per participant during 10-15 years
- **Beneficiary introduction** additionally to heirs in 2014 would stipulate more savings in private pension funds
- Public education needed and transparency of existing state pension accumulations in Pillar I and Pillar II

Corporate market (occupational pension schemes) development

- Voluntary participation works only for large companies, only 25% from Pillar III participants covered by occupational pension scheme and only 6% from new participants comes from companies
- State institutions are not allowed to include pension funds as part of remuneration
- Impact of shadow economy ~ 30%
- Mandatory agreement between labor unions and company management would solve low participation rate of companies similarly like in other European countries and that would make a protection capital in old age additionally to state pension

Asset Management and Custodian Services of Private Pension Funds

> Pillar III Latvia

Commercial entities eligible to provide asset management services



Commercial entities eligible to provide custodian services



Investment brokerage companies

Investment principles based on EU basics

Internal Market – fundamental freedoms of the EC Treaty

http://ec.europa.eu/internal_market/capital/

Freedom of capital movements

- ...all **restrictions on the movement of capital** between Member States and between Member States and third countries **shall be prohibited**
- ...all restrictions on payments between Member States and between Member States and third countries shall be prohibited

Enforcement: Commission as "Guardian of the Treaty"

• Infringement proceedings, jurisprudence of the European Court of Justice

Investment rules

Prudent person rule

To invest in best interest of members, beneficiaries

To ensure security, quality, liquidity, profitability of the portfolio

Predominantly on regulated markets

Derivatives – to reduce risks and facilitate efficient portfolio management

Investment objects

- 1. LV and other Member states Government and municipality securities (Bonds, T-bills)
- **2. OECD** government investment grade securities
- 3. Securities of international financial institutions with membership of one or several Member states
- 4. Equities or other capital securities on regulated markets
- 5. Corporate bonds on regulated markets
- 6. Term deposits in the banks
- 7. Investment and alternative funds
- 8. Real estate

9. Derivatives

10. Risk capital

Main Investment restrictions

1.	30% from assets in securities of one issuer - state, municipality or international financial institution
2.	10% from assets in securities of one issuer – corporate and total exposure to one corporate – 10% from assets
3.	20% from assets in term deposits in one bank, total exposure to one bank – 25% from assets
4.	10% from assets in one investment fund, but no more than 10% from investment fund total assets
5.	10% from assets in one real estate, and total investment in real estate - no more than 15% from assets
6.	5% from assets in financial instruments issued by corporates of one group where pension fund is a part of this group
7.	5% from assets in financial instruments issued by corporate with collective agreement with pension fund
8.	25% from assets in financial instruments issued by one group of corporates
9.	No borrowings, no direct credits
10.	REPO operations up to 50% from assets
11.	10% from assets of one issuer in risk capital market
12.	Open currency position – 10% from assets in one foreign currency, 20% from assets – to all foreign currency

Documents for Investment rules

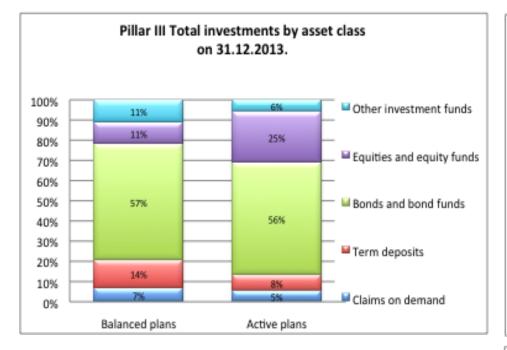
Pension Plan

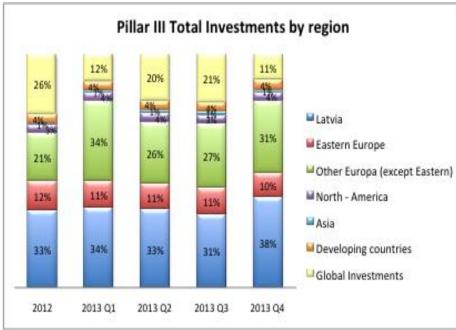
- Investment rules
- Description of investment risks
- Specific investment limits to define pension plan investment strategy (balanced or active)
 - in fixed income and money market instruments,
 - in equities,
 - in real estate and risk capital

