МАПАС

Agency for Supervision of Fully Funded Pension Insurance

Report
On Developments in the Mandatory Fully Funded Pension Insurance in 2007

Skopje, April 2008

Contents

Introduction

This is the second annual report on the developments in the fully funded pension insurance.

According to the Law on Fully Funded Pension Insurance, the Agency for Supervision of Fully Funded Pension Insurance-MAPAS is obligated to prepare and publish an annual report on the developments in the fully funded pension insurance in the Republic of Macedonia. The report contains information on the mandatory fully funded pension insurance, an assessment on the compliance with the legislation in the area of mandatory fully funded pension insurance, a brief insight on the role and operations of MAPAS and other data relevant to the mandatory fully funded pension insurance. The Report is published in the Official Gazette of the Republic of Macedonia.

This Report reflects the developments in this type of insurance in 2007. The membership of mandatory members continued in 2007 with small exceptions of those persons that had interruptions in their careers and so, the number of members in the private pension funds reached 160,000. The investing of the pension funds' assets is also an on-going process, which in 2007 amounted to 50 million Euro. The structure of the pension funds portfolio is slowly changing so the assets are mostly invested in government securities, deposits and shares and in 2007, the first investments abroad started. At the end of the year, after two years of existence the return on investments of the pension funds assets reached 7.4% (on annual level).

1. Structure of the fully funded pension insurance

1.1 Description of the pension system on the Republic of Macedonia

The pension system in the Republic of Macedonia is regulated with the Law on Pension and Disability Insurance ("Official Gazette of the Republic of Macedonia" No. 80/93, 3/94, 14/95, 32/96, 24/00, 96/00, 5/01, 50/01, 85/03, 40/04, 4/05, 101/05, 70/06 and 153/07), the Law on Mandatory Fully Funded Pension Insurance (Official Gazette of the Republic of Macedonia" No. 29/02, 85/03, 40/04, 113/05 and 29/07), the Law on Voluntary Fully Funded Pension Insurance Official Gazette of the Republic of Macedonia" No. 07/08) and relevant secondary regulations.

The pension system is a part of the social insurance in the Republic of Macedonia and a law set out the framework for its reform as a three-pillar system, in 2000.

The structure of the reformed pension systems is as follows:

- First pillar – insurance based on generational solidarity
- Second pillar - fully funded pension insurance
- Third pillar – voluntary fully funded pension insurance

The pension system in the Republic of Macedonia has a history of a long-year successful existence and a substantial coverage of the labor force. However, the socio-economical changes in the country by the mid 90s had caused financial difficulties of the pension system. The unfavorable occurrences in the economy caused a decrease in the number of active contributors and an increase of the number of active pensioners. The demographic factor has a particular influence on the pension system. The aging of the population as a world trend has struck also Macedonia. The analyses demonstrate that the life expectancy shall be raised for around five years in the following 40 years. People live longer and the fertility rate and the number of newborn is decreasing. These demographic movements cause an increased participation of elderly people in the entire population i.e. an increased number of pensioners living longer in retirement. All these factors have a significant influence on the Pension and Disability Insurance Fund of Macedonia and the actuarial projections have demonstrated that without reforms the pension system would be in deficit, which would increase over time. A thorough reform of the pension system was stipulated in order to overcome these difficulties. With the reform, a multi-pillar pension system was introduced, with a combined financing and a diversification of demographic and economic risks aiming at providing a pension for the current and the future generations of pensioners and a financial stability of the pension system on a long run.

The first pillar is financed on a pay-as-you-go basis (PAYG), which means that the contributions of the current contributors are used for financing the pensions of the current pensioners. This pillar functions on a defined benefit basis, which means that it provides pension according to a pre-determined formula. From the first pillar are paid the following pensions: old age, disability, survivors and the minimal pension.

The fully funded pension insurance is introduced with the second and the third pillar, which accumulate contributions on individual accounts of pension funds members. These two pillars function on a defined contribution basis, where the contribution is pre-determined and the pension is defined at retirement and it depends on the accumulated amount on the individual account. The second pillar pays part of the old-age pension. The third pillar provides protection at old age, disability and death.

Mandatory members of the second pillar are all employees that have started working for the first time after January 1, 2003. Voluntary members are all those that started working before January 1, 2003. The membership in the third pillar is on a voluntary basis and covers people at the age from 18 to 70.

With the reform of the pension system and with the introduction of the combination between the state financed PAYG component and the privately financed fully funded component, it is expected that its long-term stability shall be reinforced, since it is a significant component of the social insurance. As a result, this shall lead to stability in acquiring the rights from the pension and disability insurance. The design of the reform is based on keeping and maintaining the basic principles of the current pension system: mandatory pension and disability insurance, dependency of the rights on the length and amount of paid contributions, social justice, compliance with the conventions and recommendations of the International Labor Organization. The reformed system is also in compliance with the Constitution of the Republic of Macedonia, according to which the citizens are entitled to social security based on the principles of social justice. This means maintaining the principles of insurance against all risks (old age, death and disability). Meeting these goals shall result in long-term advantages for the individual participants, as well as for the economy as a whole. Namely, the advantage for the individuals is the increased safety in the provision of the retirement benefit, which shall be financed from more than one source and therefore the risks shall be diversified. At the same time, the reform provides an increased level of transparency and information for the pension funds members. It is expected that the reform will establish a solvent pension system on a long run as well as it shall lead to an increase of savings and shall stimulate the investments.

In 2007, substantial work has been done on the design of the third pillar and at the beginning of 2008; a law was passed that regulates the voluntary fully funded pension insurance. With this law, the pension reform in the Republic of Macedonia is completed. The basic principles of this law are: providing additional income in case of old age, voluntary participation, fully funded financing based on defined contribution, investing of assets based on safety, risk diversification and maintenance of adequate liquidity, as well as transparency.

The primary goals of this law are:

- Providing a higher income after retirement for those contributors that are already covered by the mono-pillar and/or the two-pillar pension system (mandatory pension and disability insurance), and who are willing and are able to pay additional contributions in order to have a larger material safety or to maintain a higher standard of living after retirement;
- Providing pension to those persons that are not covered with the mandatory pension and disability insurance for themselves or from other persons;
- Providing preconditions for establishing occupational schemes in the process of harmonizing the social insurance system with the European Union.

It is expected that the introduction of the voluntary fully funded pension insurance will have additional impact on the economy as it will contribute to the increase of savings and the power of investments and shall stimulate the development and the depth of the capital markets. This shall be achieved with investing the pension funds assets, and with the increased demand for new instruments, for new financial services etc. The start of the implementation of the third pillar is expected for 2008.

1.2 The role of the fully funded pension insurance in the pension system

The fully funded pension insurance is radically different from the pay-as-you-go insurance in the treatment and the record keeping of paid contributions and in the calculation and payout of the pension benefits. In this insurance each member has an individual account where the contributions are being registered, which is more similar to savings. This type of insurance provides a correlation and interdependence between the paid assets i.e. the contributions and the future pensions, based on the market rules. This insurance is based on accumulation of assets from the contributions on the individual accounts, which are being invested and then the return on the investments, reduced for the system operation fees is added to the accumulated assets on the individual accounts. The future pension depends on the accumulated assets on the individual account and on the life expectancy upon retirement, i.e. the expected lifetime passed in retirement.

In this context it is important to point out that pension savings are long-term savings, during which, gradually but continuously the savings are increased and therefore, at the beginning while the contributors are young the savings are small, but in time, as they reach their retirement age the savings would have grown substantially.

