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DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
INSURANCE AND PRIVATE PENSIONS COMMITTEE

Working Party on Private Pensions

Accession Review of Bulgaria in the area of private pensions

Accession Review

11 June 2024

This document is circulated for discussion and approval. Delegates would also have to decide on the next steps in the Accession process of Bulgaria with respect to the pension legal instruments under the responsibility of the Insurance and Private Pension Committee (IPPC) and its Working Party on Private Pensions (WPPP).

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Accession Review of Bulgaria in the area of private pensions

1. Introduction

1. In June 2022, the Council adopted the Roadmap for the OECD Accession Process of Bulgaria (the Accession Roadmap), setting out the terms, conditions and process for accession. The Accession Roadmap states that to allow the Council to make an informed decision, Bulgaria will undergo in-depth reviews by the relevant OECD technical committees, including the Insurance and Private Pensions Committee (IPPC), which will then provide the Council with a formal opinion.

2. Under the Accession Roadmap, the IPPC has been requested to evaluate Bulgaria's willingness and ability to implement the substantive legal instruments within the committee's competence, and to evaluate Bulgaria's private pension regulation and policies as compared to the OECD policies and best practices in this area. For these purposes, the IPPC has requested the Working Party on Private Pensions (WPPP) to carry out the review of Bulgaria on private pension matters and provide a technical opinion to the IPPC.

3. Accordingly, this report provides an assessment of the private pension system in Bulgaria against relevant OECD legal instruments and against the core principles for ensuring sound prudential regulation of private pension systems and protecting the rights of members and beneficiaries, set out in the Appendix to the Accession Roadmap.

4. Delegates are invited to adopt the report and to decide, after its adoption, whether a technical opinion can be elaborated on Bulgaria, or if more information/progress needs to be provided/done before proceeding to adopt a technical opinion for the IPPC.

Position of Bulgaria vis-à-vis OECD Legal Instruments

5. This review considers Bulgaria's position in relation to the two legal instruments related to private pensions - the Recommendation of the Council on Core Principles of Private Pension Regulation [C(2016)110] and the Recommendation of the Council for the Good Design of Defined Contribution Pension Plans [C(2022)24]. In its Initial Memorandum, Bulgaria has assessed that it has largely implemented both Recommendations. They consider that the policies, regulation, supervision and design of their private pension system are in line with the values and objectives of the Recommendations.

Basis for the Review

6. Bulgaria submitted its Initial Memorandum setting out its self-assessment of alignment with OECD legal instruments on 17 November 2022. It then submitted a detailed self-assessment of the Bulgarian private pension system in relation to the Recommendation of the Council on Core Principles of Private Pension Regulation and the Recommendation of the Council for the Good Design of Defined Contribution Pension Plans on 27 April 2023 [DAF/AS/PEN/ACS(2023)1]. These submissions, the Initial Memorandum,

relevant legal texts, the Bulgarian response to the OECD Global Pension Statistics Questionnaire, the accession review discussion which took place at the meeting of the WPPP on 13 June 2023 [DAF/AS/PEN/ACS(2023)3], and bi-lateral exchanges of information have formed the basis of this assessment of the private pension system in Bulgaria. This included an in-person visit to Sofia on 6-7 February 2024 to meet representatives of the various stakeholders of the pension system.

7. Section 2 of this document gives a short description of the Bulgarian pension system. Section 3 presents an assessment of the implementation of the Recommendation of the Council on Core Principles of Private Pension Regulation. It describes how the regulatory and supervisory framework for private pensions in Bulgaria is aligned with the Recommendation. Section 4 presents an assessment of the implementation of the Recommendation of the Council for the Good Design of Defined Contribution Pension Plans. It describes how the design of defined contribution pension plans in Bulgaria is aligned with the Recommendation. Section 5 presents the conclusions of this Review. Finally, a Statistical Annex provides data on the private pension market in Bulgaria.

2. Overview of the Bulgarian private pension system

Demographic and economic context

8. Following its transition to a market economy in 1990, Bulgaria formally joined the European Union in 2007. Bulgaria joined the European Exchange Rate Mechanism in 2020, fixing the exchange rate between the lev and the euro. Bulgaria is expected to adopt the euro in 2025.

9. Bulgaria's population is declining. In 2022, Bulgaria had a population of 6.6 million people, down from 8.2 million in 2000.[1] This is in part due to emigration within Europe. There were 766 213 Bulgarians living in another EU country as non-national in 2022, an increase of 6% compared to 2018.[2]

10. The Bulgarian population is also ageing. The mean age of the population has increased from 39.9 years in 2000 to 45.2 years in 2022.[3] The share of the population aged over 65 increased from 16.5% in 2000 to 22.6% in 2022.[4] For every 100 persons exiting working age (60-64 years) in 2022, only 66 persons entered working age (15-19 years). This ratio was 124 in 2001. Low fertility (1.78 children per women in 2022) and increasing life expectancy (from 71.6 years in 2000 to 75.1 years in 2019) contribute to this ageing of the population.[5]

11. The employment situation of older workers in Bulgaria has improved recently. Between 2011 and 2021, the employment rate of people aged 50 to 74 increased from 37.8% to 47.6%. In comparison, this ratio was equal to 47.9% in the EU27 and 51.8% in the OECD, on average, in 2021. The effective labour force exit age also increased significantly in Bulgaria. Men exited the labour market at 64.5 years on average in 2020, as compared to 60.9 years in 2011 (respectively 61.7 years and 59.6 years for women).[6]

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[1] Source: OECD Historical population data.

[2] Source: Demography 2023 edition - Interactive publications - Eurostat (europa.eu).

[3] Source: Population and Demographic Processes in 2022 (nsi.bg).

[4] Source: OECD Historical population data.

[5]. Due to COVID-19, life expectancy at birth fell to 73.6 years in 2020 and 71.4 years in 2021, and increased back to 74.3 years in 2022. Source: Health status - Life expectancy at birth - OECD Data.

[6] Source: Ageing and Employment Policies - OECD.

Design of the pension system

12. The Bulgarian pension system underwent a major reform in 2000, when it transitioned from a public pay-as-you-go (PAYG) pension system to a multi-pillar pension system combining public and private pension arrangements. The three pillars are organised as follows:

- The **first pillar** – the State Social Insurance (SSI) – is a contributory PAYG public pension scheme covering both employees and the self-employed. To get a full pension in 2024, men (respectively women) need to be 64 years and 7 months old (respectively 62 years and 2 months) and have a period of insurance of 39 years and 6 months (respectively 36 years and 6 months). Since 1 January 2016, the required retirement ages and periods of insurance have been gradually increasing until reaching 65 years of age for both genders (by 2029 for men and by 2037 for women), and 40 years of insurance for men and 37 for women (by 2027 for both genders). People without the required period of insurance but a minimum of 15 years can only retire from age 67, while people with sufficient periods of insurance can retire one year before their statutory retirement age.[7] The old-age pension is calculated by multiplying the following four parameters: i) the national average monthly insurable income over the 12 months prior to retirement; ii) the individual coefficient, which is the relative position of the individual's insurable income compared to the national average since 2000; iii) the accrual rate (1.35% since 2021); and iv) the individual's length of insurance, which includes the actual length of service as well as credited and granted periods.[8] [9] As of January 2024, the minimum and maximum monthly pensions stand at BGN 523 and BGN3 400 respectively.[10]
- The **second pillar** comprises two mandatory funded private pension schemes. Public and private-sector employees and the self-employed born after 31 December 1959 must participate in a universal pension fund (UPF). Benefits are payable at the statutory retirement age, or up to one year before if the amount of assets accumulated is sufficient to receive a pension at least equal to the minimum pension under the first pillar. Employees working under heavy and hazardous conditions must also participate in a professional pension fund (PPF), irrespective of their age. PPFs pay early retirement benefits until the individual reaches the statutory retirement age and claims a public pension. To qualify for an early pension, individuals need to have worked at least 10 years (respectively 15 years) in a job of category I (respectively category II) after 31 December 1999 and be up to 5 years (respectively 10 years) younger than the statutory retirement age. Only licensed pension insurance companies (PICs) can manage UPFs and PPFs.
- The **third pillar** comprises two voluntary funded private pension schemes. A voluntary pension fund with occupational schemes (VPFOS) is a pension fund dedicated to receiving and investing contributions from occupational pension plans, which may be established through collective bargaining agreements with unions or collective agreements between employers and employees. A voluntary pension fund (VPF) is a pension fund dedicated to receiving and investing contributions

[7] The pension is permanently reduced by 0.4% for each month before the person reaches his/her statutory retirement age.

[8] Maternity, childcare, military service and unemployment provide credited periods. Five years of insurance are granted for every three years of service for workers in heavy or hazardous jobs of category I, and for every four years of service for workers in heavy or hazardous jobs of category II. Category I covers the most hazardous jobs, such as in the mining industry. Category II covers hard and hazardous production, such as in metallurgy, cement production, chemical industry and transport. The accrual rate is 1.2% instead of 1.35% for credited and granted periods.

[9] A COVID-19 pension supplement of BGN 60 per month is added to the formula and has become a permanent part of the old-age pension since July 2022.

[10] People aged 70 and over may also be entitled to a social pension (BGN 307 per month as of 2024) if the annual income per household member is less than the guaranteed minimum income for the previous 12 months.

from personal pension plans, which are accessible to anyone aged 16 and over.[11] VPFOS and VPFs are also managed exclusively by PICs.

13. Upon entering the labour market, eligible employees and self-employed workers have up to three months to choose a PIC to manage their UPF (and PPF if appropriate).[12] If they do not make a choice by the end of this period, they are randomly allocated to the UPF (and PPF) of one of the PICs. The random allocation of members is carried out by a special commission composed of one representative from the National Revenue Agency (NRA), one representative from the Financial Supervision Commission (FSC) and one representative from the Bulgarian Association of Supplementary Pension Security Companies (BASPSC). The distribution between the different PICs follows a formula favouring PICs with higher performance (34% weight), lower fees (33%) and higher attractiveness (33%).[13]

14. For members of UPFs, mandatory pension contributions are split between the SSI and the UPFs. Overall, mandatory pension contributions are worth 19.8% of the salary, of which 14.8% goes to finance the SSI and 5% goes to individual accounts in UPFs. The NRA collects pension contributions and redirects the relevant part to the appropriate UPFs.[14] To account for the fact that UPF members do not pay the full pension contribution to the SSI, UPF members receive a lower SSI pension at retirement through a reduction of the individual coefficient proportionally to the share of total mandatory pension contributions paid to their UPF during the full insurance period. Employers pay additional contributions to PPFs on behalf of employees in heavy and hazardous jobs. They contribute 12% of the salary for jobs of category I and 7% of the salary for jobs of category II. Additional voluntary contributions to UPFs and PPFs are not permitted.

15. Since 2015, members can opt out of their UPF or PPF, and transfer the respective contributions to the SSI. UPF members can choose to stop membership in the UPF system at any time up to one year before the statutory retirement age.[15] If they do so, the assets already accumulated in their UPF account are transferred to the State Fund for Guaranteeing the Stability of the State Pension System (also called the Silver Fund), future pension contributions are fully paid to the SSI, and upon retirement, they will receive only the SSI pension but without any reduction.[16] Switching back to the UPF system is possible at least one year after the previous switch. In this case, the assets are transferred back to the worker's UPF account, but without any interest nor contributions credited during the period of full SSI insurance. People can change their mind as many times as they wish. PPF members can also stop membership and switch to the SSI. In this case, the assets already accumulated in the PPF account are transferred to the National

[11] PICs can also manage a separate type of VPF for the Pan-European Personal Pension Product (PEPP). PEPPs can also be offered by credit institutions, insurance undertakings, investment firms, investment companies, management companies and EU alternative investment fund managers. No PEPPs are currently offered in Bulgaria.

[12] Each PIC can only manage up to one fund of each type (i.e. UPF, PPF, VPFOS, VPF). The individual may select two different PICs to manage his/her UPF and PPF.

[13] Performance is measured by the annual rate of return achieved over the 24 months ending by the quarter preceding the allocation. Fees correspond to those charged by the PICs during the quarter preceding the allocation. Attractiveness is measured by the number of individual applications for participation in the PIC during the quarter preceding the allocation.

[14] There is a minimum and maximum salary base for calculating pension contribution. The minimum salary base depends on the economic activity, the profession and the grade of the individual. The maximum salary base is BGN 3 750 per month as of January 2024.

[15] The timeline to be able to switch will remain up to one year before the statutory retirement age up to 2025 and will increase gradually to reach five years before the statutory retirement age by 2038.

[16] The Silver Fund transfers the money to the National Social Security Institute once the individual becomes entitled to the SSI pension.

Social Security Institute (NSSI), future employer contributions are paid to the SSI, and the NSSI becomes responsible for paying early retirement benefits. Switching from the PPF system to the SSI is irrevocable.

16. Guarantees apply in the UPF and PPF systems. PICs must guarantee a minimum rate of return in UPFs and PPFs on a quarterly basis. The minimum rate of return is calculated by the FSC separately for UPFs and PPFs. This minimum corresponds to 60% of the market average rate of return achieved by all UPFs/PPFs in the last 24 months or 3 percentage points below the market average, whichever is lower.[17] A PIC achieving a return below the minimum needs to cover the difference within ten days. PICs also have to guarantee the sum of gross contributions paid into UPF accounts. This guarantee is only triggered when UPF members claim retirement benefits from the fund. PICs must establish reserves to cover the relative return guarantee and the capital guarantee.

17. UPF members can receive benefits in different forms depending on their account balance at retirement. The PIC where the member has his/her UPF must provide a certificate specifying the level of assets accumulated so that the member can shop around and potentially select another PIC for the payout phase. Members' assets are then transferred from their UPF to a specific fund for benefit payments within the selected PIC, either a fund for payment of lifelong pensions (FPLP) or a fund for programmed withdrawals (FPW). The payout options available depend on the account balance:

- A lifelong pension, if the amount of assets can provide monthly benefits at least equal to 15% of the minimum public pension. Several options are available to members:
  - A lifelong pension paying constant monthly benefits without possibility for inheritance.
  - A lifelong pension with a guaranteed period: pensioners receive constant monthly benefits, and during a guaranteed period of two to ten years, the current value of payments still due up to the end of the period is due to the legal successors pursuant to the Inheritance Act.
  - A deferred lifelong pension combined with programmed withdrawals: part of the assets is used for programmed withdrawals until a certain age, and then the pensioner receives constant monthly benefits for the rest of his/her life. The present value of the payments due until the end of the deferred period is due to the legal successors.
- Programmed withdrawals, if the amount of assets is not sufficient to provide a lifelong pension but exceeds three times the monthly minimum pension. The monthly payment cannot be less than 15% nor higher than the minimum pension.[18]
- A one-off lump sum payment, if the amount of assets is lower than three times the monthly minimum pension.

18. PPF members eligible for early retirement receive a pension from their PPF for a fixed period of up to five or ten years until they reach their statutory retirement age. If they do not qualify for early retirement or do not want to exercise this right, they can withdraw the accumulated assets as a one-off lump sum payment or through programmed withdrawals, or transfer the assets to their UPF account at retirement.

19. Members can freely select their payout option for their voluntary savings. VPF members may get a lifelong pension, a fixed-term pension, programmed withdrawals or a lump sum from the statutory retirement age or up to five years before. VPFOS members cannot receive a lifelong pension but can receive a fixed-term pension, programmed withdrawals or a lump sum from the age of 60.[19] Early

[17] The market average is a weighted average of all UPFs (respectively PPFs) based on assets under management, with a maximum weight of 20% to limit the influence of the dominant PICs.

[18] The payment is updated yearly based on the investment returns achieved in the FPW.

[19] Collective bargaining agreements and collective agreements may allow members to receive pension benefits up to five years before age 60.

withdrawals of voluntary savings are taxable. Moreover, VPFs provide disability and survivor pensions. VPFOS provide lump sum payments and programmed withdrawals to survivors.

20. When assuming that individuals remain members of the UPF system during their whole career, the theoretical gross replacement rate that an average earner entering the labour market at age 22 in 2022 can expect from the mandatory pension system after a full career is 58.3% of pre-retirement earnings.[20] The SSI provides a replacement rate of 44.2%, while the UPF provides a replacement rate of 14.1%.

