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PENSION CHANGES: 3 FORMER YUGOSLAV REPUBLICS TRY REFORM

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RIGA, Latvia - The pension reforms that have swept through Eastern Europe in the past two years are now blowing southward as countries in the Balkans prepare to usher in changes. Three former Yugoslav republics are in various stages of reforming their ailing pension systems.

This month, the Croatian government is slated to announce the formation of a supervisory agency to regulate mandatory private funds that are part of a sweeping reform law passed by the Parliament in May.

Next month, the Slovenian Parliament is expected to pass legislation ushering in a voluntary fund system that offers tax breaks to employers and employees to encourage private savings. It will also raise the retirement age and essentially lower the amount the government pays into the state-run pay-as-you-go system.

In addition, Macedonia recently announced it was planning to follow in the footsteps of Croatia, Hungary and Poland and create a three-pillar system.

Outside observers praise the Croatian system but say Slovenia didn't go far enough, because it didn't create

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mandatory private funds. It is too soon to pass any judgment on Macedonia's actions since the country has barely started the reform.

"There was pressure from the trade unions not to enact a mandatory system," said Peter Pogacar, a junior adviser in the ministry of Labor, Family and Social Affairs in Ljubljana, Slovenia. "It has taken a year in Parliament to get this far."

Under the new Slovenian law, the amount the government pays to individuals will drop over the next 14 years. The government now pays retirees 85% of their average salary for 40 years of work. That amount will decrease to 72% by 2017. Employers will continue putting an amount equal to 8.85% of a worker's wages into the pay-as-you go system while individuals will still put 15.5% of their salaries into the state system.

The government hopes the new law on voluntary private funds will encourage savings, said government adviser Marko Strous. The law allows an amount equal to 8% of an employee's salary to go into a fund tax-free. Either the employer, the employee or some combination of the two can put money into the fund. Mr. Pogacar expects that companies will offer to pay 4%, and employees will contribute the rest.

Only banks and insurance companies will be allowed to manage these private funds, but investment guidelines have yet to be announced. Mr. Strous conceded it will probably take at least six months for the funds to be up and running, since they have no way of knowing what is expected of them. He expects about \$200 million to flow into the funds in 2001. How much of that will be allowed into Slovenia's tiny stock market is unclear. But, unlike Hungary and Poland, Slovenia's market is dominated by local players because the laws require foreigners to hold shares for four years unless they are selling to another foreigner.

Challenges remain

Miha Berkopce, head of the life insurance department at Generali SKB Zavarovalnica, Ljubljana, said his firm will

most likely want to start a fund so it can offer a full range of products to its customers. Yet, he said, without any investment or pricing guidelines it is difficult to even guess at potential profits. And he is sure that marketing will be a challenge.

"People here are just so used to the existing system. I reckon informing them about this new system will take a long time," he said.

The change in Slovenia's law includes an increase in the retirement age to 63 from 58 for men and to 61 from 53 for women. That shift will take effect over several years.

Changes in the law were needed because the pay-as-you go system currently can provide for only two-thirds of the funds needed for the country's 470,000 retirees. Slovenia has 2 million inhabitants, about 800,000 of whom are in the work force. The shortfall meant that Slovenia was spending 15% of the annual budget on retirement, and that was just too much, Mr. Strous said.

Croatia preparations

Croatian firms will have more time to prepare. The mandatory system, which will be obligatory for people younger than 40 years old and optional for those 40 and older will begin July 1.

Any firm can establish a mandatory fund so long as it has \$7 million in capital, said Zoran Anusic, an adviser to the World Bank in Croatia. Funds will be required to have at least 50% of assets in long-term government bonds and a maximum of 30% in domestic equities. A maximum of 15% can be invested abroad, while 5% may go in short-term government paper. Management fees are capped at 0.8% of monthly contributions and 0.8% of annual assets.

Employers will not be involved in the new mandatory plans other than to place the money into a central fund, where it will be distributed to the fund of the employee's choice.

"That is good news for the individual funds. They won't have to set up huge record systems," said Iain Batty, a pension fund lawyer in the Warsaw, Poland, office of

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Cameron McKenna and who has worked on numerous reforms in the region. "It is sensible in such a small country."

However, it will be difficult for funds to differentiate themselves from one another with such investment and fee restrictions. Raiffeisen Bank, Zagreb, Croatia, is already beginning to plot its public relations strategy. The bank is owned by Austria's Raiffeisen Central Bank and will play up its international expertise in its marketing campaign, said Damir Grbavac, executive director of the Croatian bank's investment banking operations. Raiffeisen has been in Croatia since 1995 and has four branches in the country.

"People know us. We are a reliable bank," said Mr. Grbavac. "We'll stress that we know how to run these funds, that our bank has experience in asset management."

Currently, an amount equal to 21% of an employee's salary goes into the pay-as-you go system, with the employer and worker each contributing half. In the new system, an amount equal to 5% will go into mandatory private funds, while 16% will continue to go into the state-run fund. The employer and employee will each contribute half.

In the new third pillar, employees can contribute up to 25% of their salaries, up to \$800 a month to the voluntary funds. The contributions won't be tax exempt, but distributions won't be taxed.

"The pension reform needed to be done. Croatia has extremely bad demographics. We have 1 million pensioners and 1.4 million workers," Mr. Anusic said.

Croatia is spending 14% of its GDP on the pay-as-you go system, he said. [The World Bank](#) is extending two loans to Croatia to help implement the reform. One loan will be for \$80 million to \$100 million to help with the transition costs. The other will be for \$20 million to \$30 million to establish a supervisory pension board.

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