One of the features of this insurance is that the assets are privately managed, so specialized licensed companies for managing pension funds are investing the paid contributions. This provides for economic goals to determine the investment policy creating a possibility to maximize the entire return in favor of the members. Another important feature is the risk diversification (including international diversification).

To this, we can add the right to a personal choice and individual initiative as one of the major characteristics of the fully funded pension insurance. All persons employed for the first time before January 1, 2003 were given the opportunity to decide whether to join the second pillar of the pension system and to choose one of the private pension funds in which they would like to be members. All newly employed persons, also, have the possibility to choose one of the private pension funds. The membership in the voluntary pension funds is also based on individual choice or it can mean concluding an agreement with the sponsor of the occupational scheme (employer or professional association).

The possibility to transfer assets is one of the major rights granted with the system of fully funded pension insurance. All members of mandatory or voluntary pension funds have the right to transfer from one pension fund to another where their savings are also transferred. In addition, in cases of membership in occupational schemes each member has the right when transferring to another sponsor to have the accumulated assets transferred either to another professional scheme or to an individual account.

As a novelty in the pension system and as one of the great advantages of the fully funded pension insurance is the high level of transparency. The Pension Companies have a legal obligation to regularly inform in writing the members of the pension funds, on the amount of assets on their individual accounts, on the dates of payment of contributions and the transfer of assets in a given period, on paid fees, on the conversion of the paid assets into accounting units and on the balance of the individual account. At least once a year the Pension Companies inform the members on the value and the participation of the assets of the pension fund invested in particular type of assets, including information on the issuers and data on the brokerage fees. The Pension Companies, also, once a year, publish informational brochures that contain information on the pension fund and the Pension Company, where among others they have to disclose details on the supervisory and management boards of the company, the major principles of investment, net assets of the pension fund, the rate of return etc.

1.3 Institutional infrastructure of the fully funded pension insurance

The institutions of the reformed pension system are the following:

- *Ministry of Labor and Social Policy* – responsible for creating and implementing the policy on pension and disability insurance and for supervising the legality of operations within this insurance.

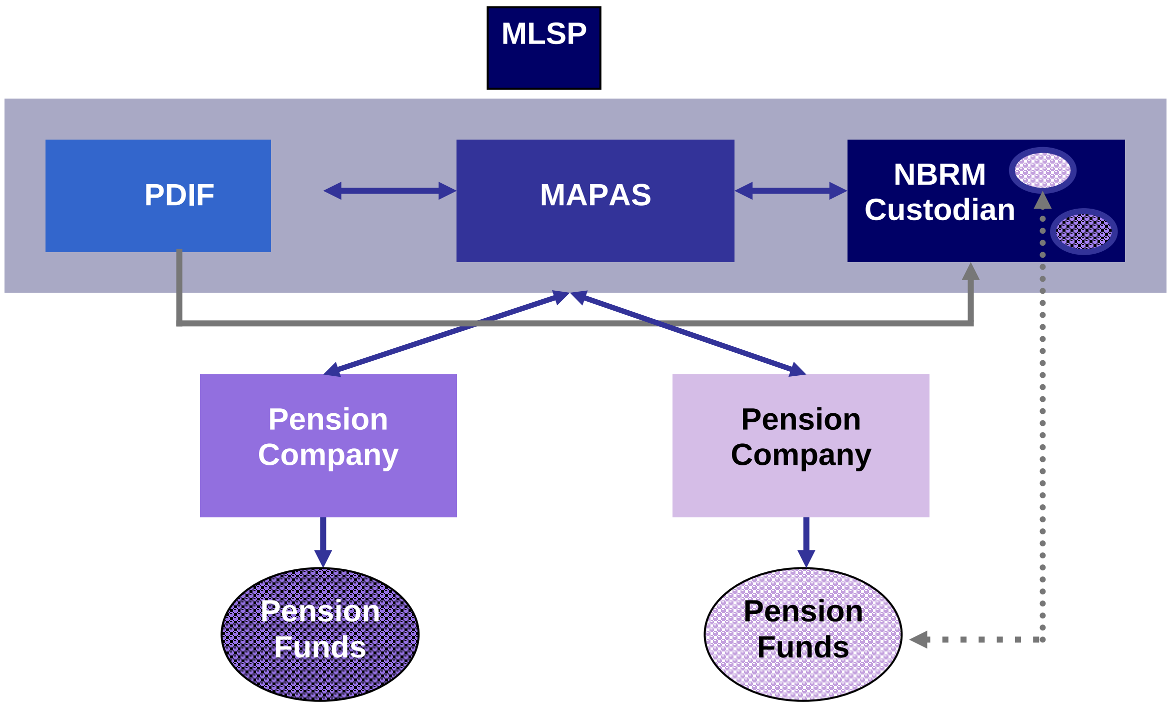
- *Agency for Supervision of Fully Funded Pension Insurance (MAPAS)* – regulatory and supervisory body that protects the interests of pension fund members, builds public awareness and stimulates the development of fully funded pension insurance. For its operations, the Agency reports to the Government of the Republic of Macedonia.

- *Pension Company* – joint stock company founded by financial institutions with large capital and experience, whose sole activity is managing pension fund assets. The reformed pension system offers the opportunity for establishing three types of pension companies:

    - Mandatory Pension Company- manages only mandatory pension funds
    - Voluntary Pension Company - manages only voluntary pension funds
    - Joint Pension Company - manages mandatory and voluntary pension funds

- *Custodian of pension assets* – safely keeps pension fund assets, in a separate account, separated from the assets of the pension company. For the first five years, the National Bank of the Republic of Macedonia shall be the custodian for the assets of the mandatory pension funds. For the voluntary pension funds, the custodian shall be a commercial bank that meets the requirements prescribed in the law.

- *Pension and Disability Insurance Fund of Macedonia (PDIF)* – undertakes centralized contribution collection and allocation of contributions and relevant data for the members in the elected mandatory pension funds and companies (the centralized contribution collection is not foreseen for the voluntary pension funds).



A Pension Company is a joint-stock company that manages a mandatory and/or voluntary pension fund and which is established and operates in accordance with the Law on Trade Companies, the Law on Mandatory Fully Funded Pension Insurance and the Law on Voluntary Fully Funded Pension Insurance. The sole activity of the Pension Company is managing pension funds, their representation before third parties and performing activities that derive directly from the pension fund management.

A Pension Fund is an open-end investment fund, established and operating according to the Law on Investment Funds, unless otherwise stipulated with the Law on Mandatory Fully Funded Pension Insurance and the Law on Voluntary Fully Funded Pension Insurance. The pension fund is consisted of the contributions of the members of that fund, reduced for the fees, and the returns on the invested contributions. The fees that are charged to the pension fund are the fees charged by the Pension Company managing that pension fund and the intermediary commissions. The owners of the pension fund are its members, and their individual ownership rights are determined by the amount of assets on their accounts. The assets of the pension fund are completely segregated from the assets of the Pension Company. This segregation of assets is of exceptional importance for obtaining higher level of safety.

The initial period of the functioning of the fully funded pension insurance is characterized by the possibility for the Pension Companies to manage only one pension fund, mandatory or voluntary, and in cases of Joint Pension Companies, they can manage only one mandatory and one voluntary pension fund. This restriction is foreseen only for the initial phase of the system and later, if the conditions allow it, like developed financial market, increased awareness of the public to choose and participate in more than one pension fund, the market shall be opened for more and for different types of pension funds.