3. Preliminary assessment of the implementation of the Recommendation of the Council on Core Principles of Private Pension Regulation

21. The scope of this assessment includes the second and third pillars of the Bulgarian pension system, and the entities operating in the accumulation and payout phases. As such, all mandatory and voluntary pension funds, as well as the pension insurance companies (PICs) managing them are in scope for the Core Principles 1 to 6. Only voluntary pension funds with occupational schemes (VPFOS) are in scope for the Core Principles 7 and 8 covering occupational pension plans. Core Principles 9 and 10 covering personal pension plans apply to universal pension funds (UPFs), professional pension funds (PPFs), funds for benefit payments (funds for payment of lifelong pensions (FPLPs) and funds for programmed withdrawals (FPWs)) and voluntary pension funds (VPFs).

Core Principle 1: Conditions for effective regulation

22. The Social Insurance Code (SIC) adequately lays out the regulatory framework for mandatory and voluntary pension funds in Bulgaria. It regulates in detail the conditions for the establishment of PICs, the types of activities they can carry out, the types of pension funds they can manage, and the types of workers eligible to participate in each type of pension fund. The primary objectives of regulation and supervision are the protection of the interests of the insured persons and the financial stability of the PICs and the funds they manage. The Financial Supervision Commission (FSC), established in 2003 under the FSC Act, supervises the compliance with the legislative requirements. The SIC and the FSC Act set out in detail the powers of the FSC in relation to social insurance supervision.

23. The SIC fails to establish clear objectives for all types of pension funds. The SIC establishes that mandatory participation in a UPF is meant to provide insured persons with a “supplementary pension”. However, it does not provide any adequacy objective nor define the role of the UPF pension with respect to the State Social Insurance (SSI) old-age pension. Given that the SSI pension is reduced for UPF members, the UPF pension aims to partially substitute the SSI pension. Additionally, the expectation is that people will eventually be better off drawing a pension from both systems rather than from the SSI alone. These substitution and complementary roles of the UPF are not explicit. Similarly, the objectives of voluntary savings in VPFOS and VPFs in terms of coverage and adequacy are not clearly established. The SIC establishes more clearly the mission of PPFs, which is to pay an early retirement pension to workers in job categories I or II.

24. The possibility to switch from UPFs and PPFs to the SSI addresses the lack of maturity of the funded pension system. As only workers born after 31 December 1959 must participate in UPFs and UPFs received the first contributions in 2002, the payout phase of the UPF system only started in 2021 for people with at most 19 years of contributions. It will take another 20 years for workers to have the possibility to participate in the UPF system for a full career. As of today, only 20 years of participation may not be sufficient to become eligible for a lifelong pension from the UPF system and compensate for the reduction in the SSI pension. In addition, certain periods are included in the calculation of the SSI old-age pension

[20] Source: Pensions at a Glance: Pension replacement rates (oecd.org)

even though individuals are not working and contributions are not paid (e.g. maternity, childcare, military service, unemployment). The government therefore introduced the possibility to switch from the UPF to the SSI in 2015, so workers could get a non-reduced SSI pension. Similarly, switching from the PPF to the SSI allows workers to receive an early retirement pension from the SSI. The number of UPF and PPF members switching to the SSI represents less than 1% of members on a yearly basis since 2015 and as of December 2023, the aggregate number of switchers to the SSI represented 3.3% of all UPF members and 2.6% of all PPF members. Those switching are mostly people close to retirement. Less than 2% of those who switched from the UPF to the SSI switched back to the UPF by the end of 2023.

25. However, the switching possibility creates competition between the first and second pillars rather than complementarity. People can change their mind several times regarding their UPF participation up to one year before the statutory retirement age. The multiple switching possibilities favour arbitrage between the two systems and disadvantage people switching back to the UPF system as they do not get any return on their assets for the period when these assets were in the Silver Fund. In addition, the switching option at any time during the career potentially reduces any future savings to the state budget that investing contributions in the financial markets could bring. Indeed, if people switch to the SSI early in their career, contributions do not earn any return. People may also switch after a fall in their account value, so the amount transferred to the SSI may be lower than the sum of gross contributions paid.

26. Moreover, the information that UPF members can access to assess the opportunity of a switch is incomplete. They can use a calculator developed by the NSSI to see their projected SSI pension if they remain a member of the UPF system or if they switch to the SSI. People only see the reduction in their SSI pension if they retain membership in the UPF system and do not see any projection of their UPF pension in this calculator. Although they could use their PIC's calculator to get an estimation of their future UPF pension, this requires an extra step that people may not do to get the overall picture and make a fully informed decision.

27. The capital market is relatively small in Bulgaria creating a shortage of investable assets locally (European Commission, 2023[1]). At the end of 2022, total market capitalisation represented 18% of GDP.[21] However, PICs can invest in all EU, EEA and OECD countries, as well as third countries set out in Ordinance 29 of the FSC, without any restriction. Since there is a fixed exchange rate between the lev and the euro, PICs are not exposed to currency risk when investing in the Eurozone. By the end of 2022, 64% of pension fund assets were invested in foreign securities.[22]

28. Appropriate dispute resolution mechanisms are in place. Complaints can be submitted either to the FSC, to the reconciliation commissions of the Consumer Protection Commission, to the PICs through their board of trustees or consultative board, as well as to other state authorities or institutions (e.g. the Ombudsman or the Commission for Personal Data Protection). The FSC and the PICs are obliged to reply in writing within two months after the receipt of a complaint. The SIC does not prescribe the details of the PICs' internal complaints handling procedures. In case the complaint is against specific actions of social insurance intermediaries or PICs, the FSC requests information and documents from the companies to make an assessment. In case of evidence of a crime, a report is submitted to the competent district prosecutor's office, and the person is informed about the actions taken. Following an attempt to settle the dispute directly with the PIC, a fund member is entitled bring the matter to a reconciliation commission within the Consumer Protection Commission. The commission examines the case based on the information and documents provided by both parties to the dispute and prepares a proposal for reconciliation between them. If approved by both parties, the proposal becomes legally binding.

[21] Source: Bulgarian Stock Exchange and National Statistical Institute.

[22] Source: OECD Global Pension Statistics. This percentage does not include indirect investment through collective investment schemes.

Core Principle 2: Establishment of pension plans, pension funds, and pension entities

29. The PICs and the pension funds they manage are separate legal entities. PICs are joint-stock companies and can manage only one pension fund of each type (i.e. UPF, PPF, VPFOS, VPF, FPLP and FPW). Pension fund assets are kept by a custodian bank and ring-fenced from the assets of the PIC managing the fund, the other pension funds managed by the same PIC, and the sponsoring employer. Each pension fund within the same PIC has separate accounting and financial statements.

30. The SIC clearly lays out the framework, process and criteria relating to the rejection, approval or withdrawal of pension licenses and pension fund management authorisations. The FSC is the competent authority for licensing PICs and providing authorisations for the management of each pension fund. When assessing applications, the FSC examines the persons managing and representing the PICs, the qualified shareholders of the PICs, the key documents of the PICs and the pension funds, and the organisational, human and technical resources of the PICs. The SIC explicitly sets out the legal grounds for rejecting or withdrawing a license/authorisation. Such decisions are subject to appeal before the Administrative Court of Sofia District.

31. The criteria, standards and requirements for obtaining a license and a pension fund management authorisation are adequately laid out in the legislation. Requirements are identical for domestic and foreign-owned entities. The SIC explicitly sets out the necessary documents to be submitted by applicants. Upon applying for a pension license, PICs must fully pay up the minimum capital of BGN 7.5 million in cash. They also need to submit a 3-year business plan, the Articles of association, the risk management rules, as well as the internal control and internal audit rules. When applying for pension fund management authorisation, the PIC must submit the investment policy, the rules of organisation and operation, and the actuarial assumptions of the fund.

32. The legislation establishes clear requirements with respect to governance, risk control, auditing mechanisms, investment policy, and capital requirements. The Articles of association must set out the PIC's management structure and governing bodies. The FSC must approve the rules of organisation and operation of each pension fund that detail the parameters of the fund relating to contributions, benefits, fees and transfers, among others. PICs are required to adopt risk management rules and an investment policy for each pension fund, as well as to have a risk management unit, an internal control unit and an internal audit function. PICs must possess at all times the necessary funds to cover the required solvency margin related to the payment of guaranteed pension benefits.

33. PICs are not required to establish a funding policy for pension funds providing guarantees. UPFs and PPFs are subject to a quarterly minimum return guarantee based on the market average, UPFs guarantee of the sum of gross contributions upon retirement, and FPLPs guarantee lifelong payments to pensioners. The SIC requires PICs to cover all these guarantees by specialised reserves and therefore does not require PICs to have a funding policy.

Core Principle 3: Governance

34. The governance framework of PICs clearly identifies and separates operational and oversight responsibilities. There are two models of governance for PICs. In the one-tier model, the governing body is composed of a single board of directors with executive and non-executive members.[23] In the two-tier model, the governing body is composed of a management board and a supervisory board. The management of the PIC is carried out by the executive directors in the one-tier model and by the members of the management board in the two-tier model. Oversight is carried out by the non-executive directors in

[23] Non-executive members must outnumber executive members in the board of directors.

the one-tier model and by the members of the supervisory board in the two-tier model.[24] The pension funds do not have their own governing body. They are represented by the PIC and its governing body.

35. The SIC clearly establishes that the governing body must serve the best interests of pension fund members and beneficiaries. Members of the governing body of a PIC must carry out their duties competently, in good faith and prudently, in the best interest of the fund members. They should put the interests of the fund members before their own interests and the interests of the PIC. They should avoid and disclose any conflict of interest.

36. Accountability of the governing body to pension fund members is ensured through the establishment of consultative bodies for most types of pension funds. Each UPF and PPF has a board of trustees composed of an equal number of representatives of the main unions and business organisations, and one representative of the PIC. Each VPF has an advisory board composed of an equal number of representatives of the fund members and pensioners and the employers who contribute to the fund, and one representative of the PIC. Members of the board of trustees/advisory board should have clean criminal record, they cannot be members of the governing bodies or employees of another PIC, and they cannot be members of the board of trustees/advisory board of a fund managed by another PIC. The members of the board of trustees/advisory board are appointed for a 5-year term without restrictions for re-appointment. The board of trustees and the advisory board have an advisory and consultative role, they do not have any decision-making power. VPFOS do not have an advisory board representing the interests of employers and fund members.

37. The SIC sets out the minimum fit and proper requirements that the members of the governing bodies of PICs must meet. All members of the governing body are subject to preliminary approval by the FSC. They must possess appropriate educational qualifications, experience and knowledge, should have good reputation and integrity, and should be free from conflicts of interest. Moreover, the members of the management board and the board of directors must have relevant professional experience, and must collectively have the necessary qualification in all key areas of activity. At least one-third of the board of directors (non-executive members) and of the supervisory board must be independent persons and meet all the requirements mentioned above, as well as having no link with the PIC and the other members of the governing body. There is no legal requirement regarding training for the members of the governing body, but the PIC is responsible for ensuring their continued competence and knowledge.

38. The legal framework ensures that the governing body of a PIC retains ultimate responsibility when outsourcing certain activities or seeking expert advice. The governing body cannot outsource core activities (investment and benefit payment) nor critically important functions (risk management, internal control, internal audit and actuary). PICs can outsource other functions. Moreover, each PIC must conclude a contract for investment advice. This contract is meant to ensure that the members of the governing body have access to sufficient investment expertise, but the advice received is non-binding and the governing body ultimately takes responsibility for the investment decisions taken. Each PIC must also conclude a contract with an investment firm for the purpose of executing the orders of the PIC for investing the assets of the pension funds.

39. PICs must establish an internal control unit, a risk management unit and an internal audit function. The internal control unit checks the compliance of the activity of the PIC with the legal requirements and the internal documents of the PIC. The risk management unit covers all the risks to which the PIC and its pension funds may be exposed. The internal audit function is carried out by an independent unit or person and assesses the adequacy and effectiveness of the internal control system and other elements of the governance system. The annual financial statements of the PIC and the funds it manages are also audited by two independent auditors approved by the FSC. Internal control, risk management and audit functions

[24] In the one-tier model, the PIC must be represented by at least two persons, either both from the board of directors, or one member of the board of directors and one procurator.

also cover external providers for outsourced activities. The PIC must also have a responsible actuary in charge of preparing the actuarial assumptions of the pension funds, calculating the liabilities and the pension reserves, and preparing an annual actuarial report. The governing body of the PIC must adopt a conflicts-of-interest policy covering the whole staff of the PIC.

40. The legal framework appropriately sets out PIC disclosure requirements to all stakeholders. PICs must send an annual pension benefit statement to fund members, as well as information on the individual account and the rate of return upon the member’s request. PICs must publish on their website quarterly information about the asset allocation of their pension funds, the rate of return and the investment risk measured by the Sharpe ratio and the standard deviation. PICs must also send to the FSC monthly, quarterly and annually supervisory reports, as well as their annual financial statements. Finally, PICs must provide auditors and the custodian bank all the necessary information for carrying out their duties.

Core Principle 4: Investment and risk management

41. The SIC sets out prudential principles for the investment of pension funds. PICs must invest the assets of the pension funds with the care of a good merchant in compliance with the principles of quality, reliability, liquidity, profitability and diversification in the best interest of the fund members. The “good merchant” criterion is the highest level of due diligence in Bulgaria, requiring the care and skill of an expert. Qualitative and quantitative investment restrictions consider the nature of participation in the different pension funds and their liabilities, with more restrictive rules for mandatory pension funds and funds for benefit payments than for voluntary pension funds.

42. The investment policy of pension funds cannot account for the different investment horizons of all fund members. The investment policy must contain the mid-term (up to three years) and long-term (more than five years) risk and return objectives of the pension fund based on the investment horizon, the liquidity needs and other relevant factors. However, each PIC can only offer one pension fund of each type. For example, all UPF members of a given PIC are in the same fund with the same investment strategy. Fund members have different investment horizons, however. At the end of 2023, 15% of UPF members were aged below 30, 53% were aged between 30 and 49 and 33% were aged 50 or above. Having a single investment strategy cannot cater to the needs of such a varied membership base. Although people can transfer from one UPF to another to change their investment strategy, inertia may lead many people to stay in a fund whose investment strategy does not correspond to their risk profile.

43. The minimum return guarantee that UPFs and PPFs must fulfil on a quarterly basis induces herding behaviour and further limits the extent to which individuals can join a fund that matches their risk profile. Over the past 15 years, the guarantee has been triggered 6 times by 2 PICs (3 quarters for UPFs and 3 quarters for PPFs). The PICs managing these funds had to cover the difference from the reserves in the funds or from their own reserves. As the minimum return guarantee is calculated based on the market average, most PICs tend to invest in a similar way to avoid achieving a performance far from the average and having to use their reserves to fulfil the guarantee. At the end of 2023, although the allocation to equities ranged from 17% to 52% across all UPFs, half of them, representing 78% of total UPFs assets under management, had an allocation to equities between 20% and 30% with a market average of 28%, which is quite conservative in international comparison.

44. The regulatory framework requires PICs to have a risk management system covering all the risks affecting them and the pension funds they manage. The investment policy must contain a dedicated section on investment risk management, including the identification of the various investment risks, the methods for measuring the risk of the portfolio and of the separate assets, the risk profile and risk tolerance of the fund, the procedures for monitoring, assessing and controlling the investment risk, the use of hedging transactions, and the actions taken to avoid mechanical over-reliance on credit ratings.