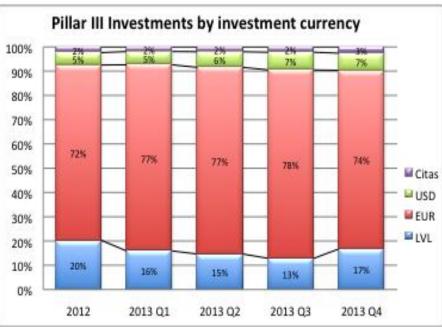
Investment policy of pension plan

- Investment strategy the same as in pension plan
- Asset allocation tactics by geography, markets, sectors, partners, currencies
- Investments quantitative restrictions and control
- Policy of using derivatives
- Investment risk control
- Criteria for asset valuation
- Voting policy regarding to investments
- Information about custodian and asset manager and their valuation methods
- Policy of prevention of conflicts of interest

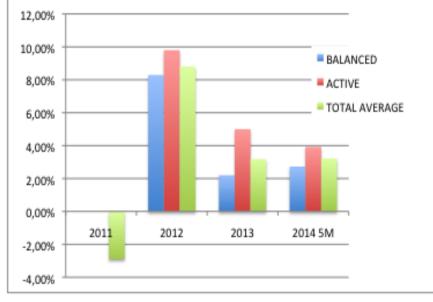
Must be published in pension funds web page







Average profitability of pension plans % p.a.



State Supervision of Private Pension Funds by FCMC

Pillar III Latvia

"One peak" supervision model



- The Financial and Capital Market Commission (FCMC) is an autonomous public institution, which carries out the integrated supervision of entire financial sector of Latvia supervising **banks**, credit unions, insurance companies and insurance brokerage companies, **participants of financial instruments market**, as well as **private pension funds**, payment institutions and electronic money institutions
- The FCMC was established on 1 July 2001 merging banking supervision (Bank of Latvia), insurance supervision (State Insurance Supervision Inspection under the Ministry of Finance) and securities market supervision (Securities Market Commission under the Ministry of Finance)

Financial and capital market



More than 300 financial and capital market participants

- Banks (26)
- Insurance companies (20)
- Private pensions funds (6) and pension plans (18)
- Investment management companies (12), investment funds (34), state pension scheme investment plans (23)
- Credit unions (35)
- Payment institutions (36) un e-money institutions (14)
- Riga Stock Exchange (1), Latvian Central Depository (1) and participants of financial instruments market
- Other financial market participants

Main tasks of FCMC

Develop <u>regulations</u>

Protect the interests of the customers

Improve financial literacy level

Carry out the supervision

Licensing

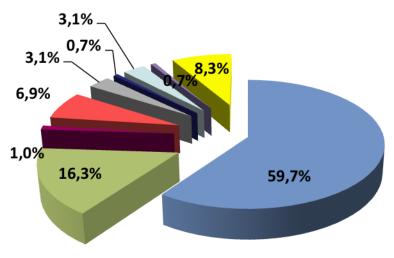
Administer the financial stability fee

International cooperation

Statistics and analyses

Consumer protection issues in FCMC





- credit institutions (172)
- insurance companies (47)
- insurance intermediaries (3)
- financial instrument market (20)
- credit unions (9)
- state funded pension schemes (2)
- investment management companies (9)
- electronic money institutions (2)
- other complaints (24)

Safeguarding the rights of customers of market participants is a significant supervisory aspect for the FCMC

Supervision of Private Pension Funds

Licensing of pension funds

- Pension plans
- Investment policy of pension plans
- Individual participation agreements and rules of registering
- Agreement with asset manager and custodian
- Methodology of capital pay-out
- Organizational structure, description of management structure, description of accounting policy, IT system protection rules and other relevant documentation

Audits and consumer protection, rules issued by FCMC

- Each 3 years general audit
- Quarterly reporting to FCMC
- Critical situation analysis annually



THANK FOR YOUR ATTENTION!

Twinning Project contacts:

+994 51 310 76 90

Agrita Groza Resident Twinning Adviser

- Email: <u>twinning.baku@gmail.com</u>
- Adress: 80 H.Zardabi avenue, 8th floor, AZ1122, Baku, Azerbaijan