At the beginning, due to the size of the financial sector and the expected entrance of members in the reformed pension system, it was necessary to limit the participants in the pension market in the Republic of Macedonia. By means of international tender MAPAS granted licenses for establishing only two pension companies for a period of ten years.

On April 4, 2005, licenses were granted to the following two Pension Companies:

Akcionersko drushtvo za upravuvanje so penziski fondovi NOV PENZISKI FOND Skopje	**KB Prvo drushtvo za upravuvanje so penziski fondovi AD Skopje**
which manages	*which manages*
NOV PENZISKI FOND – Otvoren penziski fond	**KB Prv otvoren penziski fond – Skopje**
Founders of Akcionersko drushtvo za upravuvanje so penziski fondovi NOV PENZISKI FOND Skopje are Nova Ljubljanska Banka DD, Ljubljana, Republic of Slovenia, which represents a portion of 51% of the Pension Company capital and NLB Tutunska Banka AD, Skopje, Republic of Macedonia, which represents 49% of the Pension Company's capital. The founding capital of the Pension Company is 2.0 million Euros.	Founders of KB Prvo drushtvo za upravuvanje so penziski fondovi AD Skopje are Prva Pokojninska Druzba DD, Ljubljana, Republic of Slovenia, which represents 51% of the Pension Company capital and Komercijalna Banka AD, Skopje, Republic of Macedonia, which represents 49% of the Pension Company's capital. The founding capital of the Pension Company is 1.5 million Euros.

In 2007, as a result to the developments of the pension and capital markets, it was estimated that necessary conditions are in place for opening the market for new pension companies. In order to reduce the costs of the system and increase the expected pension benefits, it was estimated that the pension market competition should be lifted to a higher level by enabling the entrance of new pension companies, besides the already existing two pension companies selected by means of international tender. At the same time, these changes in correlation with the introduction of the voluntary fully funded pension insurance will enable the establishment of a new type of pension companies, those that will manage mandatory as well as voluntary pension funds. To this end, the amendments to the Law are in Parliamentary procedure, which stipulate the opening of the market for all parties interested in submitting requests and that meet the legal conditions.

2. Financial data on Pension Companies

2.1.Pension Companies' incomes for 2007

Basis:	NOV PENZISKI FOND AD Skopje		KB Prvo penzisko drushtvo AD Skopje	
Fees from contributions	70.003.446	82,75%	83.380.724	87,81%
Fees from assets	5.796.232	6,85%	7.022.627	7,40%
Interest and positive exchange rate differences	6.504.109	7,69%	3.123.997	3,29%
Other income of the Company	2.294.883	2,71%	1.426.239	1,50%
Total	84.598.669		94.953.587	

2.2. Pension Companies' expenditures for 2007

Basis:	NOV PENZISKI FOND AD Skopje		KB Prvo penzisko drushtvo AD Skopje	
Expenditures for pension fund management				
Expenditures for sales agents	12.868.296	16,25%	19.665.363	22,46%
Marketing expenditures	793.236	1,00%	1.887.332	2,16%
Transaction expenditures	125.132	0,16%	513.041	0,59%
Expenditures for MAPAS	12.879.276	16,27%	15.299.411	17,47%
Expenditures for NBRM as custodian	4.604.642	5,82%	5.467.427	6,24%
Expenditures for PDIF	4.609.086	5,82%	5.485.238	6,26%
Other expenditures for pension fund management	416.529	0,53%	5.626.422	6,43%
Total expenditures for pension fund management	*36.296.196*	*45,84%*	*53.944.234*	*61,60%*
Expenditures for pension company management				
Wages and allowances for the employees	18.781.038	23,72%	12.100.757	13,82%
Nonmaterial expenditures from operations	7.390.120	9,33%	10.509.359	12,00%
Material expenditures from operations	12.807.075	16,18%	6.550.418	7,48%
Amortization	3.344.343	4,22%	4.064.646	4,64%
Expenditures from interests and positive exchange rate differences	81.957	0,10%	95.986	0,11%
Other expenditures from operations	474.429	0,60%	299.894	0,34%
Total expenditures for pension company management	*42.878.962*	*54,16%*	*33.621.058*	*38,40%*
Total expenditures	**79.175.157**		**87.565.292**	

2.3 Financial results of Pension Companies

Description	NOV PENZISKI FOND AD Skopje	KB Prvo penzisko drushtvo AD Skopje
Profit (for 2007)	5.074.942	7.388.295
Profit after tax (for 2007)	4.939.424	7.388.295
Accumulated loss (2007 included)	34.389.499	19.630.160

2.4 Equity of the Pension Companies

Description	NOV PENZISKI FOND AD Skopje	KB Prvo penzisko drushtvo AD Skopje
In denars	88.636.235	72.478.704
As % of the legally prescribed initial capital	96,31%	78,69%

2.5 Indicators

Description	NOV PENZISKI FOND AD Skopje	KB Prvo penzisko drushtvo AD Skopje
Average income per member	1.100	1.107
Average expenditures per member	1.029	1.021
Accumulated loss/ equity	38,80%	27,08%

Description	Year	NOV PENZISKI FOND AD Skopje	KB Prvo penzisko drushtvo AD Skopje
ROA	*2007*	4,97%	7,19%
	2006	-0,60%	-2,69%
	2005	-57,46%	-22,82%
ROE	*2007*	4,03%	8,03%
	2006	-0,46%	-3,01%
	2005	-72,42%	-35,73%

3. Information on the voluntary members

3.1 Membership

A contributor shall become a member of a pension fund by signing a membership agreement or by random allocation in a pension fund by MAPAS and PDIF in cases when the contributor falls in the category of mandatory members and that contributor has not signed a membership agreement in the legally prescribed period.

The membership agreement for a mandatory pension fund is signed in a standardized form by the contributor, personally, and by a sales agent, who represents the Pension Company. Upon signing of the membership agreement, the Pension Company is represented only by the sales agent, registered in the MAPAS Registry of Sales Agents. In cases when a contributor signs a membership agreement for the first time and has never before been a member of a pension fund, he/she has the right to revoke unilaterally the agreement by submitting a written notice to the Pension Company within a period of eight days from the date of signing the agreement. The sales agent is obligated to introduce the member with the annulment notice upon signing of the membership agreement.

The membership in one pension fund lasts until transferring to another pension fund or until acquiring the right to retirement. In case the member has career interruptions or does not pay the contribution, he/she shall remain to be a member of the pension fund and shall have all the rights as the other members who pay the contributions regularly.

There are two general categories of contributors in the second pillar:

- Mandatory members - contributors employed i.e. that have entered the mandatory pension and disability insurance for the first time after January 1, 2003
- Voluntary members – contributors that were employed for the first time before January 1, 2003

Contributors as per Chapter IV - Acquisition and exercise of rights of certain categories of contributors under special conditions of the Law on Pension and Disability Insurance (employees with increased pension service in the Ministry of Interior, Penitentiary-Corrective institutions, the Macedonian Army and similar) and individual farmers cannot be members of the second pillar. By exception, if the persons belonging to the above-mentioned categories change their status, they can sign a membership agreement with a pension fund by their choice, within three months from the status change. Also, persons that have already joined the second pillar and afterwards have changed their status into one of the above-mentioned categories have the right to switch back to the mono-pillar system within three months from the status change.