45. PICs are subject to extensive investment rules specifying the list of eligible assets for each type of fund, the maximum investment limits by asset class, investment vehicle, issuer, country and currency, and the concentration limits (Table A A.1). Investment in securities issued by the PIC or related parties is not allowed, while investment in securities issued by the sponsor of an occupational pension plan cannot exceed 5% of the plan assets (or 10% in companies belonging to the same group). Derivatives can only be used for hedging purposes. Pension fund assets can be invested in all EU, EEA and OECD countries, and up to 20% of UPF and PPF assets can be invested in assets denominated in a currency other than the Bulgarian lev or the euro (30% for VPFOS and VPF assets). Some of the quantitative limits in place may inhibit appropriate investment diversification, however. For example, no more than 1% of the portfolio of UPFs and PPFs may be invested in shares or units in alternative investment funds, which include investments in infrastructure, private equity, and commodities for example. Direct equity investment is limited to 25% for UPFs and PPFs, but equity investment can also be made indirectly through collective investment schemes (20% limit). In case of breaching the maximum regulatory limits, the PIC has up to six months to restore compliance.[25]

46. Pension fund assets should be valued primarily at current market value. When it is not possible to use market-based valuation, the methods that PICs can use to value the assets are detailed in Ordinance 9 of the FSC by type of instrument. For debt securities held to maturity in a fund for benefit payments, the valuation can be carried out at amortised value according to the applicable requirements of international accounting standards.

Core Principle 5: Plan design, pension benefits, disclosure, and redress

47. The SIC clearly sets out the design parameters of the funded pension system. The contribution rates for mandatory pension funds are established by law. Investment restrictions and fee caps are more stringent for mandatory pension funds than for voluntary ones. Given their mandatory nature, UPFs and PPFs are additionally subject to guarantees. Pension benefit options available to fund members are clearly defined based on the level of assets accumulated in UPFs.

48. The National Revenue Agency (NRA) collects mandatory contributions and transfers them to the bank account of the respective pension funds within 30 days of their receipt. If there is a discrepancy between the amount due and the amount received by the NRA, the NRA still transfers the amount received to the PICs proportionally to the income of the concerned insured persons, to avoid any delays. The NRA then claims the difference to the employer or the self-employed worker, and transfers it to the pension funds once received. If someone fails to choose a pension fund within three months after entering the labour market, the NRA transfers the three months of contributions all at once to the randomly allocated pension fund.[26] In case individuals want to switch to the SSI, they need to notify the NRA, which then starts transferring contributions to the NSSI bank account the month following the request. The same delay applies when switching back to the UPF system.

49. Most people do not select their PIC initially. In 2022, about 90% of new labour market entrants did not select their PIC within the statutory three-month period and were randomly allocated to one of the PICs. This proportion has been relatively constant over time. This implies that many people may initially join a pension fund with an investment strategy that does not fit their risk profile. Some people may lack awareness of the need to select their PIC, especially as there is no entity responsible for informing workers about it. In particular, employers are not involved in such communication and individuals need to visit the websites of the different PICs to compare pension funds. Another potential reason for this high proportion

[25] This term is meant to avoid fire-sales that may be contrary to the interests of the fund members.

[26] Until the individual chooses a UPF/PPF or is allocated into such a fund, the contributions collected by the NRA are kept in an account at the Bulgarian National Bank (BNB). The NRA annually transfers the received interest from the BNB account to the respective PICs.

of random allocations is that the three-month period may be too short. Indeed, about 8% of UPF members transfer from one PIC to another on a yearly basis.[27] According to the industry, up to 70% of members in selected PICs have done at least one transfer in the past, showing that many people exercise choice eventually.

50. Members receive complete information in their annual benefit statement. Ordinance 61 of the FSC sets out the template for the annual benefit statement, which must contain information about the account balance in Bulgarian lev, the number of units in the pension fund and the value of one unit, and the operations in the account during the reference period due to contributions, fees, transfers or benefit payments. Upon joining a mandatory pension fund, people also receive a key information document, which includes the investment profile and past performance of the fund, and sign a social insurance contract stipulating the mandatory contribution rate, the amount of fees and deductions, the rights and obligations of each party to the contract (i.e. the PIC and the insured person) and the terms of termination of the contract.

51. Members are informed about their benefit payment options and expected benefits only upon becoming entitled to claim benefits. Upon request by the member, the PIC managing the pension fund must provide a certificate of the account balance, as well as information about the types of benefit payments it offers and the estimated benefit levels. The individual may use the certificate to contact other PICs and get information about their respective offers. Therefore, members must take the initiative to contact each PIC to find out about the different options available and the estimated benefits, and are not given this information in a centralised or automatic way.

52. The design of the payout phase for UPFs involves several transactions. When individuals claim their benefits within the same PIC,[28] their assets are transferred from their UPF to a fund for benefit payments of lower risk in full and in cash on the day of the conclusion of the contract for benefit payments or the next business day. This involves selling and buying securities even though the asset allocation in both funds may have commonalities. When selecting a fund for benefit payments from another PIC, the fund member first needs to transfer the assets to the UPF of the new PIC and then the assets are transferred from the UPF to the fund for benefit payments.

Core Principle 6: Supervision

53. The Financial Supervision Commission Act (FSC Act) establishes the FSC as the entity in charge of licensing, authorising and supervising PICs and the pension funds they manage in the second and third pillars. This Act along with the relevant provisions in the SIC lay out the objectives, responsibilities and powers of the FSC in performing their supervisory duties.

54. This section assesses the supervisory system and practices against the IOPS (International Organisation of Pension Supervisors) Principles of Private Pension Supervision.

Principle 1: Objectives

55. The SIC and the FSC Act establish that the main objectives of pension supervision are the protection of the rights and interests of the fund members, and the financial stability of the PICs and the funds they manage. More specifically, supervision includes four main activities: reviewing the strategies, processes, and reporting procedures that PICs put in place to comply with the regulation; assessing qualitative requirements related to the PICs' management system; assessing the risks to the activities of the PICs and the funds they manage; and assessing the PICs' ability to assess and manage these risks.

[27] This proportion corresponds to the number of transfers across UPFs in 2023 divided by the number of UPF members at the end of 2022.

[28] Fund members can leave their assets in their UPF without claiming benefits for as long as they want.

The FSC licenses PICs, authorises pension funds and carries out ongoing supervision with the power to apply coercive administrative measures and penalties.

Principle 2: Independence

56. The FSC is legally independent from the government and is directly accountable to the Parliament. The members of the board and the staff of the FSC are subject to a set of conflict-of-interest rules to prevent commercial interference in its activities.

57. The members of the board of the FSC are appointed by the Parliament for a renewable term of six years. The board is composed of five members, one chairperson, three deputy chairpersons in charge of the supervision of pension, insurance and investment activities, respectively, and one person supporting the FSC's policy regarding the analysis and assessment of the risks in the financial markets, the improvement of supervisory practice, and the protection of the interests of investors and insured persons. The law sets out in an exhaustive manner the conditions under which the Parliament may dismiss the members of the board. The first members of the board were elected for different terms to ensure overlapping mandates and allow continuity in the work of the FSC. In case a member of the board leaves the FSC before the end of the term, a replacement is elected to serve the remainder of the term. Nominated members must demonstrate sufficient education and qualifications, and have good reputation, knowledge, skills and professional experience.

58. The FSC is funded by a mix of fees from the supervised entities and a state budget subsidy. The proceeds from imposed fines and penalties are transferred to the central state budget and do not constitute a source of income for the FSC. Unutilised funds from the previous year can be transferred to the current year's budget if revenues for the current year are not sufficient to finance the FSC's activities, they are transferred to the central state budget otherwise.[29] State budget subsidies complement the FSC's budget, in particular to cover increases in salaries and in membership fees of the organisations to which the FSC is a member.[30]

59. The administrative acts and sanctions issued by the FSC can only be appealed by the concerned entities before the courts.

Principle 3: Adequate resources

60. The fee structure to finance the activities of the FSC is transparently laid out in an annex of the FSC Act. One-off fees are charged upon the issuance of a PIC license or of a pension fund authorisation, while annual fees are charged for ongoing supervision. Annual fees consist of a fixed part and a variable part.[31] The fixed part is equal to BGN 100 000 for a PIC, and BGN 50 000 for each pension fund. The variable part is a percentage of the total contributions received by the PIC during the previous financial year and the percentage is determined each year by the board of the FSC (e.g. 0.268% for 2023 and 0.23% for 2024). The total annual fee cannot exceed 10% of the PIC's income from fees and charges for the previous financial year and may not be higher than BGN 1.9 million. The total fee collected from all PICs may not exceed BGN 9 million annually.

61. The FSC determines the number of employees needed to carry out all its activities. FSC employees must meet fit and proper requirements, which ensure that they have the necessary expertise and are not affected by conflicts of interest. The members of the board of the FSC must have university

[29] In practice, there is no transfer as the FSC budget is part of the central state budget.

[30] There are discussions regarding the possibility to cover the cost of membership fees by the central state budget given expected future increases in membership fees.

[31] The fixed fee is due by 31 January, half of the variable fee is due by 31 March and the other half by 31 July.

education with a master's degree in a suitable field such as economics, finance or law, at least five years of professional experience over the last ten years, and a clean criminal record. They should not have participated in the management of insolvent undertakings, cannot participate in the management of a supervised entity, and cannot hold more than 5% of the capital of a supervised entity. They are not allowed to carry out any other paid activity, except for scientific and educational activities. All FSC employees are bound by the rules on professional secrecy. The law sets out the exhaustive cases of which pieces of information can be disclosed and to whom.

62. The FSC does not outsource any of its functions to third parties. It can, however, appoint independent external experts to receive an independent assessment, such as for the valuation of PICs' and pension funds' assets or for the assessment of their governance framework. The FSC remains responsible for assessing the experts' findings and acting on those findings.

Principle 4: Adequate powers

63. The FSC has the necessary power to carry out supervisory functions. It can issue and revoke licenses and authorisations. It has access to all necessary information to perform its duties through the collection of regular and ad-hoc information from PICs and pension funds, as well as through regular and ad-hoc off-site and on-site inspections. The FSC can apply coercive administrative measures and sanctions to prevent, put an end to, or eliminate the consequences of violations of the legal framework, to address risks and weaknesses relating to members' interests, and in case of supervisory obstruction. The specific supervisory measures applied depend on the nature and gravity of the violation. In case of pecuniary sanctions, the FSC can determine the most suitable fine within a range defined by law. Finally, the FSC adopts ordinances on the application of the SIC as delegated by the SIC and can also establish non-binding guidelines on the interpretation and application of the legal framework. The FSC is not entitled to suspend any regulatory or supervisory requirements in case of difficulties of any sort.

Principle 5: Risk-based supervision

64. The FSC applies risk-based supervision in combination with rules-based elements. The FSC has a dedicated manual on risk-based supervision that is regularly updated, and FSC employees regularly participate in seminars and events on the topic of risk-based supervision. Every three months, the FSC calculates a risk score for the PICs and the pension funds they manage based on quantitative and qualitative risk indicators. The risk score aggregates all risk indicators and determines the risk profile of each PIC that may be qualified as low, medium or high. The type and the frequency of the supervisory actions and measures depends on the PIC's risk profile. The quantitative risk assessment tools developed in the risk-based supervision framework use historical data and international data to calibrate the model.

Principle 6: Proportionality and consistency

65. There is a direct link between the FSC's risk assessment and its supervisory responses. The results from the quarterly and annual risk-based supervision are the basis for the annual inspection plan. Any deviation in risk scores can also trigger a thematic inspection. The supervisory action depends on the nature, scale, complexity and seriousness of the potential compliance irregularities.

66. Following the Administrative Procedural Code, supervisory demands should consider the costs and impact on different stakeholders. Supervisory measures should not affect the rights and interests of fund members and supervised entities more than what is necessary for achieving the objective. When several measures can be applied, the least expensive and most favourable to the supervised entities should be selected. Measures causing damage that are disproportionate with the objective pursued should also be avoided.

67. The FSC ensures a fair, consistent and transparent treatment of supervised entities. This is achieved by sharing experiences and discussing amongst FSC staff. In addition, the competent director and deputy chairperson assess the draft administrative act proposed by the experts working on the case before its discussion and adoption. There are detailed manuals on performing risk-based supervision and on-site inspections. A coercive administrative measure that is often taken by the FSC is to require a PIC to take specific measures, often in the form of results to be achieved rather than specific steps to be taken, within a specified deadline. The prescribed measures and the deadline for their implementation allow sufficient flexibility for the PIC to address the issue. FSC board members and employees having a direct or indirect interest with a particular case cannot participate in the activities, discussions and decisions related to that case.

Principle 7: Consultation and cooperation

68. All amendments to the law are subject to public consultation where all stakeholders can express their views and submit their proposals. The FSC also sends draft ordinances to the Bulgarian association of PICs and, where necessary, holds meetings with PIC representatives to discuss the proposed amendments and listen to their proposals.

69. The FSC is entitled to exchange confidential information with other financial regulators in Bulgaria and abroad. Coordination between the National Bank of Bulgaria and the FSC is carried out both by bilateral communication and within the Financial Stability Advisory Council.[32] The FSC participates in the work of the European Insurance and Occupational Pensions Authority (EIOPA) and the European Systemic Risk Board (ESRB) to ensure coordination within the EU. Cooperation with supervisory authorities of other countries is based on multilateral and bilateral memorandums.

Principle 8: Confidentiality

70. The FSC Act establishes that all information received or generated by the FSC for the purpose of supervision is professional secret. It also lists the circumstances under which such information can be disclosed. FSC board members and staff, as well as auditors and any other person carrying out functions delegated by the FSC, must keep the information that is professional secret confidential, including after their dismissal or the end of their assignment. Any information received by the FSC from foreign authorities is covered by the rules of professional secrecy and can be disclosed only with the agreement of these authorities.

71. When disclosing information, the FSC considers the balance between supervision and system integrity. The FSC normally publishes on its website the coercive administrative measures and pecuniary sanctions taken. In case the information published can cause disproportionate damage to the respective person or jeopardise the stability of the financial markets, the FSC may postpone the disclosure of the information, publish it without disclosing the identity of the concerned person, or not publish the information at all.

[32] The Financial Stability Advisory Council (FSAC) is chaired by the Minister of Finance and operates as a body for coordination and exchange of information among its members. The FSAC makes recommendations and proposals to its member institutions that have no binding power. Its main objective is to foster a more efficient cooperation for maintaining the financial stability through information exchange and assessment of the state and development of the financial system and the financial markets in Bulgaria. In addition, the FSAC assesses the potential impact of external and internal factors on financial stability and coordinates policy actions in this direction. Information on systemic risk assessments and other analytical inputs are provided by the participating institutions, based on agreements with the relevant authorities.

Principle 9: Transparency

72. The legal framework sets out the procedures for issuing licenses and authorisations, for conducting supervisory inspections, and for applying coercive administrative measures and sanctions. The FSC's mandate and functions are set out in the FSC Act and in the SIC, and cannot be changed on an ad-hoc basis.

73. The FSC must adopt and submit to the Parliament an annual activity report, an annual financial statement and a budget implementation report. The annual activity report covers the financial markets' situation and perspectives, an assessment of the adequacy of the legal framework, information about licenses, authorisations and other administrative acts issued by the FSC, as well as the results from its supervisory activities.

74. The FSC discloses relevant information on its website to promote transparency. It publishes its annual report, as well as the coercive administrative measures and pecuniary sanctions that have entered into force. The FSC also publishes statistics on the private pensions sector. The annual financial statements of the PICs are published in the commercial register, while the annual financial statements of the pension funds are published in the FSC register.

Principle 10: Governance

75. The FSC has adopted Rules of organisation and operation, and a Code of professional ethics for board members and staff. The Rules of organisation and operation include an inspectorate and an internal audit unit. The inspectorate assists the chairperson of the FSC in carrying out his/her control function regarding the compliance of the FSC administration with the legal requirements. The internal audit unit assesses the FSC's financial management and control systems, the risk management system, and the efficiency, effectiveness and inexpensiveness of the FSC's activity. The internal audit unit also carries out internal consulting assignments without taking governance responsibilities. It directly reports to the chairperson of the FSC and collectively to the FSC board. The annual activity report includes a section on the activities of the internal audit and the inspectorate. The National Audit Office audits the FSC's budget implementation report and annual financial statement. In turn, the National Audit Office submits its report to the Parliament.

76. All key decisions are taken by the board of the FSC as a collective body based on the proposal of the respective deputy chairperson. The expert level work is subject to review at three levels: by the respective director, the respective deputy chairperson and the FSC board. The decisions of the deputy chairperson are subject to appeal before the FSC board and subsequently before the courts. The acts of the FSC are subject to appeal before the Administrative Court and subsequently to the Supreme Administrative Code.

Core Principle 7: Occupational pension plan liabilities, funding rules, winding up, and insurance

77. Occupational pension plans are implemented through the payment and investment of contributions into voluntary pension funds with occupational schemes (VPFOS). Employers and employees may contribute. Employer contributions are determined in the collective bargaining agreement or the collective agreement between the sponsoring employer and the employees or their representatives. Employer contributions are also set out in the contract with the PIC. The employee contributions are determined by the individual. The collective bargaining agreement or the collective agreement determines the PIC and the VFPOS to which the occupational pension plan is attached. There are currently two VPFOS, but one of them does not have members.

78. VPFOS operate on a fully funded basis and can only include unprotected defined contribution pension plans. VPFOS do not provide any return guarantee, benefit guarantee or longevity protection. Sponsoring employers have no other financial commitments than the payment of the agreed contributions, and the fund assets always match the liabilities.

79. There are no insolvency guarantee schemes in case of insolvency of the sponsoring employer or the PIC managing the VPFOS. However, as the VPFOS is a separate legal entity, its assets are ring-fenced and cannot be used to pay the employer's, the PIC's or the custodian's creditor claims. Contributions owed to the plan due by an insolvent sponsoring employer will be satisfied to the extent possible in accordance with the rules on priority of claims in the insolvency procedure established by the Commercial Law.[33] The funds in the individual accounts are not subject to enforcement by the creditors of the fund members.

80. In case of termination of the PIC's activity, the management of the VPFOS is taken over by another PIC or the VPFOS merges with another VPFOS. FSC authorisation is necessary in case of voluntary dissolution or transformation of the PIC and granted under the condition that the rights of the fund members are preserved. In case of revocation of the pension license, the liquidator prepares a plan and concludes a contract with other PICs to merge the VPFOS with another VPFOS, subject to the FSC's approval. The VPFOS itself cannot be terminated except following a merger with another VPFOS.

Core Principle 8: Access, vesting and portability of occupational pension plans

81. Sponsoring employers cannot discriminate access to an occupational pension plan on the grounds of nationality, origin, gender, sexual orientation, race, skin colour, age, political or other beliefs, marital, social and financial status and presence of mental or physical disabilities. The collective bargaining agreement or the collective agreement establishing the plan can establish other eligibility criteria, such as the type of employment. A waiting period of up to six months may apply between the appointment of the employee and the moment when the employer starts paying contributions to the plan on the employee's behalf. All contributions vest immediately.

82. The portability of the funds in a VPFOS is limited when changing jobs. Upon termination of the employment relationship, the funds remain in the individual account of the respective person and continue to benefit from the investment returns. The individual can transfer the funds accrued from individual contributions free of charge to another VPFOS. However, there is only one VPFOS operating right now, and it is not possible to transfer to a voluntary pension fund (VPF). The possibility to transfer the funds accrued from employer contributions depends on the collective bargaining agreement or the collective agreement. If an individual becomes employee of an employer offering an occupational pension plan in the same VPFOS as the previous employer, the contributions by the new employer are recorded in the same individual account in the VPFOS.

Core Principle 9: Funding of personal pension plans, wind-up and insolvency

83. Personal pension plans are implemented through the payment and investment of contributions into universal pension funds (UPFs), professional pension funds (PPFs) and voluntary pension funds (VPFs). Funds for benefit payments (funds for payment of lifelong pensions (FPLPs) and funds for programmed withdrawals (FPWs)) implement the payout phase of UPF members.

84. UPFs, PPFs and VPFs operate on a fully funded basis with different types of guarantees. UPFs and PPFs provide minimum return guarantees. UPFs guarantee the sum of gross contributions upon

[33] The claims for contributions that have not been paid are in the same order as the other unsecured receivables from the insolvent employer but have priority over certain receivables such as gratuitous contracts or loans from shareholders.

retirement. FPLPs and VPFs guarantee the payment of lifelong pensions. PICs do not have to fulfil a minimum or target funding level. Rather, they must establish specific reserves within and outside the pension funds.

85. The PIC establishes two types of reserves for the provision of the minimum return guarantee in UPFs and PPFs. When the rate of return achieved by a UPF/PPF exceeds by over 40% the market average rate of return or exceeds the market average by 3 percentage points, whichever of the two figures is higher, the resources resulting from the excess return are put in a reserve within the respective fund. The value of this fund reserve may not exceed 1% of the fund's assets. The PIC must also establish, using its own resources, a reserve in the company for the UPF and the PPF it manages. The value of this PIC reserve should be between 0.5% and 1.5% of the net asset value of the respective pension fund[34] at all times. If the return achieved by the UPF/PPF in a given quarter is below the guaranteed minimum, the difference should be first covered by the fund reserve. In case the fund reserve is empty or insufficient, the PIC is obliged to cover the deficit out of the PIC reserve, and if not sufficient, out of its own resources. The fund reserve is only replenished when the pension fund significantly exceeds the market average, while the PIC reserve needs to be restated at the end of each month.

86. The PIC establishes a reserve from its own resources for the provision of the capital guarantee in UPFs. The value of this reserve should be at least 0.5% of the net asset value of the UPF and should be recalculated at the end of each month. At the time of retirement, if the UPF balance is less than the sum of gross contributions, the reserve is used to replenish the individual account before paying a lump sum or transferring the resources to a fund for benefit payments. When an individual transfers to another UPF during the accumulation phase and the amount in the individual account is lower than the sum of gross contributions paid until then, the PIC managing the fund from which the resources are transferred must also transfer part of its reserve, corresponding to 0.5% of the transferred amount, to the PIC managing the fund to which the resources are transferred.

87. PICs also need to establish a reserve for the provision of lifelong pensions for FPLPs and VPFs. For FPLPs, the reserve should be between 1% and 2% of the current value of liabilities related to pensioners and their survivors. For VPFs, the reserve should be equal to the difference between the present value of the liabilities and the resources from the accounts of pensioners receiving a lifelong pension. If the resources in the fund are greater than 105% of the amount of the liabilities, the excess over 105% can be transferred to the reserve. If the resources in the fund are below the amount of the liabilities (100% funding target), the PIC must replenish the difference using the reserve, and if insufficient, using its own resources. In the case of FPLPs, if the rate of return obtained by the fund exceeds the interest rate applied for the calculation of lifelong pensions (technical interest rate), at least half of the excess should be used to increase benefits and the rest should be put in the reserve. In the case of VPFs, the full rate of return is distributed to fund members. The solvency margin is an additional guarantee to the funds in FPLPs and FPWs. It should be equal to 4% of the capitalised value of the guaranteed benefits, but no less than BGN 7.5 million.

88. The responsible actuary of the PIC must calculate the obligations to pensioners and survivors related to lifelong pensions and the required amount of funds necessary for their coverage at the end of each year. When calculating the liabilities, reliable and fair actuarial calculations and assumptions should be used, taking into account all commitments arising from the pension contracts so that the amount of the resources in the fund is sufficient for the payment of all lifelong pensions granted and for the payments due to survivors. The assumptions chosen for the valuation of the liabilities should be chosen prudently, taking into account an appropriate margin for adverse deviation. The responsible actuary must use the mortality tables published by the National Statistical Institute and the technical interest rate proposed by the PIC and approved by the FSC. However, the mortality tables do not include future trends in mortality.

[34] Excluding the fund reserve.

The method and the actuarial assumptions should remain constant over time, except when changes in legal, demographic or economic circumstances affect the assumptions.

89. The governing body of the PIC determines the technical interest rate, subject to prior approval by the FSC. The PIC should take into account the expected return on the assets of the fund from which the lifelong pension is paid, and the expected return on investment and/or the market return on qualified debt securities issued or guaranteed by the government of an EU Member State. The technical interest rate cannot be negative nor exceed the maximum amount stipulated in an FSC Ordinance. According to Ordinance 69 of the FSC, the technical interest rate for determining lifelong pensions for UPF members cannot be higher than the long-term interest rate for assessing the degree of convergence (monthly data) published by the Bulgarian National Bank and averaged over the previous seven years (respectively 150% of the long-term interest rate for fixed-term pensions for PPFs members). There is no cap for the technical interest rate used to calculate lifelong pensions from VPFs.[35]

90. The SIC sets out in detail the cases of termination of the activity of a PIC and the consequences for the funds it manages and the fund members. Four cases are distinguished, the transformation of the PIC, the voluntary dissolution of the PIC, the dissolution of the PIC due to the revocation of the pension license and the dissolution of the PIC due to insolvency. The voluntary dissolution and the transformation of the PIC are subject to prior authorisation by the FSC. In case of transformation or dissolution of the PIC, the management of the pension funds is taken over by another PIC or the pension funds are merged with a fund of the same type. Upon dissolution due to insolvency or the revocation of the license, the FSC appoints a conservator that takes over the responsibilities and powers of the governing body of the PIC, including the management of the pension funds. In case of insolvency, the court appoints a trustee in bankruptcy, otherwise, the court appoints a liquidator. Following the appointment of the trustee in bankruptcy (respectively liquidator), the powers of the conservator are terminated and the management of the PIC and the funds is taken over by the trustee in bankruptcy (respectively liquidator). The assets of the pension funds are ring-fenced from the assets of the PIC and cannot be used for satisfying the claims of its creditors.

Core Principle 10: Equal treatment, business conduct, competition, and portability of personal pension plans

91. The equal treatment of the members of UPFs, PPFs and VPFs is ensured by the general prohibitions on discrimination in the Constitution and in the Law on Protection against Discrimination. Participation is mandatory in UPFs and PPFs, and the SIC establishes the eligibility criteria. Any natural person over the age of 16 may participate in a VPF. Contributions vest immediately upon their payment to the pension funds.

92. While the members of the governing body of a PIC must fulfil their obligations in the best interest of the fund members, this is not the case for social insurance intermediaries. A PIC can conclude a contract with a social insurance intermediary, either a natural person or a legal person (e.g. a bank).[36] The intermediary can only conclude a contract with one PIC and act in the name and on behalf of that PIC to conclude social insurance or pension contracts and accept individual applications to join or transfer to the PIC. The intermediary should have at least secondary education, clean criminal record, good reputation and should have undergone training on pension issues organised by the PIC. The intermediary is not explicitly required to provide financial advice to potential PIC members because they work for one PIC only. That person should respect the principle of freedom of choice, assist individuals submitting an application, ensure that the interests of the individuals are not harmed, explain to the individuals in good

[35] However, the technical interest rate used for reserving is determined by the FSC.

[36] Employers cannot act as social insurance intermediaries on behalf of a PIC for their employees.

faith and with due care their rights and obligations under the social insurance contract, provide individuals with true and accurate information about the respective PIC and the funds it manages, and not make promises or assumptions about the future return from the investments of the assets of the respective fund. However, the intermediary does not have as an objective to work in the best interest of individuals.

93. When advertising its funds, the PIC must not include untrue or misleading information and is not allowed to withhold significant facts about its products. The written information provided to the clients of the PIC must be precise, clear, understandable, not misleading and regularly updated.

94. Members of UPFs, PPFs and VPFs are entitled to transfer their funds to another pension fund of the same type after one year of participation in the respective fund. Irrespective of the length of participation in the fund, members can also transfer to another fund in case of disagreement with amendments to the rules of organisation and operation of the pension fund or its investment policy. Transfers are coordinated with the calculation of the minimum rate of return guarantee for UPFs and PPFs and executed after any potential coverage of a deficit. Transfers are free of charge. PICs and social insurance intermediaries cannot provide, offer or promise special privileges, gifts, services or other benefits to individuals upon transfers.

4. Preliminary assessment of the implementation of the Recommendation for the Good Design of Defined Contribution Pension Plans

95. The scope of this assessment includes the second and third pillars of the Bulgarian pension system, and the entities operating in the accumulation and payout phases. As such, all mandatory and voluntary pension funds, as well as the pension insurance companies (PICs) managing them are in scope.

1. Design DC pension plans that are coherent with their long-term purpose and role in the pension system

96. Bulgaria introduced the three-pillar pension system in 2000 with the objective of diversifying the sources to finance retirement. The pension system combines PAYG and funded pensions, public and private administration, mandatory and voluntary participation. This combination promotes complementarity across different components of the pension system and the overall resilience of the pension system.

97. However, part of the second pillar was created by diverting a portion of the social security contributions from the first pillar to universal pension funds (UPFs). This has created an adequacy challenge for the transition generation who will not have saved in UPFs for a full career and will have a lower entitlement in the State Social Insurance (SSI) old-age pension. As a result, Bulgaria offers the opportunity for individuals to give up participation in UPFs by returning the contributions and transferring the assets in their UPF account to the first pillar, in order to receive a full SSI pension in retirement. A similar switch is also possible between professional pension funds (PPFs) and the SSI, although contributions to PPFs are not diverted from social security contributions. Maintaining this switching option presents a risk of undermining confidence in the three-pillar system's ability to deliver an adequate retirement income and lead the public to question the purpose of establishing a second pillar if the money eventually goes back to the first pillar anyway.

98. For individuals participating in the second and third pillars, the design of the accumulation and payout phases is overall coherent. Participation is mandatory in UPFs, and individuals are required to take a lifelong pension if the level of assets accumulated is above a certain threshold. They have choice regarding the type of lifelong pension, with the possibility to have a guaranteed period or to combine a deferred lifelong pension with programmed withdrawals. Programmed withdrawals alone and lump sums are only possible when the level of assets accumulated in UPFs falls below certain thresholds. For individuals mandatorily covered by PPFs, accumulated assets should be used to finance a fixed-term early

retirement pension. Individuals may also choose to transfer their PPFs assets to their UPF account at retirement. The payout options in voluntary pension funds (VPFs) are more flexible, in line with the voluntary nature of the plans. However, members of voluntary pension funds with occupational schemes (VPFOS) cannot convert their assets into a lifetime retirement income.

99. The legislative provisions regulating funded pensions are subject to preliminary and post impact assessments. This ensures the monitoring of these provisions and their subsequent development where necessary. For example, when the UPF system was introduced, it was estimated that continued participation in a UPF would increase the replacement rate by 15 percentage points compared to the previous situation with only the PAYG scheme. The law amending and supplementing the Social Insurance Code (SIC) for the regulation of the payout phase of UPFs mandates the Ministry of Labour and Social Policy to assess the products offered by the PICs, the mechanisms for the initial calculation and further adjustments of the pension payments, the guarantees provided and the level of reserves and capital requirements. Bulgaria also participates in the Ageing Report and the Pension Adequacy Report compiled by the European Commission that assess the adequacy of retirement incomes delivered by pension systems across the EU.

2. Make DC systems as inclusive as possible

100. All workers insured under the social security system and born after 31 December 1959 must participate in a UPF. The only exceptions concern the employees of the State Intelligence Agency, the Military Intelligence Service of the Ministry of Defence, and the State Agency for National Security. This is because confidential information related to these workers cannot be shared with private companies such as PICs. UPF members can opt out of the UPF system into the SSI and re-join the UPF system several times during their career up to one year before the statutory retirement age. At the end of 2023, there were 4 million UPF members, representing 94% of the working-age population. Men hold 52% of all UPF accounts.

101. However, nearly a third of UPF members do not actively participate. During 2023, 31.6% of UPF members did not pay contributions during the previous 12 months. Several factors may explain the gap between the number of account holders and the number of contributors, including emigration, periods out of employment or out of the labour force,[37] and seasonal workers (including non-nationals). The participation rate in UPFs falls from 94% to 64% of the working-age population when only considering contributors.

102. All workers insured under the social security system and working under heavy and hazardous conditions must also participate in a PPF. PPF members can opt out of the PPF system into the SSI once during their career as long as they have not started receiving an early retirement pension or an old-age pension. At the end of 2023, there were 327 427 PPF members, representing 7% of the working-age population. Men held 86% of all PPF accounts.

103. Participation in VPFs and VPFOS is voluntary and promoted through tax incentives. Participation in a VPFOS is linked to an employment relationship with the employer sponsoring an occupational pension plan. Under a collective bargaining agreement, employees are represented by trade unions and the agreement applies automatically to all employees who are members of the trade unions (meaning that they automatically become members of the occupational plan and receive the employer contribution), while other employees can join the occupational plan by means of a written application. In the case of a collective agreement between the employer and the employees, the parties freely determine the scope and the conditions for joining the occupational pension plan, and nothing in the law prevents the introduction of automatic enrolment with an opt-out option. At the end of 2023, there were less than 10 000 VPFOS

[37] For example, pension contributions are not due during periods of unemployment, temporary disability, maternity leave, or childcare.

members, 68% of them being women. Anyone over the age of 16 may be a member of a VPF. Out of 642 459 VPF members at the end of 2023, representing 15% of the working-age population, 57% were men.