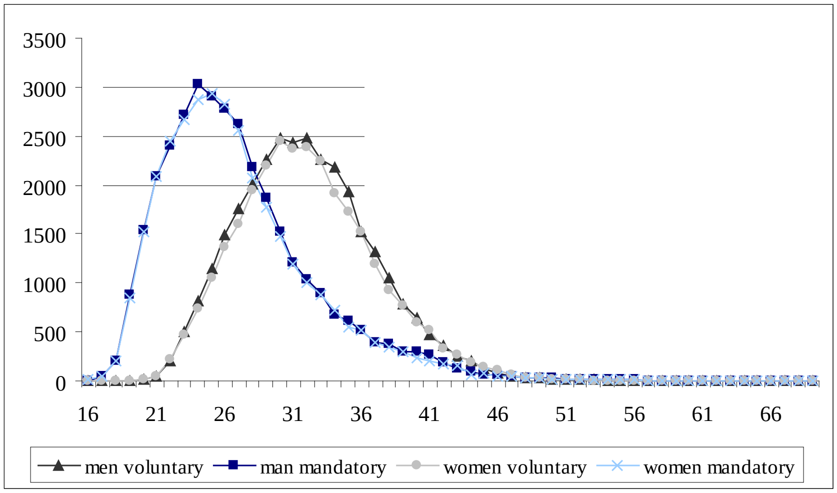
According to the actuarial projections for the expected pension of the newly employed contributors that shall pass all their working careers as second pillar members, their future pension benefits from both pillars shall be higher than the pension from the mono-pillar system. Also, for the younger contributors that have already reached certain years of career as contributors in the existing system it is considered to be more favorable to switch to the two-pillar system since they would have higher pension benefits. Contributors at a certain age and a larger number of career years before switching to the two-pillar system should know that the pension benefit they would have from the mono-pillar system would be higher that the one from the two-pillar system. It is important to know that for the persons switching to the two-pillar system, for the years passed in the unreformed system shall be acknowledged 11.65% for men and 13% for women in the replacement rate for calculating the pension benefit (equal to 5-7 years of career). This is due to the fact that the system is designed to be more favorable for the younger generation in order to have gradual switching of the work force from mono-pillar to two-pillar pension system and to have financially bearable transition costs.

Special attention is paid to the category of adult persons (women over 45 years of age and men over 50 year of age) who have fewer years left until retirement and therefore fewer years for accumulation of assets in the second pillar. So, for these persons, the law stipulates that the sales agent has to prove that in the period of signing the membership agreement it was impossible to reasonably suppose that the membership in the second pillar for persons belonging to the above-mentioned category is against their best interests and that those persons were not misled when signing the membership agreement.

On September 20, 2005 the membership in the second pillar started. The voluntary members had the possibility to make their choices until December 31, 2005. Mandatory members are obligated to conclude a membership agreement within three months from their first employment. This means, that the membership process of the mandatory members is ongoing according to the legal deadlines for selecting a pension fund and concluding a membership agreement. By exception, the contributors that in the period determined for choosing a pension fund were not employed can sign a membership agreement after their re-employment. Those mandatory members who did not sign a membership agreement, after the expiration of the legally prescribed deadline for selecting a pension fund, shall remain members of the pension fund in which they were allocated by MAPAS and the PDIF.

The total number of members and temporarily allocated contributors in the pension funds as per December 31, 2007 is 162.653. From these, 63.714 or 39.2% are voluntary members, while 98.939 or 60.8% are mandatory members. Out of the mandatory members, 58.856 have signed membership agreements, 30.352 did not sign membership agreements and 9.731 are temporarily allocated by MAPAS in order for their assets to be invested right after employment until their deadline for selecting a pension fund expires and they sign a membership agreement. It can be noticed that 50% of the newly employed persons have signed membership agreement in 2007, while the other 50% did not sign membership agreements and remained in the pension fund in which they were allocated by MAPAS and the PDIF.

The structure of second pillar members by age, gender and category is given in the graph below:

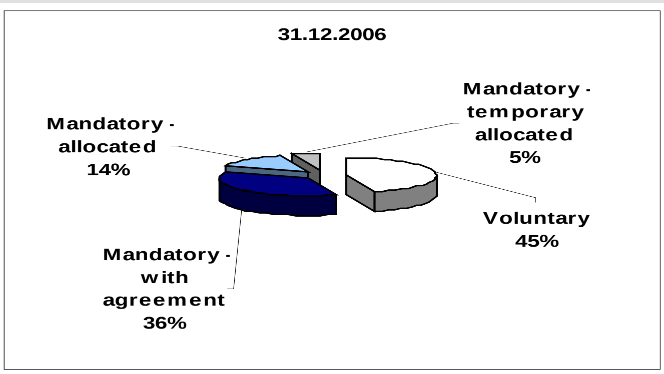


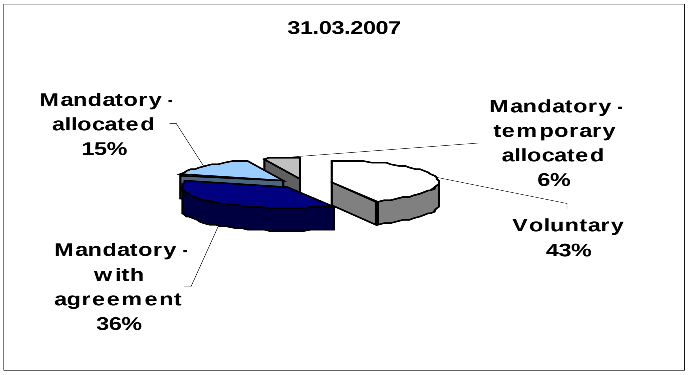
What can be noticed from this graph is that the majority of members are young persons for whom the membership in the second pillar is most favorable. The mandatory members are younger persons where the majority is at the age of 25 (men) and 26 (women). The voluntary members are somewhat older and the average age is 34 (men) and 32 (women). The average age of the voluntary members is 34 and of the mandatory is 28, while the average age of all members is 30.

Regarding the participation of the members and the temporarily allocated contributors in the pensions funds, as per December 31, 2007, 53% of the members and temporarily allocated contributors are in KB Prv otvoren penziski fond- Skopje and 47% in Nov Penziski Fond – Otvoren penziski fond[1].

The structure of members and temporarily allocated contributors by pension funds and by membership status on quarterly level is given in the graphs below:

NPF	KB Prv



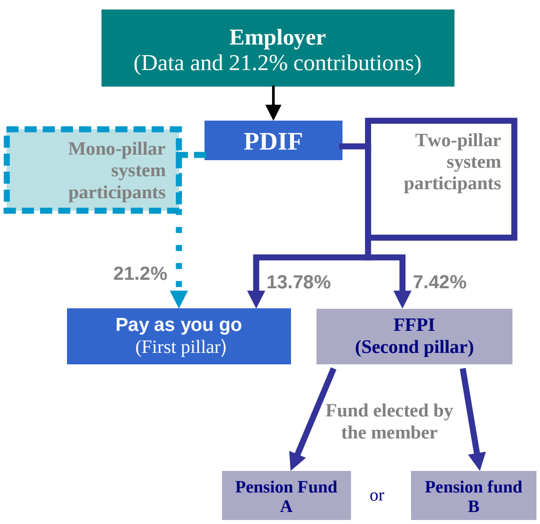

31.03.2007
Mandatory - allocated 15%
Mandatory - temporary allocated 6%
Voluntary 43%
Mandatory - with agreement 36%

3.2 Contributions

According to the Law on Pension and Disability Insurance the employer is obligated to pay the contributions for pension and disability insurance in the PDIF.