104. There may be barriers for employers to establish occupational pension plans through VPFOS. According to Bulgarian business associations, employers' awareness of the possibility to sponsor an occupational pension plan is low. Additionally, employers can also contribute on behalf of employees in a VPF. Employers seem to prefer this mechanism as it implies a lower administrative burden for them than establishing an occupational pension plan. Indeed, 65% of contributions paid to VPFs in 2022 were paid by employers.[38]

105. Default options are implemented to facilitate decision making when individuals join mandatory pension funds, but not at the time of retirement. Individuals can select their UPF/PPF among the ones offered by ten PICs.[39] The contribution rate is fixed by law and voluntary extra contributions are not allowed in UPFs and PPFs. These features limit choice overload. Additionally, individuals not choosing a PIC within three months after entering the labour market are randomly allocated into one and the allocated UPF/PPF implements a fixed investment strategy defined by the PIC. However, given the high proportion of randomly allocated members (around 90% each year), more communication may be needed to encourage individual choice when entering the labour market. Moreover, at the time of retirement, individuals need to select a payout option from one of the PICs. They must take the initiative to contact each PIC to find out about the different options available and the estimated benefits, but inertia may limit the extent to which members will compare offers. There are no default options for VPFs and VPFOS as individuals have full flexibility regarding participation, contribution level, investment strategy and payout option.

106. Two types of guarantees are provided for mandatory pension funds and one of them induces herding behaviour. UPFs and PPFs provide minimum return guarantees on a quarterly basis. UPFs also guarantee the sum of gross contributions upon retirement. VPFs and VPFOS cannot provide any type of guarantee. As the minimum return guarantee for UPFs and PPFs is triggered when achieving a return lower than 60% of the market average or 3 percentage points below the market average, most PICs tend to invest in a similar way to avoid being too far from the average and having to use their reserves to fulfil the guarantee in case of under-performance. This reduces investment choice for fund members and leads to conservative investment strategies, eventually reducing expected long-term returns.

107. Early withdrawals are strictly curtailed for mandatory pension funds. UPF and PPF members are entitled to a lump-sum or programmed withdrawals corresponding to up to 50% of the funds accrued in their individual account in case their working capacity is permanently reduced by more than 89.99%. Otherwise, UPF members can only claim benefits at the statutory retirement age, or up to one year before if the amount of assets accumulated is sufficient to receive a pension at least equal to the minimum pension under the first pillar. For PPF members, early retirement benefits are payable up to five or ten years before the statutory retirement age depending on the job category. VPF members can claim benefits up to five years before the statutory retirement age. Employer contributions cannot be withdrawn early, while early withdrawals of funds accrued from individual contributions are taxed at 10%.[40] VPFs also provide disability pensions. VPFOS members can claim benefits from the age of 60. The possibility to withdraw funds early depends on the collective bargaining agreement or the collective agreement, and if allowed, they are taxed at 10%.

[38] Source: OECD Global Pension Statistics.

[39] An individual can select two different PICs to manage his/her UPF and PPF.

[40] Any third party (e.g. a member of the family) contributing to a VPF on behalf of a fund member can put restrictions on the withdrawal of funds accrued from their contributions.

3. Ensure total contributions are sufficiently high to achieve retirement income objectives

108. Mandatory contributions to UPFs are set at 5% of salary. The contribution rate is split between the employer (2.8%) and the employee (2.2%), while the self-employed worker pays the entire contribution. When the three-pillar system was first introduced, it was envisaged to gradually increase the contribution to UPFs from 2% to 7% by diverting a growing part of the total pension contribution initially financing only the first pillar. The last increase has never happened. Contributions to PPFs are paid fully by the employer and set at 12% and 7% for workers in job categories I and II, respectively.

109. Individuals wanting to contribute more as a percentage of their salary can contribute to a VPF. There is flexibility regarding the frequency of contributions, as individuals may pay a one-off contribution, monthly contributions, or select any other frequency. The contribution level is determined freely by the individual and written in the social insurance contract between the PIC and the individual. Changing the contribution level requires an amendment of the social insurance contract, which can be done by means of a qualified electronic signature. Contributions to a VPF may also be done by the employer or by a third party (e.g. a member of the family) with the prior consent of the fund member. The SIC specifies that the payment of employer contributions to a VPF or VPFOS cannot be tied to the mandatory payment of individual contributions, so employer matching contributions are not possible.

110. There is currently a lack of tools to assist members to determine the most appropriate contribution level to reach their retirement income objective. The Bulgarian authorities are planning to develop a digital portal with calculators to help individuals compare across PICs and choose the one that best fits their needs. Moreover, PICs offer calculators on their website to simulate pension outcomes based on different contribution assumptions. However, there is no plan to develop a common online calculator to ensure the consistency of assumptions. Some robo-advisors provide financial advice related to pension savings but the SIC does not regulate their activity.

111. Bulgaria is gradually increasing the statutory retirement age for both genders to 65. Since eligibility to claim benefits from the second pillar is linked to the statutory retirement age, this should increase the length of the contribution period in mandatory pension funds, leading to higher accumulated assets and pension benefits.

4. Design financial incentives to maximise the impact on enrolment and contributions

112. Bulgaria provides financial incentives in the form of tax incentives. The tax rules are simple and have been stable over time. The “EEE” tax regime applies to retirement savings:

- UPFs and PPFs: Employee contributions are tax deductible and employer contributions are not included in the employee’s taxable income. VPFs and VPFOS: Employee contributions are tax deductible up to 10% of the individual’s taxable income and employer contributions are not included in the employee’s taxable income up to BGN 60 per month.
- Investment income is tax exempt.
- Pension income is tax exempt, except early withdrawals from VPFs and VPFOS, which are taxed at 10%.

113. Given that personal income is taxed at the flat rate of 10% in Bulgaria, all individuals receive the same tax advantage as a proportion of their own contributions when saving in a mandatory or voluntary pension fund, as opposed to saving in an alternative savings vehicle (e.g. bank account or mutual fund).

As the 10% personal income tax rate is relatively small, the tax advantage is also relatively modest.[41] Moreover, tax incentives may not appeal to low-income people due to a general lack of awareness and understanding of tax-related issues among them.

114. The monthly contribution limit of BGN 60 for tax-exempt employer contributions to VPFs and VPFOS has not been updated for many years. This has reduced the relevance of such employer contributions with respect to the average wage in Bulgaria.

115. The Bulgarian authorities do not monitor the fiscal cost of tax incentives for retirement savings.

5. Promote low-cost and cost-efficient retirement arrangements in both the accumulation and pay-out phases

116. The SIC establishes detailed pricing regulations for both mandatory and voluntary pension funds. For mandatory pension funds (UPFs and PPFs), PICs can charge up to 3.75% on contributions and up to 0.75% on net assets annually. There is also a fee cap of BGN 10 for transfers to the pension schemes of selected European institutions (European Union, European Central Bank, European Investment Bank). The fee cap for funds for benefit payments stands at 0.5% of net assets annually. Fee caps are higher for voluntary pension funds (VPFs and VPFOS), as PICs can charge up to 7% on contributions, up to 10% on the realised return on investment, and a one-off entry fee of up to BGN 10. Other fees related to early withdrawals or transfers to the pension schemes of selected European institutions cannot exceed BGN 20.

117. Bulgaria gradually reduced the fee caps for mandatory pension funds between 2016 and 2019 but not for voluntary pension funds. The caps for UPFs and PPFs went down from 5% on contributions and 1% on net assets prior to 2016, to 3.75% on contributions and 0.75% on net assets since 2019. The fees charged are close to the caps.[42] By contrast, fee caps have remained unchanged for voluntary pension funds. However, most PICs charge fees on contributions well below the cap for voluntary pension funds. For example, in 2022, the weighted average fee on contributions was equal to 2.36% for VPFs.[43]

118. The random allocation of workers not selecting their PIC within three months following their entry in the labour market is a structural solution promoting competition. All PICs get a share of the randomly allocated members, but those with higher performance over the past 24 months, lower fees and higher attractiveness receive a higher share than others. For new market entrants without 24 months of operation, the market average rate of return used to determine the minimum return guarantee is used for their performance. The formula may encourage PICs to increase their attractiveness through higher marketing costs to get a bigger share of new members.[44]

119. The fact that some PICs are part of larger financial groups may distort competition. PICs and their social insurance intermediaries cannot offer special privileges, gifts, services or other benefits to individuals to convince them to transfer to another PIC. However, four PICs out of ten are part of financial groups with banks. The associated banks play the role of social insurance intermediaries, and their agents can try to convince their clients to move to their PIC when discussing unrelated banking issues.[45] Part of the transfers may be due to prompts from social insurance intermediaries rather than a thorough comparison of the

[41] OECD (2018[3]) shows that, based on the rules in place in 2018, the overall tax advantage provided in Bulgaria is lower than in most OECD countries.

[42] In 2022, for UPFs, the weighted average fee on contributions was equal to 3.72% and the weighted average fee on net assets was equal to 0.75%. Source: OECD Global Pension Statistics.

[43] Source: OECD Global Pension Statistics.

[44] Marketing costs cannot be passed on to fund members in the fees charged.

[45] PICs not part of financial groups with banks can still ask a bank not already associated with another PIC to act as their social insurance intermediary.

offers of different PICs. The fact that social insurance intermediaries are not required to work in the best interest of individuals may encourage such situations.

120. There is a lack of a central point of access for individuals to compare PICs across a range of features. Each PIC must report on their website a range of data, including the fees charged, the value of one unit in each pension fund, the structure of the investment portfolio, the rate of return and the risk level. Each PIC must make available on its website a key information document related to each of the pension funds it manages. The FSC also regularly publishes data on the investment results of the pension funds on its website. However, there is not a website where individuals could go and compare the different products (for accumulation and payout) offered by all the PICs and their prices (including fees) in one place. The Bulgarian authorities are planning to develop such a digital portal to help individuals compare across PICs.

6. Ensure that all individuals have access to appropriate and sustainable investment strategies and a well-designed default, where applicable

121. Fund members do not have investment choice once they have selected their PIC. Each PIC can only offer one pension fund of each type. Selecting a PIC implies selecting an investment strategy, as each PIC defines an investment policy for each of its funds in line with investment regulations. However, the minimum return guarantee for UPFs and PPFs induces herding behaviour and limits the diversity of choice for individuals.

122. Individuals subject to mandatory participation in the second pillar and not selecting their PIC upon entering the labour market are defaulted into a fixed investment strategy that is relatively conservative. Although the diversity of investment strategies is limited, the allocation to equities across all UPFs still ranged from 17% to 52% at the end of 2023. Besides, the random allocation favours PICs with a better average performance over the previous 24 months, and pension funds with higher equity allocations are more likely to reach higher returns. Still, even an allocation of around 50% into equities may be too low for young people entering the labour market as they have a long investment horizon and can afford to take more risk to achieve higher expected returns.

7. Ensure protection against longevity risk in retirement

123. Payout options available to UPF members depend on the funds accumulated in their individual account at the time of retirement. They are entitled to a lifelong pension if the amount of assets can provide monthly benefits at least equal to 15% of the minimum public pension. They receive programmed withdrawals if the amount of assets is not sufficient to provide a lifelong pension but exceeds three times the monthly minimum pension. They receive a one-off lump sum payment if the amount of assets is lower than three times the monthly minimum pension. Only PICs are allowed to offer lifelong pensions and programmed withdrawals by transferring UPF members to a fund for benefit payments. Funds for benefit payments have more stringent investment regulations than UPFs and are therefore more conservative.

124. Only part of the lifelong pension is fully guaranteed. The lifelong pension is calculated based on the assets in the individual account (replenished to equal at least the sum of gross contributions if necessary), the mortality tables published by the National Statistical Institute[46] and the technical interest rate. Only the part of the lifelong pension arising from the sum of gross contributions is fully guaranteed. When accumulated assets exceed the sum of gross contributions, the individual can choose to receive a lifelong pension using the entire fund. In that case, the part of the lifelong pension arising from assets in excess of the sum of gross contributions is updated yearly based on the technical interest rate and the

[46] The tables used do not differ by gender.

investment return achieved in the fund. PICs must establish a reserve and maintain a certain level of solvency margin to guarantee for the fulfilment of the obligations to pensioners and their survivors.

125. Flexibility is provided to individuals to choose the most suitable form of payment according to their needs. UPF members entitled to a lifelong pension can select among three options, an immediate lifelong pension, an immediate lifelong pension with a guaranteed period, and a deferred lifelong pension combined with programmed withdrawals. PPF members entitled to early retirement benefits can get a fixed-term pension, programmed withdrawals, or a lump sum. They can also transfer the assets to their UPF account to receive a larger lifelong pension. VPF members may get a lifelong pension, programmed withdrawals or a lump sum. VPFOS members cannot receive a lifelong pension but can receive a fixed-term pension, programmed withdrawals or a lump sum.

8. Facilitate the regular monitoring and management of longevity risk

126. The mortality tables used to calculate lifelong pensions for UPF members do not fully account for future improvements in life expectancy. PICs must use the mortality tables published by the National Statistical Institute. These mortality tables are updated yearly. During the first half of the year, the PICs must use the tables published in the previous year, during the second half of the year, they must use the tables of the current year. The mortality tables do not include future improvements in mortality and life expectancy that are tailored to the Bulgarian population. Included future improvements only reflect assumptions from the European Commission regarding the convergence of life expectancy across EU countries. According to PICs, the actual mortality experienced by current pensioners is lower than in the official tables. The pandemic may explain part of the divergence, but not accounting properly for future mortality improvements seems to be a significant driver.

127. Furthermore, no adjustment is made to account for the fact that UPF pensioners are more likely to be better off, and therefore have higher life expectancies, than the population average. Low-income people are more likely to switch to the first pillar or to fail to pass the asset threshold to be entitled for a lifelong pension. As such, the life expectancy of UPF members receiving a lifelong pension is likely to significantly differ from the Bulgarian population on average. Nevertheless, in the long term, this difference is expected to be reduced as more and more UPF members pass the asset threshold and become entitled to a lifelong pension.

128. PICs can develop their own mortality tables for the purpose of calculating lifelong pensions for VPF members. PICs must update the tables when substantial changes have occurred in the official statistical data on which the tables are based, or in the life expectancy of the fund members. The FSC must approve the tables and any further updates. The flexibility to develop their own mortality tables should allow PICs to better reflect the actual mortality experience of the fund members. However, there are no requirements for these tables to include future improvements in life expectancy.

9. Ensure effective, personalised, regular, consistent and unbiased communication to members

129. The SIC sets out that any communication from PICs to individuals must be easy to read, written in an unambiguous, precise and comprehensive language, avoid the use of jargon, and be accurate, not misleading, and updated regularly.

130. Fund members receive personalised information in their annual benefit statement. The annual benefit statement contains information about the account balance, the number of units in the pension fund and the value of one unit, the contributions paid, and the fees charged. The annual benefit statement does not include projections of the future pension benefit, although PICs do provide calculators on their websites where individuals can input data to see how much income they could get. Fund members only receive personalised projections when they become entitled to claim benefits. Upon request by the individual, the

PIC must provide the amount of assets accumulated in the individual account, the types of benefit payments it offers, and the estimated level of benefit. The individual can also contact other PICs to receive similar information about benefit payment options and estimated benefits.

131. There is a lack of a central point of access with information combining all thee pillars of the pension system. Individuals can access a calculator developed by the National Social Security Institute (NSSI) where they can see their projected State Social Insurance (SSI) pension. The projection is provided under two different scenarios, if the individual remains a member of the UPF system, and if the individual switches to the SSI. There is no projection of the UPF pension under the first scenario. Lacking this overall view of their future pension income from all pillars, individuals may not realise that their retirement income may fall short of their expectation, and they are unlikely to take action to correct this situation by increasing their voluntary contributions, changing their investment strategy, or postponing their retirement.

132. Individuals can compare PICs by looking at the information disclosed on their respective websites. The FSC regulates how such information should be presented to ensure standardisation.

10. Promote awareness and support financial education about retirement and pensions

133. Bulgaria has adopted a national strategy for financial literacy.[47] The Ministry of Finance coordinates the national strategy, which is being developed with the cooperation of many governmental and non-governmental stakeholders. An action plan for the period 2021-2025 covers the main priority activities to be carried out under the national strategy. One of the key priorities aims at building financial planning knowledge and skills in the medium and long term related to setting objectives, saving, and investing, including for the purpose of securing the retirement period. Activities are being undertaken to develop, implement and make available free of charge an electronic tool for identifying, measuring and evaluating basic financial knowledge and skills in the areas of personal finances management, family budget, taxes, social security, pension, insurance and banking, as well as e-learning for acquiring competences in financial literacy.

134. The FSC actively participates in educational initiatives. The FSC has developed a specialised information website to actively engage users called "Your finances". The website contains detailed information on insurance, pensions and investment. The materials are provided in an accessible and understandable language in the form of questions and answers, so it can suit the needs of the broadest possible audience. The FSC also communicates through videos on the social media. The FSC also organises every year a 1-week programme called "Non-Banking Financial Sector in Bulgaria" for selected university students in the fields of economics and finance to explain how the pension, investment, and insurance systems work in Bulgaria.

135. There is no mandatory requirement for PICs to finance financial education activities, but some of them do (e.g. organising summer camps to explain how to select a PIC) and coordinate their action within the national strategy.

[47] Ministry of Finance :: National Strategy for Financial Literacy and its Action Plan (2021-2025) (minfin.bg)

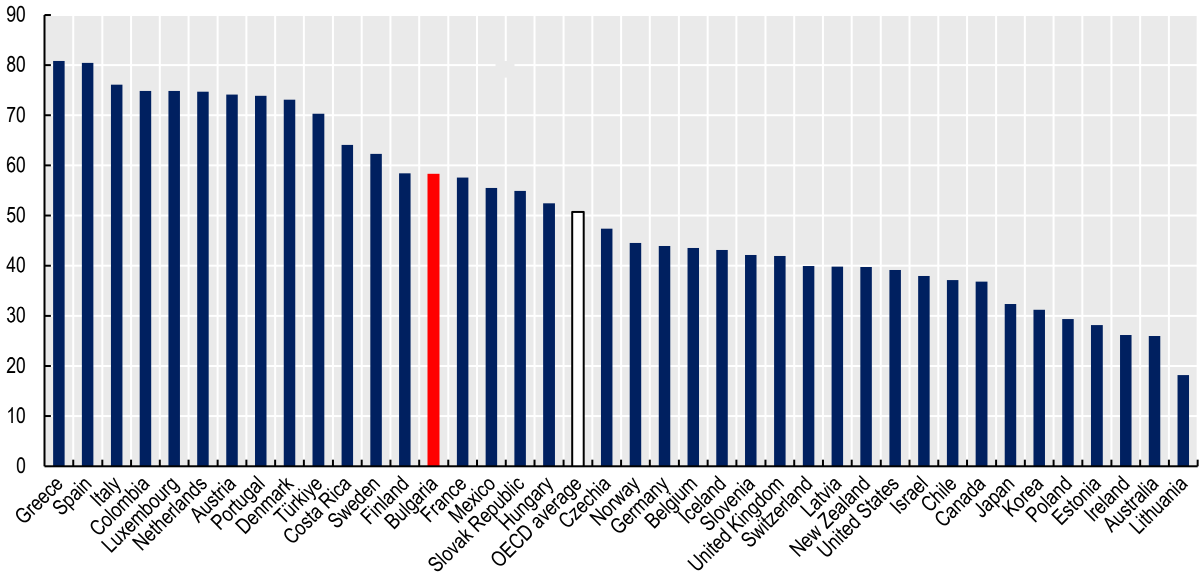
Annex A. Statistical Annex

Replacement rates

136. The theoretical gross replacement rate that a male average earner can expect from mandatory pension schemes after a full career, when entering the labour market in 2022 at age 22, is 58.3% of pre-retirement earnings for Bulgaria, compared to 50.7% on average across OECD countries. For Bulgaria, the calculation assumes that the individual remains in the UPF system and is not working under heavy and hazardous conditions.

Figure A A.1. Theoretical gross pension replacement rate of a male average earner, entering the labour market at age 22 in 2022, after a full career

As a % of gross pre-retirement earnings



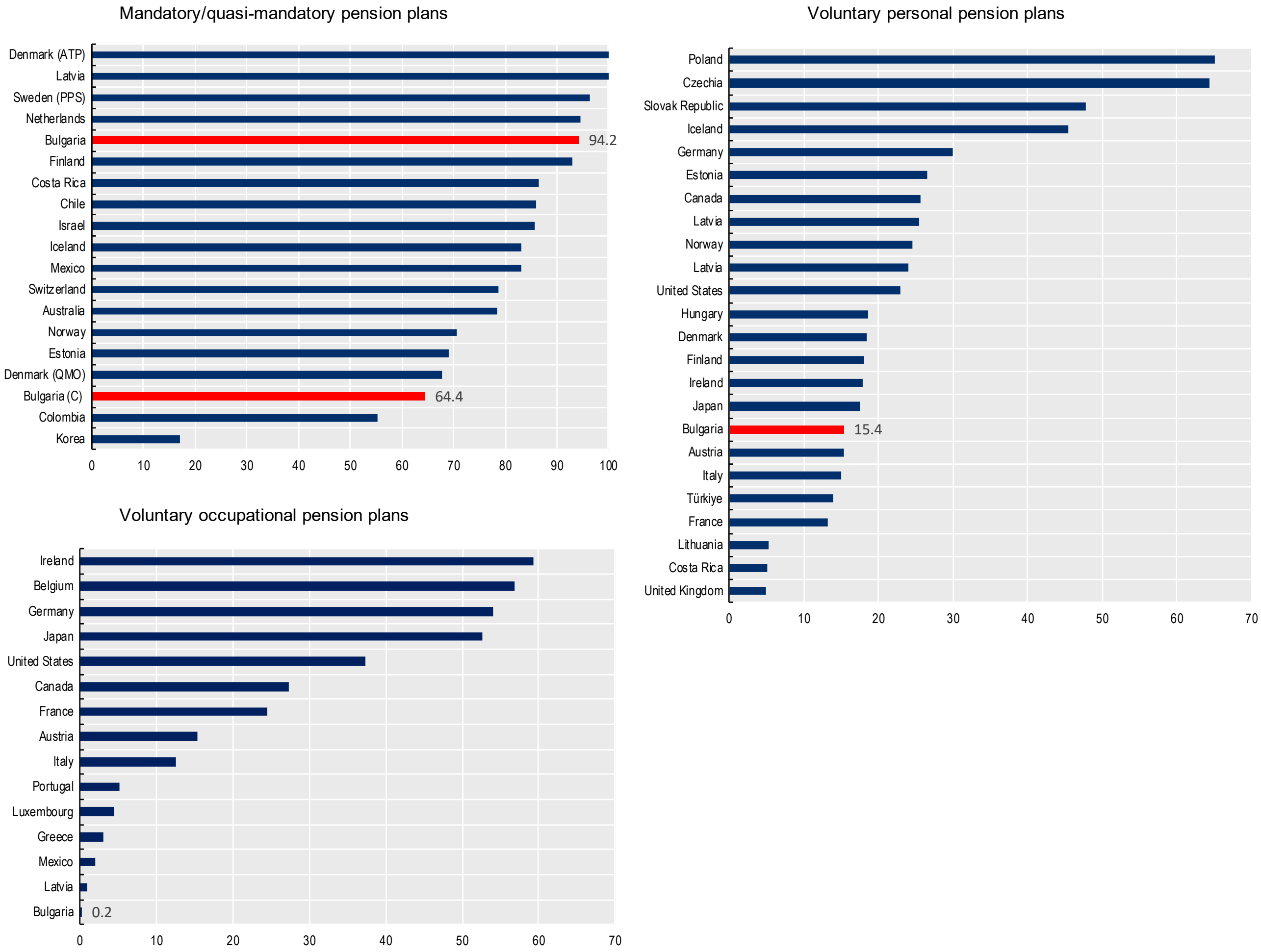
Note: The methodology to calculate the theoretical gross pension replacement rates is described in the OECD Pensions at a Glance 2023. The rates in this chart cover the income from mandatory pension arrangements only.
Source: OECD Pension replacement rates database.

Membership

137. Just over 4 million people had a UPF account at the end of 2023, representing 94% of the working-age population. This is more than most OECD countries with mandatory funded systems (Figure A A.3). However, the participation rate falls to 64% when only considering contributors and this is below what is observed in most OECD countries. Moreover, participation in voluntary pension plans - at 0.2% of the working-age population for VPFOS and 15.4% for VPFs - tends to be lower than in OECD countries.

Figure A A.2. Participation rates by type of pension plan, 2022 or latest year available

As a percentage of the working-age population

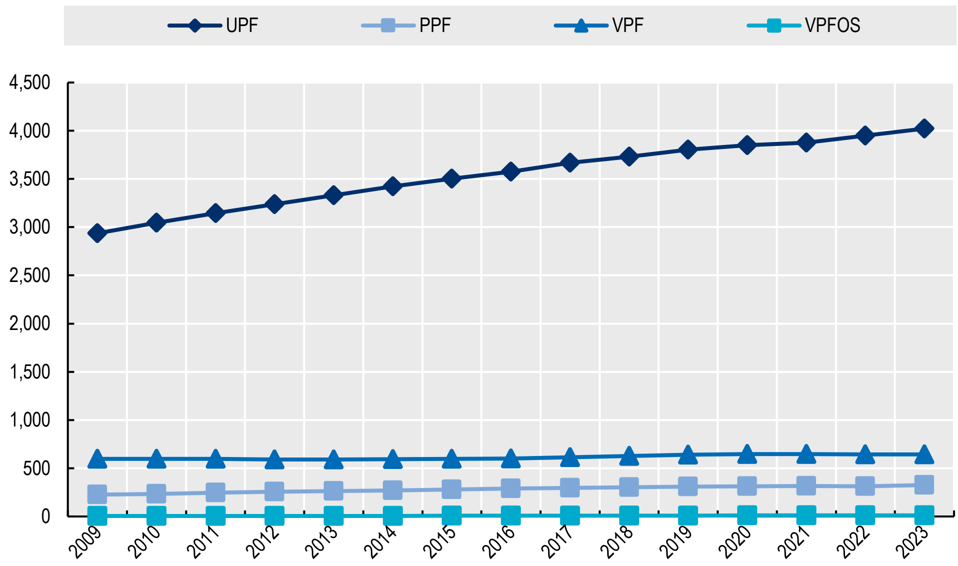


Source: OECD Global Pension Statistics.

138. The number of people being a member of a pension fund has been increasing in Bulgaria, in particular for UPFs. The largest membership is observed for UPFs at end-2023 (4 021 thousand people), followed by VPFs (642 thousand people), PPFs (327 thousand people) and VPFOS (10 thousand people) (Figure A A.4). UPFs recorded the largest gain in new members with just above 1 million more people at end-2023 compared to end-2009. This is because all new generations entering the labour market since 2002 are mandatorily covered. However, as the oldest generations start to reach retirement age, it remains to be seen how the trend will evolve as a growing number of members may decide to switch to the SSI just before retirement. Membership growth has been more moderate for the other types of funds.

Figure A A.3. Evolution of the number of pension fund members in Bulgaria, by type of fund, end-2009 to end-2023

In thousands of people



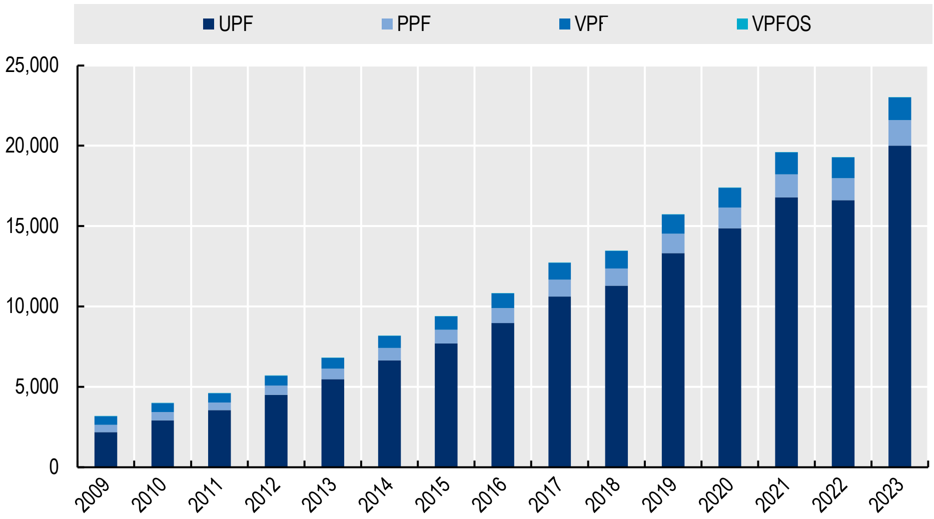
Note: Each person may have only one individual account in a type of mandatory pension fund but several individual accounts in several voluntary pension funds. A person may be a member of more than one type of pension fund (e.g. universal, professional, voluntary).
Source: FSC statistics.

Assets

139. The amount of assets accumulated in Bulgarian pension funds reached BGN 19 291 million at end-2023, 7 times more than at end-2009 (Figure A A.5). Pension assets have been growing steadily and for all types of funds (UPF, PPF, VPF and VPFOS), except in 2022 due to large negative returns. UPFs hold most of the pension assets and the proportion of the overall pension assets in UPFs has kept increasing (from 69% at end-2009 to 87% at end-2023), due to the increasing number of employees and self-employed workers mandatorily enrolled in these funds.

Figure A A.4. Evolution of pension fund assets in Bulgaria, by type of fund, end-2009 to end-2023

In BGN million

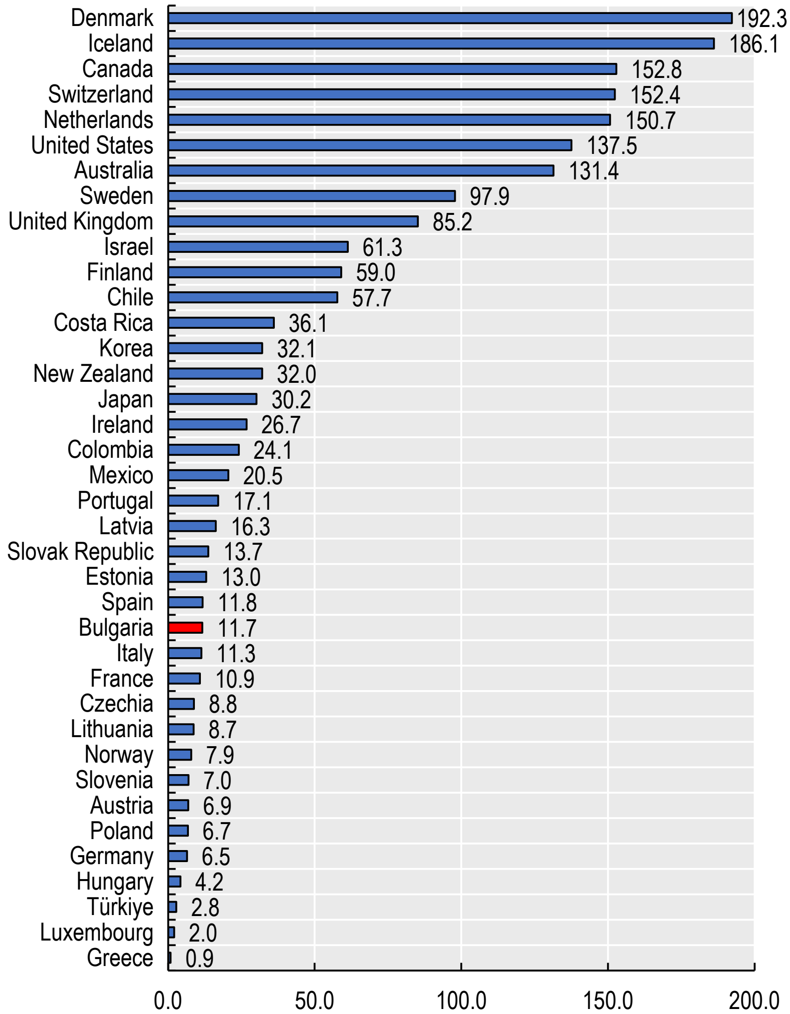


Source: Qualitative answers of the FSC to the OECD Global Pension Statistics exercise.