For contributors that remain in the mono-pillar system the entire contribution paid remains in the PDIF. For contributors that will join the two-pillar system the PDIF allocates the paid contribution, so 65% of the paid contribution (i.e. 13.78% of the gross wage) remain in the PDIF and 35% of the contribution (i.e. 7.42% of the gross wage) are transferred to the pension fund chosen by the member.

Schematic description of the payment and allocation of contributions



The PDIF transfers the contributions of the pension funds members to the individual accounts in the elected pension funds, immediately or at the latest within 5 working days from receiving the contributions, under the condition that the necessary, legally prescribed data was received at the same period, which enable the PDIF to complete this obligation. The payments with inconsistencies between the data and the paid contribution are checked by the PDIF, case by case, and afterwards the assets are allocated to the individual account of the member.

Immediately after the payment of contributions in the PDIF, the contributions are verified on the individual account of the members. In 2007, 1.9 billion denars were transferred to the pension funds, or as shown by months in the table below (in million denars):

	Total 2006	Jan.	Feb.	March	April	May	June	July	Aug	Sep.	Oct.	Nov.	Dec.	Total 2007
NPF	597	54	65	67	66	69	68	73	68	69	78	90	91	859
KB Prv	729	64	74	80	84	75	85	87	84	84	91	106	110	1.024
Total	1.325	118	139	147	150	144	153	160	152	154	170	196	201	1.883

From the payment of contributions in 2007 a trend in the manner and period of payments of contributions can be noticed, which shows that in majority of cases the payment of contributions for a certain month are done the following month, while the rest of payments are realized with some delays. Namely, around 70% of contribution payments, for a given month, are realized the following month, 16% are realized with two months delay and the rest with two-three months delay. As of December 31, 2007, there are approximately 10.000 individual accounts, or 6% out of the total number of individual accounts, that have zero contributions paid.

In 2007, a small part of the paid contributions in the pension funds, or 6 million denars, was returned to the PDIF for several reasons:

- acquiring the right to a disability or survivor's pension
- termination of membership agreements or annulment of inaccurate allocation of a member as a consequence of inaccurate data
- surplus of paid contributions in the second pillar as a consequence of technical errors or surplus of contribution payments by the employer

The structure of returned assets in the PDIF, by pension funds is shown in the table below:

Reasons	**From pension fund**	
	NPF	**KB Prv**
- acquired pension	42.367	219.935
- termination of membership agreements or allocation annulment	149.507	382.318
- surplus of paid contributions	2.287.895	3.154.335
Total	2.479.771	3.756.588

3.3 Investment, portfolio structure, net assets and rate of return

It is common for the initial phase of the mandatory fully funded pension systems to use proactive control as well as quantitative and qualitative investment limits. In this light, the investment goal and principles are defined in the law and the secondary regulation, as well as the quality of the instruments in which the pension funds assets can be invested, the limits within the instruments and the issuers, prohibited investments, excess of investment limits etc. The basic principles of investment stipulated in the law are safety of assets, investment risk diversification and maintenance of adequate liquidity in light of gaining the highest return only in the best interest of the members.

The law and the secondary regulations stipulate that the pension funds assets can be invested in bank deposits and certificates, bonds and other long-term securities, shares and commercial notes issued by issuers with headquarters in the Republic of Macedonia and in the countries of the EU, the USA and Japan. In order to achieve adequate diversification between different types of investments the law foresees maximum investment limits in one company and maximum investment limits of amounts that can be invested in certain types of instruments. In order to block investments in instruments that are not adequate for pension funds assets, the Law prohibits investments in shares, bonds and other securities that are not listed or publicly traded, instruments that cannot be valued immediately, most forms of real estate that cannot be valued and several forms of commodities that have uncertain valuation, for example antiques and works of art.

Investment limits

Investments abroad (EU, Japan, USA)	20%
Securities issued or guaranteed by the Republic of Macedonia or NBRM	80%
Bank deposits, certificates of deposit, bonds, mortgage backed securities and other securities issued by domestic banks	60%
Bonds and commercial notes issued by domestic joint stock companies, that are not banks	40%
Shares issued by domestic joint stock companies	30%
Participation units and shares of Macedonian investment funds	20%

According to the legal authorizations, in March 2007, MAPAS passed a decision to extend the previously passed decision for raising the investment limit for government securities. Based on the information and the estimates MAPAS determined that in the current period government bonds provide the highest return with the lowest risk. Because of the increased interest of the investors for buying shares, the demand for bonds decreased which led to reduction in the prices of the bonds, which on the other hand resulted in higher return upon their acquisition. Having in mind that the basic goal of investing pension funds assets is to provide the highest return only in the best interests of the pension funds members, MAPAS decided, just like in 2006, to increase the lawfully prescribed investment limit for government bonds from 80% to 100% with validity until December 31, 2007.

In 2007, the Pension Companies have increased the diversification of the portfolio of the pension funds under their management. Namely, in 2006, which was the initial year of implementation, the pension funds portfolios were consisted mainly of government securities (government continuous bonds, government denationalization bonds, government bonds for old savings and 3, 6 and 12-month government notes) and bank deposits. In 2007, besides government securities and bank deposits, shares took increased participation in the pension funds portfolios. In addition, in 2007 Pension Companies started investing abroad.

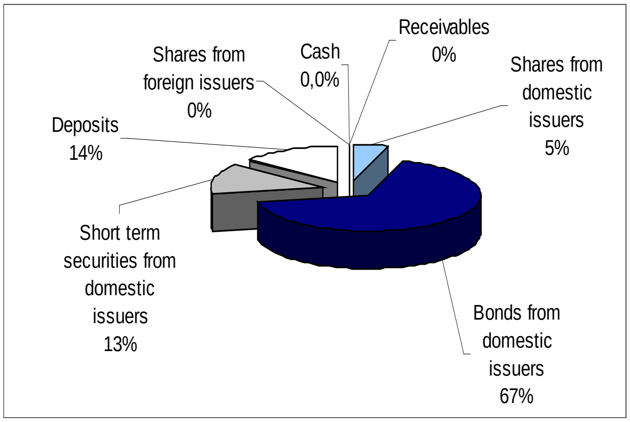
The structure of pension funds investments by quarters is shown on the graphs below:

Structure of investments of NPF

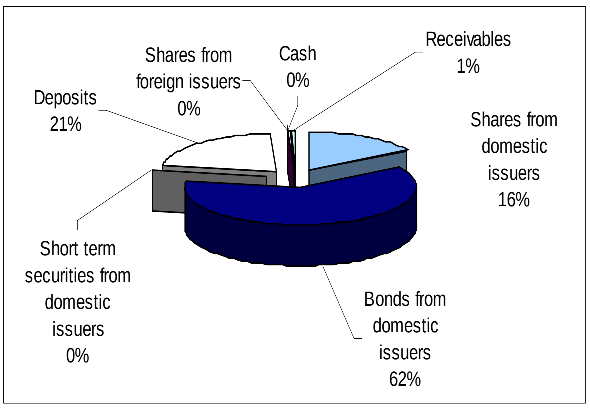
Structure of investments of KB Prv

31.12.2006

31.12.2006

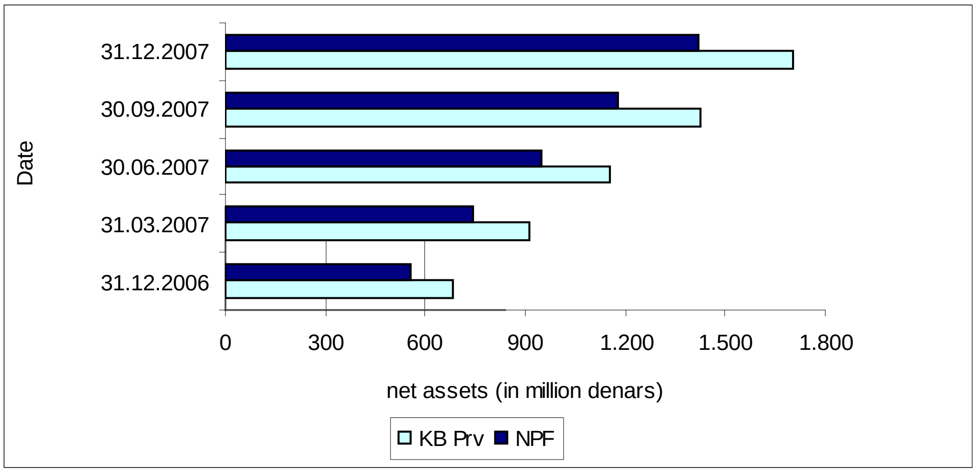

Receivables
0%
Cash
0,0%
Shares from
foreign issuers
0%
Shares from
domestic
issuers
5%
Deposits
14%
Short term
securities from
domestic
issuers
13%
Bonds from
domestic
issuers
67%

30.09.2007 **30.09.2007**



The contributions paid in the pension funds, decreased for the contribution fee, are invested immediately. The total amount of the return is assigned to the pension fund i.e. it is distributed to the individual accounts. Once a month, the Pension Companies charge the management fee as a percent of the pension fund's net assets. In addition, upon each transaction the pension fund is being charged with intermediary commissions. The valuation of pension funds is done on a daily basis. The valuation is based on the market value of each instrument or on the amortized value if the instrument is kept until maturity or if the market value of the instrument cannot be determined. The value of the assets of the pension funds is increased due to the contributions, the return on the investments and the increase of the value of assets in which the pension fund is invested. On the other hand, its value decreases as a consequence of payment of fees, decrease of the value of assets in which the pension fund is invested, transfers to other pension funds or to PDIF, and payments of pension benefits and inheritance.

The changes of the value of the pension funds assets on a quarterly basis are given in the graph below:



The changes in the assets of the pension companies from the beginning until the end of the year happen because of the following:

- inflow of contributions;
- decrease of fees and transaction commissions
- inflows as result to transfers from one pension fund to another (for persons who were temporarily allocated to another pension fund and have signed an agreement with the current pension fund)
- outflows due to transfers from one pension fund to another (for persons who were temporarily allocated to the current pension fund and have signed an agreement with the other pension fund)
- outflows to the PDIF (for persons who have terminated the membership agreements, surplus of paid contributions or due to acquisition of the right to a disability or survivors pension)
- outflows due to payment of inheritance
- inflows as a result to investment yields

Starting from the value of the net assets at the end of last year and taking into consideration the above-mentioned changes we come to the value of the net assets at the end of the year (shown on the table below):

In million denars

	NPF	KB Prv
Net assets as of December 31, 2006	557,1	684,4
Contributions	859,1	1024,0

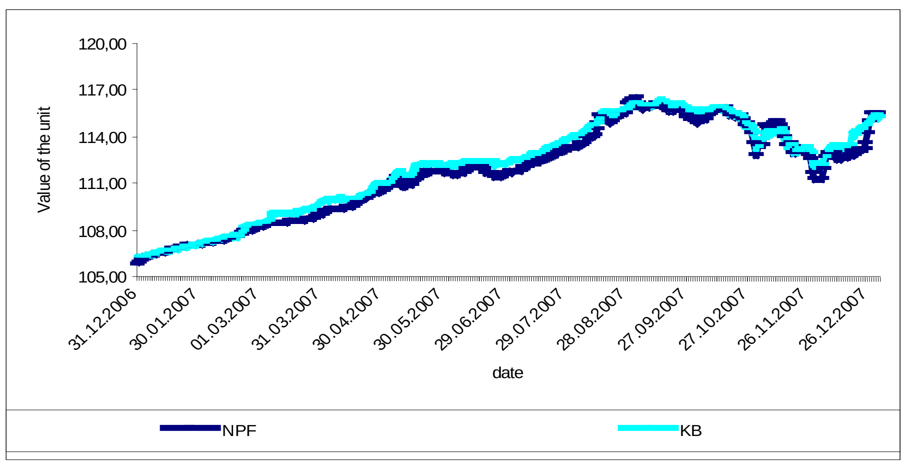
Fees from contributions	70,2	83,5
Contributions decreased for the fees from contributions	788,9	940,5
Fees from assets	5,8	7,0
Expenditures for intermediary commissions	3,6	3,9
Transfers from another pension fund	1,4	1,5
Transfers to another pension fund	1,5	1,4
Transfer to PDIF	2,5	3,8
Payment of inheritance	0,1	0,0
Gross investment yield	85,5	94,4
Net investment yield	76,1	83,5
Net assets as of December 31, 2007	1419,5	1704,5

As of December 31, 2007 the total net asses of the pension funds is around 3 billion denars or little over 50 million Euro, which represent 0.9% of GDP. [2]

The accounting unit is used for the record keeping of pension funds assets. One accounting unit represents a proportional participation in the total net assets of the pension fund. The value of the accounting unit is equal to the value of the net assets divided by the total number of accounting units on all individual accounts and sub-accounts. The starting value of the accounting unit was 100 denars, after which its value continuously grew, independently from the investments and the payments of fees and commissions.

The changes in the value of the accounting unit in the course of 2007 are shown below:

Date	Value of the accounting unit	
	NPF	KB Prv
31.12.2006	105,929336	106,265900
31.03.2007	109,034435	109,831520
30.06.2007	111,610073	112,384767
30.09.2007	115,203417	115,740937
31.12.2007	115,511364	115,303221



basis. Only for the first years, when the pension funds had existed for less than three years, the return is calculated for one i.e. for two years.

The return of the pension funds for the period from their establishment until each quarter of 2007, considered on annual basis is as follows:

Period	NPF	KB PRV
01.01.2006 - 31.12.2006	5.93%	6,27 %
01.01.2006 - 30.06.2007	7,61%	8,10%
01.01.2006 - 30.09.2007	8,47%	8,68%
01.01.2006 - 31.12.2007	**7,48%**	**7,38%**

The return of the pension fund is variable; therefore, the returns from the past period may not be reached in the future. The return on the individual account depends on the return of the pension fund and on the fees charged from the Pension Company.

3.4 Fees

According to the Law, the Pension Companies charge fees from contributions, assets and transfers. The collection of fees is necessary for the Pension Companies to perform their functions related to pension fund's asset management, valuation of assets, membership, record keeping of individual accounts, informing the members and payment of fees to MAPAS, PDIF and NBRM, as well as for covering own expenses.

This type of Pension Companies financing is common for pension systems similar to the Macedonian. The initial fee (percentage of contributions) is most accepted. The fee from assets (percentage of assets on the individual accounts) is the second most common type of fee charged on monthly basis. The third type of fee most frequently charged is the fee on performance or return. In the world, the most common practice is for Pension Companies to charge all these three fess or a combination of them. These are so-called current fees, which are constantly charged as a percentage of the above-mentioned bases. Also, in some countries there is an entrance fee as a one-time fee or as a percentage of the contributions in the first year. There is also an exit fee charged upon transfer of assets or withdrawal of assets for pension benefit.