140. Despite the continued increase in pension assets, the overall amount at end-2022 was still relatively small compared to Bulgaria's GDP (11.7%) and smaller than in most OECD countries (Figure A A.6). Most OECD countries where participation in a pension plan is mandatory had a higher ratio of pension assets to GDP than Bulgaria (e.g. over 150% of GDP in Denmark, Iceland, the Netherlands and Switzerland), except Norway (with a relatively lower minimum contribution rate than other countries) and Türkiye (where mandatory participation in a plan is for specific workers only). Bulgaria introduced funded pensions relatively recently and will likely see the size of assets relative to GDP continue to increase as the system matures.

Figure A A.5. Total pension assets, end-2022 (or latest year available)

As a percentage of GDP



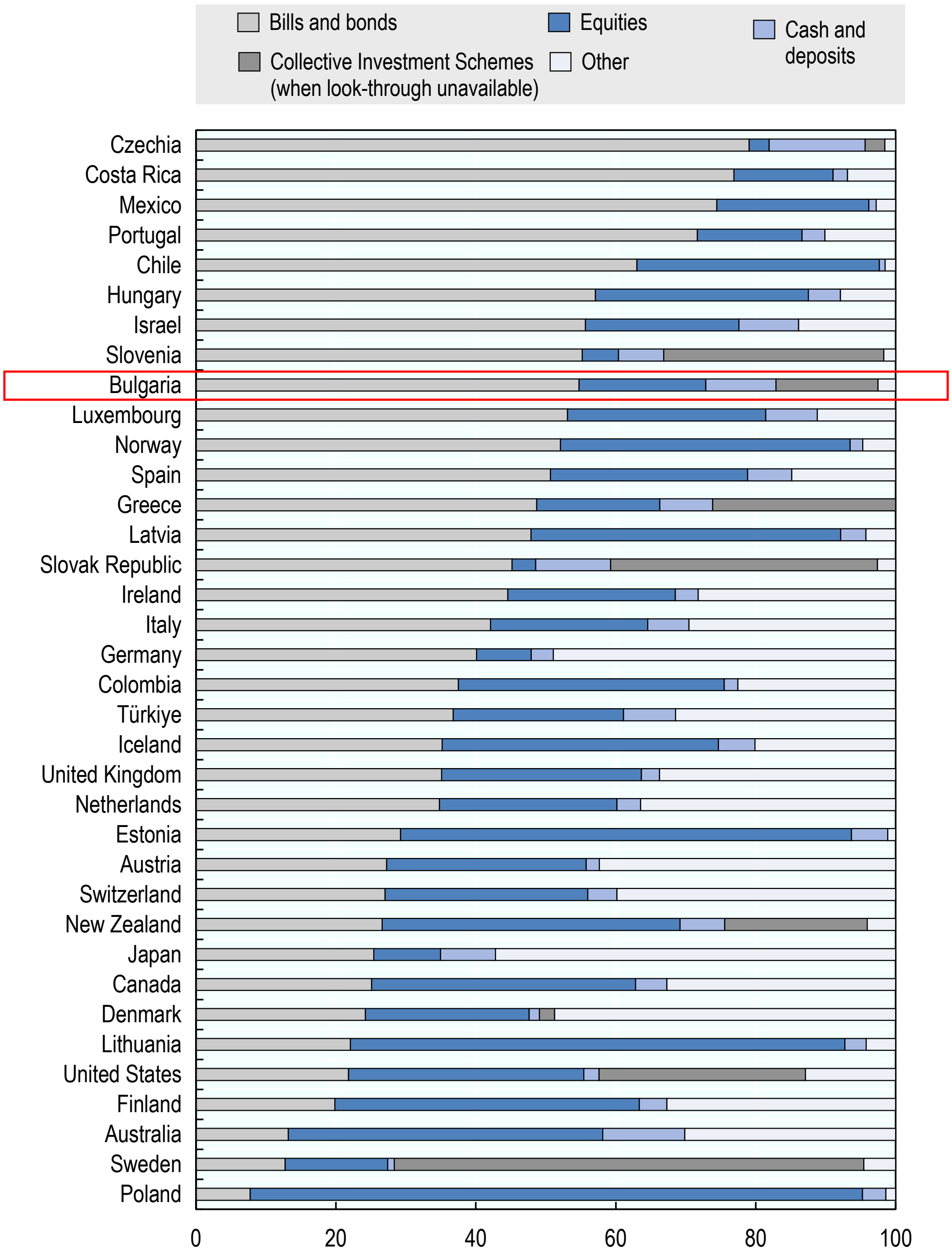
Source: OECD Global Pension Statistics.

Asset allocation

141. Pension assets in Bulgaria are invested relatively conservatively compared to OECD countries (Figure A A.7). Close to 55% of pension assets in Bulgaria were invested in bills and bonds at end-2022, higher than the OECD average of 42%. By contrast, only 18% were held in equities. However, when assuming that collective investment schemes are primarily used to invest indirectly in equities, the total equity allocation of Bulgarian pension funds reaches 33%. This total equity exposure exceeds the OECD average of 30%.

Figure A A.6. Allocation of pension assets in selected asset classes and investment vehicles, end-2022 or latest year available

As a percentage of total investment

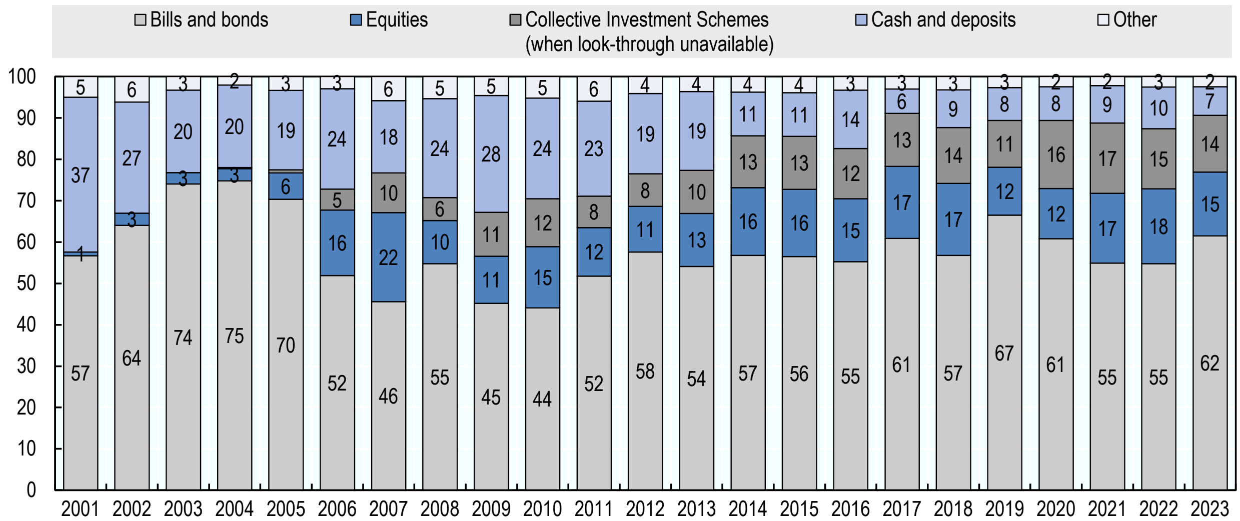


Note: The "Other" category includes loans, land and buildings, unallocated insurance contracts, hedge funds, private equity funds, structured products, other mutual funds (i.e. not invested in equities, bills and bonds or cash and deposits) and other investments. Data on asset allocation in this Figure include both direct investments in equities, bills and bonds, cash and deposits, and indirect investments through collective investment schemes (CIS) when the look-through of CIS investments is available. In such case, the Figure shows the overall exposure of pension assets in the selected asset classes. When the look-through is not available, the Figure only shows the direct investments of pension assets in equities, bills and bonds, cash and deposits and other assets, and investments in collective investment schemes are shown in a separate category.
Source: OECD Global Pension Statistics.

142. The asset allocation of Bulgarian pension funds is more diversified than in the early 2000s at the onset of the funded pension system (Figure A A.8). The proportion of pension assets directly invested in equities was very low in the early 2000s and has been fluctuating around 15% on average since 2006. Bulgarian pension funds have started using collective investment schemes in 2004 and since 2013, the share of pension assets in these vehicles has been exceeding 10%. The proportion of assets in cash and deposits has been declining over time, from 37% of investments at end-2001 to 6% at the lowest at end-2017. Direct investment in bills and bonds reached a pick in 2004 (75%) and a bottom in 2010 (44%). It has been above 50% of total investment since 2011.

Figure A A.7. Evolution of the asset allocation of Bulgarian pension funds in selected asset classes and investment vehicles, end-2001 to end-2023

As a percentage of total investment



Source: OECD Global Pension Statistics.

143. The proportion of foreign investments of Bulgarian pension funds has also been increasing over time, from 0% in the early 2000s to 69% at end-2021 (it declined to 64% in 2022), level close to pension funds in many countries in the euro area.[48] Bulgaria does not have the euro yet but joined the European Exchange Rate Mechanism in 2020, with an agreed exchange rate between the euro and the Bulgarian lev. The foreign exchange risk that Bulgarian pension funds are exposed to is therefore reduced when they invest in the euro area.[49] At the end of 2022, pension funds held 57.3% of their assets abroad in government securities, 35.6% in variable income securities and 7.1% in corporate debt securities.[50]

144. Bulgarian pension funds are subject to various investment ceilings. The investment regulation forbids investment in unlisted equities and loans, and caps the proportion of assets invested in listed equities, real estate, bonds, special purpose companies and alternative investment funds (Table A A.1). The limits are more stringent for mandatory pension funds (UPFs and PPFs) and funds for benefit payments (FPLPs and FPWs) than for voluntary pension funds (VPFs and VPFOS). UPFs and PPFs can invest directly up to 25% of their assets in listed equities, 25% in bank deposits with a minimum credit

[48] Source: OECD Global Pension Statistics.

[49] https://economy-finance.ec.europa.eu/euro/eu-countries-and-euro/bulgaria-and-euro_en

[50] ANNUAL-REPORT_2022_22.05.2023-chist_EN_FINAL_05.09.2023-1.pdf (fsc.bg)

rating, and between 10% and 30% in bonds other than sovereign and supranational bonds. By contrast, the investment regulation does not constrain investments in these asset classes for VPFOS and VPFs. Pension funds can invest in all EU, EEA and OECD countries as well as in other countries listed in an ordinance of the FSC, and cannot hold more than 20% (30% for VPFs and VPFOS) of their assets in securities denominated in another currency than the euro or the Bulgarian lev.

Table A A.1. Investment limits for pension funds in Bulgaria at end-2023

	UPFs and PPFs	VPFOS and VPFs	FPLPs and FPWs
Equities	- Listed equities: 25% - Equities offered under the term of an IPO: 2%	- Listed equities: 100% - Equities offered under the term of an IPO: 2%	Listed equities: 20%
Bills and bonds issued by public administrations	- Sovereign and supranational bonds: 100% - Municipal bonds: 15%	100%	- Sovereign and supranational bonds: 100% - Municipal bonds: 15%
Bonds issued by the private sector	- Listed corporate bonds: 30% - Secured corporate bonds: 1% - Infrastructure bonds: 10% - Bonds offered under the term of an IPO: 2%	- Listed corporate bonds: 100% - Secured corporate bonds: 2% - Bonds offered under the term of an IPO: 3%	- Listed corporate bonds: 15% - Infrastructure bonds: 20%
Collective investment schemes	20%	100%	20%
Bank deposits	25%	100%	100%
Real estate	5%	10%	0%
Special purpose companies for real estate or debt securitisation	5%	10%	5%
Alternative investment funds	1%	2%	0%
Foreign investment	- Securities issued in EU countries and countries listed in an ordinance of the FSC: 100% - Public-sector bonds issued in the rest of the World and admitted to trading in an EU regulated market: 10%	Idem	Idem
Foreign currency	20%	30%	20%
Derivatives	The effectiveness of the hedge relationship should be within the range of -80% to 125%	Idem	Idem
Investments in assets from a single issuer	- Single issuer: 5% - Single issuer and persons connected therewith: 10%	Idem	Idem
Ownership concentration	- Voting shares in a single issuer: 7% (20% collectively by all funds of the same PIC) - Non-voting shares in a single issuer: 7% (20% collectively by all funds of the same PIC) - Shares/units in a collective investment scheme: 15% - Shares/units in a special investment purpose company or alternative investment fund: 7%	Idem	Idem
Self-investment	Not allowed	- VPFOS: Securities issued by the sponsoring undertaking: 5% - VPFOS: Securities issued by the sponsoring undertaking and affiliated persons/entities: 10%	Not allowed

Source: OECD annual survey on investment regulations of pension funds and other pension providers.

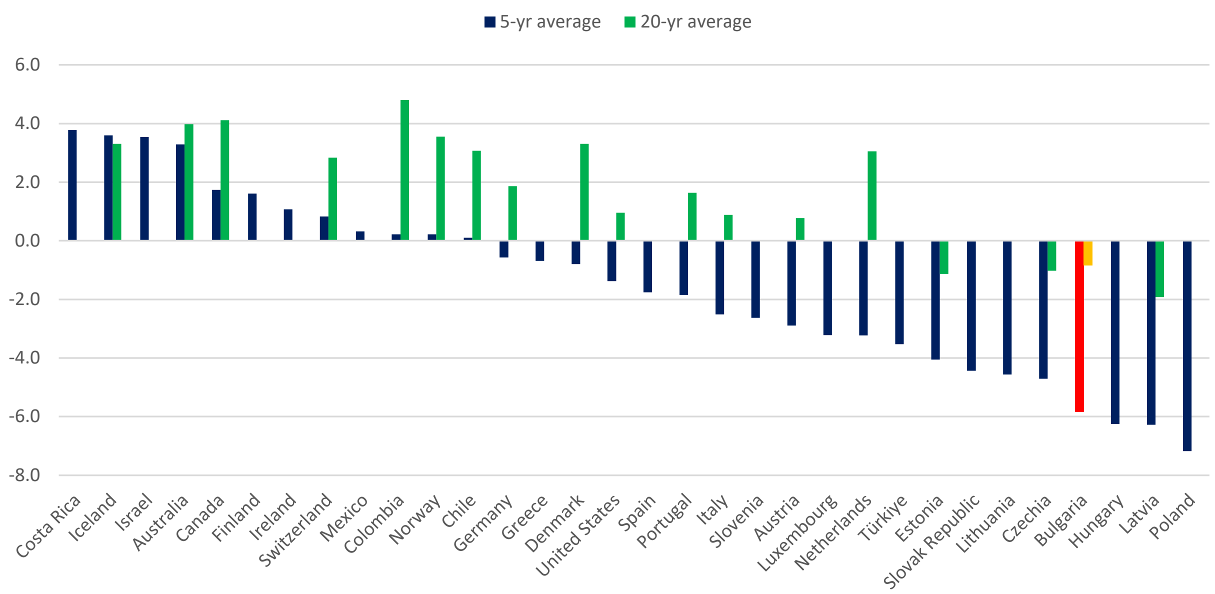
145. The investment regulation also prevents concentration risk by limiting the proportion of assets that can be invested in instruments from a single issuer. In the case of occupational plans, VPFOS cannot hold more than 5% of the securities issued by the sponsoring undertakings. The investment regulation also limits the ownership concentration of pension funds and PICs through a ceiling on the voting and non-voting rights they can have on the issuing companies they purchase securities from. Investment in securities issued by the PIC, the custodian bank, the investment intermediary or any affiliated persons or entities is not allowed.

Investment performance

146. Between end-2001 and end-2023, Bulgarian pension funds have achieved positive investment rates of return in real terms in 16 years out of 22. They suffered negative real returns in 2008 (-29.4%), 2011 (-3.0%), 2018 (-6.0%), 2021 (-2.5%) and 2022 (-23.3%). Over the 5 years ending in December 2022, the annual average real return, net of investment expenses, is -5.8%, at the bottom of the ranking compared to OECD countries (Figure A A.9). Over the past 20 years, the average performance is slightly negative at -0.8%, while pension funds in most OECD countries with available data for that period obtained a positive performance. This may be due to the still relatively conservative investment strategy of pension funds in Bulgaria compared to OECD countries. The highest investment rate of return that Bulgarian pension funds achieved between end-2001 and end-2023 was 7.9% in 2009, much lower than the double digit returns that some countries recorded the same year (e.g. 13% in Belgium, 23% in Chile and Colombia, 17% in Estonia, 20% in Israel, 14% in Latvia).

Figure A A.8. Average annual real investment rate of return of pension assets in Bulgaria and selected OECD countries, over the past 5 years and 20 years ending in Dec 2022

In per cent



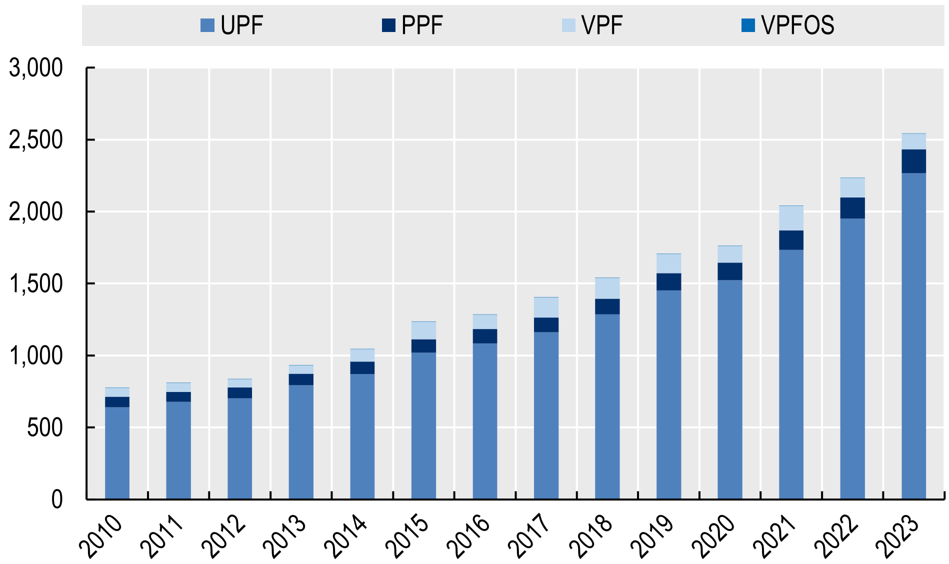
Source: OECD Global Pension Statistics.

Inflows and outflows

147. The amount of contributions paid into Bulgarian pension funds has been growing over the years (Figure A A.10). This rise is particularly visible in UPFs, from BGN 640 million in 2010 to BGN 2 266 million in 2023, as the number of UPF members has been increasing. Contributions to PPFs and VPFs have also risen, except in a few years such as in the first year of COVID-19 where contributions to VPFs declined by 14% (from BGN 134 million to BGN 115 million) before catching up in 2021 with a 49% increase.[51] The amount of contributions to VPFOS has remained stable, between BGN 1 and BGN 2 million every year between 2010 and 2023.

Figure A A.9. Contributions to pension plans in Bulgaria, 2010-2023

In millions of national currency



Source: Qualitative answers of the FSC to the OECD Global Pension Statistics exercise.

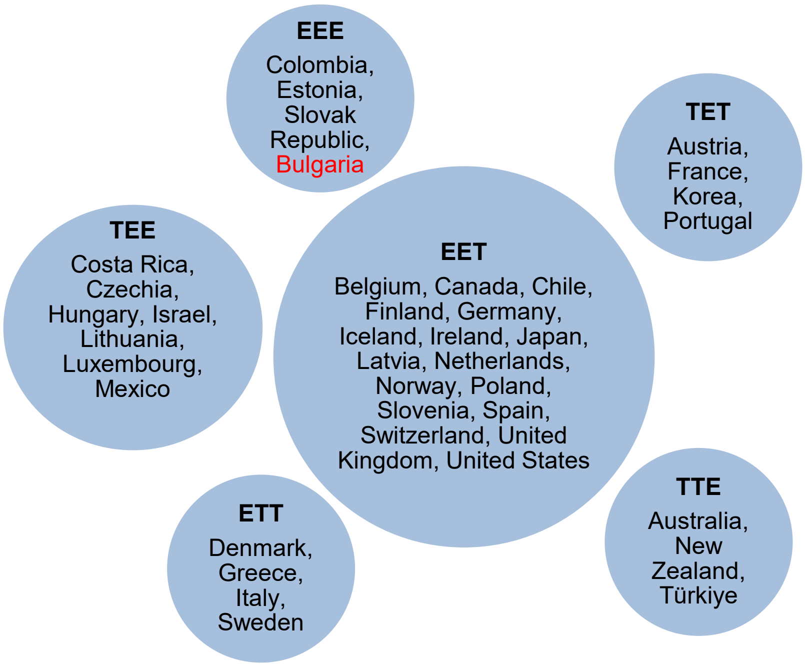
148. The overall amount of contributions paid to pension funds in 2022 (BGN 2 233 million) far exceeded the benefits paid by the funds (BGN 156 million). As the funded system is relatively recent, the number of beneficiaries eligible for payments is small. In September 2021, the first UPF members reached retirement age. In 2022, 916 pension contracts were concluded for lifetime payments, and 11 600 contracts were concluded for programmed withdrawals. Benefit payments and the number of beneficiaries will keep growing as the system matures.

Tax treatment

149. The tax treatment of retirement savings in Bulgaria is different to many OECD countries, which usually apply “Exempt-Exempt-Taxed” (EET) tax regime (Figure A A.11). In Bulgaria, contributions, investment returns and benefits are tax-exempt (EEE).

[51] The amount of contribution went back to its 2019 level in 2022.

Figure A A.10. Overview of the tax treatment of retirement savings in Bulgaria and OECD countries, 2022



Note: Main pension plan in each country. “E” stands for exempt and “T” for taxed. Countries offering tax credits on contributions are considered as taxing contributions, as the tax credit may not cover the full amount of tax paid on those contributions.
Source: OECD Annual survey on financial incentives for retirement savings 2022.

Market structure and competition

150. Ten PICs had a license to operate in Bulgaria at end-2023. These PICs were managing 10 UPFs, 10 PPFs, 10 VPFs, 2 VPFOS, 10 FPLPs and 9 FPWs. All funds are legal entities separate from the PIC establishing and managing them. Four of the PICs are part of international financial groups. In three PICs, some shareholders directly hold more than 90% of the capital.[52]

151. The number of PICs has been relatively stable over the last years, as well the number of the different types of funds they manage (Table A A.2). A new PIC was established in Q2 2021 and started operating in 2022. This company was initially allowed to operate a UPF, a PPF and a VPF. In 2021, the first funds for benefit payments were established as the first UPF members reached the retirement age.

Table A A.2. Number of pension funds and PICs in Bulgaria, 2016-2023

	End-2016	End-2017	End-2018	End-2019	End-2020	End-2021	End-2022	End-2023
Number of pension insurance companies	9	9	9	9	9	10	10	10
Managing:								
UPF	9	9	9	9	9	10	10	10
PPF	9	9	9	9	9	10	10	10
VPF	9	9	9	9	9	10	10	10
VPFOS	2	2	2	2	2	2	2	2

[52] See ANNUAL-REPORT_2022_22.05.2023-chist_EN_FINAL_05.09.2023-1.pdf (fsc.bg)

	End-2016	End-2017	End-2018	End-2019	End-2020	End-2021	End-2022	End-2023
Fund for payment of lifelong pension (FPLP)						7	10	10
Fund for programmed withdrawals (FPW)						9	9	9

Source: FSC annual reports.

152. The market share of PICs varies. The PIC with the largest market share held 24.7% of the overall amount of pension assets in Bulgaria in 2022. By contrast, the company that started operating in 2021 only had 0.1% of all pension assets.[53]

153. Members of UPFs and PPFs can transfer their assets in a fund of the same type in another PIC after one year of membership, in case of disagreement with the amendments to the rules or the investment policy of the fund and when becoming entitled to retirement. VPF members can transfer their funds to another fund of the same type once a year, in case of disagreement with amendments to the rules or the investment policy of the fund and in favour of certain relatives once a year (also in the same VPF). VPFOS members can transfer their funds accrued from personal contributions upon termination of the employment relationship with the sponsoring employer and in the cases provided for in the agreement establishing the occupational pension plans. In all cases, transfers from the UPF, PPF, VPF and VPFOS are made free of charge. In 2022, 360 347 members transferred to another fund (combining UPFs, PPFs and VPFs), 18% more than in 2021.[54]

Costs and fees

154. The average operating costs of PICs as a percentage of pension fund assets went down between 2015 and 2019 (Figure A A.12). While the average operating costs amounted to 1.5% of assets in 2015, it declined gradually to 1.1% of assets in 2019 and remained at this level in 2020. The average operating costs increased to 1.5% of assets in 2021 due to the need to build new reserves following the introduction of the guarantee of the sum of gross contributions for UPF members.[55] It increased again in 2022 to 3.45%, mainly driven by the very high ratio of operating expenses to pension fund assets for the company that started operating in 2022.[56]

[53] ANNUAL-REPORT_2022_22.05.2023-chist_EN_FINAL_05.09.2023-1.pdf (fsc.bg)

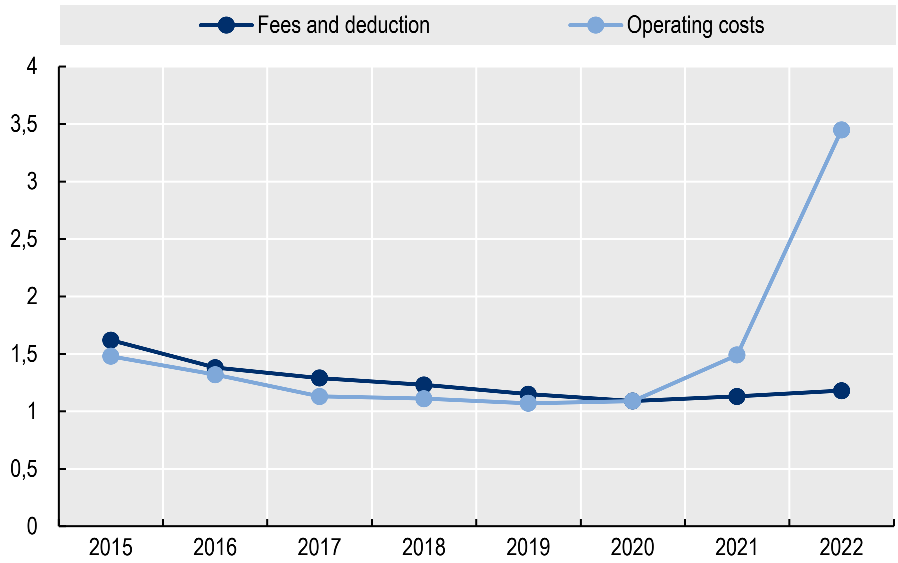
[54] ANNUAL-REPORT_2022_22.05.2023-chist_EN_FINAL_05.09.2023-1.pdf (fsc.bg)

[55] FSC-Annual-Report_EN_edit-финал.pdf

[56] ANNUAL-REPORT_2022_22.05.2023-chist_EN_FINAL_05.09.2023-1.pdf (fsc.bg)

Figure A A.11. Average operating costs and revenues from fees and deductions across PICs in Bulgaria, 2015-2022

As a percentage of pension fund assets



Note: Unweighted average.
Source: FSC annual reports.

155. The average revenues from fees and deductions collected by PICs as a percentage of pension fund assets has been aligned with the average operating costs except in 2021 and 2022 (Figure A A.12). The decline in fees as a percentage of assets can be explained by two main drivers. The first one is the decline in fee caps for UPFs and PPFs. The fee cap on contributions declined from 5% in 2015 to 3.75% since 2019, while the fee cap on net assets declined from 1% in 2015 to 0.75% since 2019. The second driver is linked to the fact that fees collected on contributions mechanically represent a lower share of total assets as the system matures because assets grow faster than contributions.

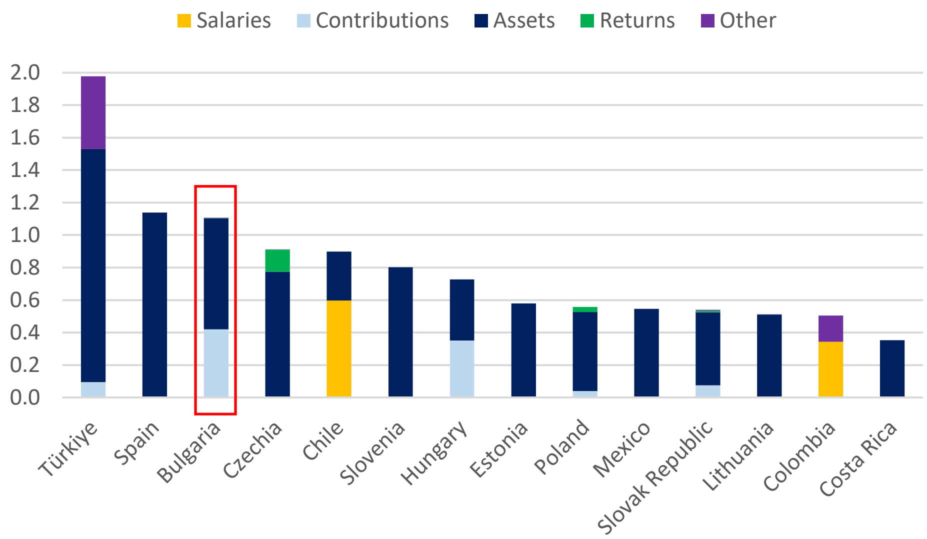
156. The level of fees collected by Bulgarian pension funds is relatively high compared to OECD countries when expressed as a percentage of total assets (Figure A A.13). In most OECD countries with available data, pension funds collected an amount of fees representing less than 1% of total assets in 2022 when summing up all types of fees. The aggregate ratio of fees collected over total assets was equal to 1.1% in Bulgaria. Several OECD countries have fee caps below those set in Bulgaria. For example, fee caps on contributions are set at 2.5% in Latvia, 1.75% in Poland, 1.25% in the Slovak Republic and 3% in Slovenia.[57] Fee caps on assets are set at 0.35% in Costa Rica, 0.5% in Israel, 0.6% in Latvia, 0.5% in Lithuania, 0.54% in Poland and 0.3% in the Slovak Republic.[58]

[57] By contrast, Hungary and Israel have fee caps on contributions set at 6%.

[58] By contrast, the Czech Republic, Estonia, Hungary, Slovenia and Spain have fee caps on assets above 0.75%.

Figure A A.12. Fees collected on members by pension funds in 2022, by type of fee

As a percentage of total assets



Note: All the fees are expressed as a percentage of total assets, even when fees are levied on salaries, contributions or investment income.
Source: OECD Global Pension Statistics.

157. The International Organisation of Pension Supervisors (IOPS) also found that mandatory pension funds in Bulgaria charge relatively high fees. The IOPS charge ratio measures the impact of fees on the final level of pension assets of plan members (Han and Stańko, 2018[2]). This ratio indicates how much higher pension assets would have been after a certain number of years of contributions (e.g. 40 years), had there been no fees charged to members at all. For a 40-year contribution period, the IOPS found a charge ratio of 21.5% for UPFs and PPFs, 10.3% for VPFOS and 8.2% for VPFs. The average charge ratio among all countries where fees cover similar types of activities (mostly plan administration and investment management) was 18.7%. The charge ratio is significantly higher for UPFs and PPFs, but it is important to note that fee caps have declined since the IOPS calculations, so the ranking of Bulgaria may be different now.

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