The fees charged by the Macedonian Pension Companies are as follows:

Type of fee	Akcionersko drushtvo za upravuvanje so penziski fondovi NOV PENZISKI FOND Skopje	KB Prvo drushtvo za upravuvanje so penziski fondovi AD Skopje
Fee from contributions	8.5%	8.5%
	7.9% (from July 2007)	7.9% (from July 2007)

	6.9% (from February 2008)	6.8% (from February 2008)
Monthly fee from the value of the net assets of the pension fund	0.05%	0.05%
Transfer fee		
Number of months	Amount of transfer fee	Amount of transfer fee
Number of months ≤ 6	25 Euro	25 Euro
6< number of months ≤12 months	20 Euro	20 Euro
12< number of months ≤18 months	15 Euro	15 Euro
18< number of months ≤24 months	10 Euro	10 Euro
Number of months > 24	Not charged	Not charged

The number of months is determined based on the number of months counted from the first month the member acquired the right to a contribution in the current fund until the month of transfer to the future pension fund.

The transaction commissions charged from the pension funds assets in 2007 were as follows:

NPF			**KB Prv**		
Broker	Type of instrument		Broker	Type of instrument	
	Shares	Bonds		Shares	Bonds
Tutunska Broker AD Skopje	0.09%	0.09%	Komercijalna banka AD Skopje	0.08%	0.08%
Alta Vista Broker AD Skopje		0.09%	Fershped broker AD Skopje[3]	0.08%	0.08%
Stopanska banka AD Skopje	0.10%				
NLB DD Ljubljana	0.1%„ – 0.6%		Poteza	0.2% - 0.5%	

These transaction commissions are calculated as a percentage of the value of each completed transaction. Commissions are charged for each completed transaction from the pension funds assets for the Macedonian Stock Exchange and the Central Securities Depository.

[3] The fee is reduced in March 2007 (before this reduction the fee was 0.09% for bonds and shares)

The fee from contributions, which is charged as a percentage of contributions is paid upon payment of the contributions and afterwards the same contribution is invested until withdrawal of assets. The fee from assets is charged at the end of each month from the total assets under management. Fees from contributions are heavier to bear at the "beginning" or during the initial years, while the asset fees burden more "the end", considering that the accumulated assets are much larger as retirement approaches[4]. Considering that the pension system has to be observed over a long period of time, the existing structure of fees is favorable for the members. Namely, on a long run, the fee from contributions shall not have a substantial impact on the pension benefit of the member, while the fee from assets, which will grow significantly over the years, has been limited by the Law to be rather low. However, in the first 2-3 years of the functioning of the system, the influence of the fee from contributions is notable on the individual accounts. This is expected because during the initial years of the system's implementation, the assets of the pension funds are not as high and the Pension Companies have expenses for implementing the infrastructure and for their own operations, which they cover from their own capital and from the fees charged from the members. On a long run, as the system develops, the assets of the pension funds grow and it can be expected that the return on the individual accounts will be higher as well. The short-term results have a small significance since the system is designed for savings that will accumulate for 30 to 40 years. The members of the pension funds start to save when they are young and acquire the right to a pension benefit at 62 i.e. 64 year of age. Therefore, the focus on the results and the advantages from this type of insurance should be put on the long run.

Nevertheless, for protecting the interests of the pension funds members it is important to follow closely the fees and search for possibilities for their reduction. Therefore, the reality demonstrated that with the larger number of members than expected and hence more contributions in the second pillar there is a possibility for decreasing the fees. So, in June 2007, all state institutions included in the second pillar (MAPAS, PDIF and NBRM), decreased the fees that they charge from the Pension Companies, which resulted in decrease of the fees that the Pension Companies charge, for the amount of decrease of the state institutions. With the purpose to protect the interests of the pension funds members and to lower the costs of the system, at the end of 2007 MAPAS decided to make another reduction of the fee it charges the Pension Companies. This was a result of the projections on the expected inflows of contributions in the second pillar and the savings in MAPAS own expenditures resulting from the restrictive policy of the Government in regard to new employments, prohibitions for certain public procurements, as well as due to using foreign donations and loans for trainings and technical assistance. This led to yet another reduction of the fee charged by the Pension Companies for the amount reduced by MAPAS as well as additional reduction of their own part. The reduction had positive effect on bursting the competition and increasing the satisfaction of the members at the very beginning of the mandatory fully funded pension insurance, contributing to a higher confidence in the system and stimulating the development of fully funded pension insurance.

[4] Administrative Charges for Funded Pensions: An International Comparison and Assessment, Edward Whitehouse, June 2000

The collection of fees by the Pension Companies (in million denars) during 2007 is shown in the table below:

	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Total
NPF Total	4.90	5.86	6.01	6.04	6.29	6.25	6.27	5.93	6.05	6.79	7.74	7.87	76.00
From contributions	4.61	5.54	5.66	5.64	5.86	5.79	5.77	5.39	5.47	6.18	7.10	7.19	70.20
From assets	0.29	0.32	0.36	0.39	0.43	0.46	0.50	0.54	0.58	0.61	0.64	0.68	5.80
KB Prv Total	5.77	6.69	7.24	7.60	6.93	7.78	7.44	7.28	7.36	7.96	9.13	9.52	90.69
From contributions	5.41	6.30	6.80	7.12	6.41	7.22	6.84	6.63	6.66	7.22	8.36	8.70	83.67
From assets	0.36	0.39	0.44	0.48	0.52	0.56	0.60	0.65	0.70	0.74	0.77	0.82	7.02

3.5 Pension benefit payout

Retirement conditions are equal for the first as well as for the second pillar: retirement age is 64 for men and 62 for women with a minimum of 15 years of career.

One part of the old-age pension, disability and survivor's pension as well as the minimum pension is paid from the first pillar. The first pillar pension is calculated as a DB (defined benefit) by a previously determined formula (percentage according to the years of pension service multiplied by the pension base determined by the valorized salaries from the entire period of service).

The second pillar pays the rest of the old-age pension and the member may choose from the following options:

- pension annuity from the total amount of assets accumulated on the individual account; this is a life-time annuity paid from a specially authorized institution; or
- programmed withdrawals provided by the pension company that manages the pension fund of the insured person where he/she is a member on the day of retirement.

The provision of the annuities and the programmed withdrawals shall be regulated with a separate law.

In case an insured person acquired disability pension and he/she is a member of the second pillar, than the total amount of assets on the account of the member is transferred to the PDIF and the payout of the total amount of the disability pension calculated on the above-mentioned manner is done by the PDIF. On exceptional basis, if the amount of assets on the member's account is higher than the legally prescribed amount for disability pension than the member can choose instead of the pension to have either annuity payment or scheduled withdrawals. This exception shall not be applied during the first 5 years of the system's implementation i.e. the first five years from the first payment of contributions in the second pillar, meaning until December 31, 2010.

In case a second pillar members dies and his/her family members have the right to claim a survivors pension, the total amount of assets on the member's account is transferred to the PDIF and the payout of the total amount of the survivors pension calculated on the above-mentioned manner is done by the PDIF. On exceptional basis, if the amount of assets on the members account is higher than the amount for survivors pension pursuant to the Law on Pension and Disability Insurance than the survivors pension beneficiary can choose instead of the pension to have either annuity payment or scheduled withdrawals. This exception shall not be applied during the first 5 years of the system's implementation i.e. first five years after the first payment of contributions in the second pillar, meaning until December 31, 2010.

During 2007 there were four disability pensions and 18 survivors pensions acquired by the second pillar members or by the members of a deceased member. For all these cases, their accumulated assets were transferred to the PDIF, who does payouts of disability and survivors pensions.

Detailed overview of the pensions acquired by second pillar members, by pension funds is given below:

Type of pension/ Pension Fund	NPF	KB Prv
Disability Pension	1	3
Survivors Pension	5	13

Additionally, the legislation foresees payouts of the assets on the individual account without acquiring the right to a pension, in the following cases:

- in case when the deceased pension fund member has no family members entitled to a survivor's pension the assets on that member's account shall form part of his/her estate and will be managed in accordance with the Law on Inheritance.
- when a pension fund member has not acquired the right to an old-age pension according to the Law on Pension and Disability Insurance, because he/ she does not have 15 years of service, he/she can buy monthly pension annuities if their amount is equal or higher than 40% of the minimum pension or in case the calculated amount of pension annuities is lower than 40% of the minimum pension, the pension fund shall pay a lump sum of the accumulated assets on his/her account.

During 2007, assets were paid as inheritance from the individual accounts of four deceased members of NPF.

4. Information on voluntary pension funds

The Law on Voluntary Fully Funded Pension Insurance has been adopted at the beginning of 2008 and it is expected this insurance to be operational in the course of 2008.

Taking into account that in 2007, there were no voluntary pension funds existing, this section of the report will cover only conceptual legal provisions that regulate the essential segments of this insurance.

4.1 Membership

A person shall become a member of a voluntary pension fund by signing a voluntary membership agreement and by payment of contributions or by participation in a professional pension scheme organized by his/her employer or association were he/she is a member.

The voluntary membership agreement should be completed and signed in a standardized form personally by the contributor-member and the agent on behalf of the Pension Company. A third person should sign the contract, in case that person is paying the contributions for the member. Upon signing of the membership agreement, the Pension Company is represented only by the sales agent, registered in MAPAS Registry of Sales Agents.

The membership in one voluntary pension fund lasts until transferring to another pension fund or until acquiring the right to a pension benefit. In cases the member has career interruptions or does not pay the contribution, he/she shall remain to be a member of the pension fund and shall have all the rights as the other members who pay the contributions regularly.

4.2 Contributions

The payment of voluntary contributions can be done by the member of the voluntary pension fund, a third person or a sponsor for the participants in the occupational pension scheme (employer or association). These persons can decide by their own choice about the time and amount of contributions they will pay in the third pillar.

4.3 Investment, portfolio structure, net assets and rate of return

Usually, voluntary fully funded pension insurance, the same as mandatory, uses proactive control and qualitative and quantitative limits of investments at the initial stages of operations. In this light, the investment goal and principles are defined in the law and the secondary regulation, as well as the quality of the instruments in which the pension funds assets can be invested, the limits within the instruments and the issuers, prohibited investments, excess of investment limits etc. The basic principles of investment stipulated in the law are: safety of assets, investment risk diversification and maintenance of adequate liquidity in light of gaining the highest return only in the best interest of the members. However, if compared to the mandatory fully funded pension insurance, voluntary fully funded pension insurance has more liberal investment rules.

The law and the secondary regulations stipulate that the pension funds' assets can be invested in bank deposits and certificates, bonds and other long-term securities, shares and commercial notes issued by issuers with headquarters in the Republic of Macedonia and in the countries of the EU, the USA and Japan. Additionally, for the investments abroad, the Law allows investments in the European Central Bank, the European Investment Bank and the World Bank, as well as in debt securities issued by municipalities. In order to achieve adequate diversification among different types of investments the law foresees maximum investment limits in one company and maximum investment limits of amounts that can be invested in certain types of instruments. In order to block investments in instruments that are not adequate for pension funds assets, the Law prohibits investments in shares, bonds and other securities that are not listed or publicly traded, instruments that cannot be valued immediately, most forms of real estate that cannot be valued and several forms of commodities that have uncertain valuation, for example antiques and works of art.

Investment limits

Investments abroad (EU, OECD)	50%
Securities issued or guaranteed by the Republic of Macedonia or NBRM	80%
Bank deposits, certificates of deposit, commercial notes, bonds and mortgage backed securities issued by domestic banks	60%
Bonds and commercial notes issued by Macedonian joint stock companies, other than banks	40%
Shares issued by Macedonian joint stock companies	30%
Participation units and shares of Macedonian investment funds	5%

The return of the pension fund is the difference (growth) in percentage between the value of the accounting unit on the last day of the month and its value on the last day of the month preceding the 12, 24 or 36-month period, depending on each separate case. Usually, the return is calculated for the last three years, considered on annual basis. Only during the first years, when the pension funds have been in existence less than three years, the return is calculated for one i.e. for two years.

4.4 Fees

For performing the functions of pension fund management, for valuation of assets, membership, record-keeping of individual accounts and for informing the members, as well as for paying fees to MAPAS and the custodian, according to the Law on Voluntary Fully Funded Pension Insurance, the Pension Companies charge the following fees: from contributions, from assets and for transfers. The Law regulates the maximum amounts. Pension Companies can freely set the limits within the legal maximums.

Maximum fees that can be charged by Pension Companies in the Republic of Macedonia are as follows:

	Type of fee	Level of fee
1.	***Fee from contributions***	7,0%

2.	***Monthly fee from the pension fund net assets value***	0,15%
3.	***Transfer fee***	
	Number of months	Level of transfer fee
	Number of months ≤ 6	20 Euros
	6< number of months ≤12	10 Euros
	Number of months > 12	No fee

Number of months is determined based on the number of months from the first month when the person acquired the status of a member of the current pension fund to the month of transfer in the future pension fund.

4.5 Pension benefit payout

Conditions for acquiring pension benefit and the manner of pension benefit payout from the third pillar are more liberal than the second pillar ones.

Namely, third pillar assets can be withdrawn earliest 10 years before the retirement age pursuant to the Law on Pension and Disability Insurance. Now that means 54 years for men and 52 years for women.

In addition, when a member is being assessed as generally incapable for work by the Commission for Assessment of Working Capacity in the Pension and Disability Insurance Fund of the Republic of Macedonia, that member, regardless of the age, is entitled to withdraw the assets.

In case of death of a member of a voluntary pension fund, the assets on the member's account shall form part of his/her estate and will be managed in accordance with the Law on Inheritance.

A third pillar member can choose how to withdraw the assets from one of the following options:

- lump sum payment, one time or several installments;
- life time pension annuity paid from an authorized institution;
- programmed withdrawals provided by the Pension Company that manages the pension fund of the insured person where he/she is a member on the day of retirement; or
- combination of the above-mentioned options.

The provision of the pension benefits paid out from the second and third pillar shall be regulated with a separate law.

5. Compliance with the Law and the secondary regulations

One of the main tasks of MAPAS is to supervise on a daily basis the operations of the Pension Companies, by means of on-site and off-site control.

In 2007, MAPAS undertook regular off-site controls on the operations of the Pension Companies and Pension Funds based on the reports and information submitted by the Pension Companies and other institutions involved in the system.

Pursuant to the Law on Mandatory Fully Funded Pension Insurance, MAPAS approves all marketing materials of the Pension Companies before their issuance, as prevention in light of providing fair and objective information to the public. One hundred and one approvals for usage of marketing materials were granted during 2007. Additionally, MAPAS issued four warnings for irregularities in marketing activities of the Pension Companies, two orders for web site changes and one order and one decision for termination of usage of a marketing material.

Additionally, authorized persons from MAPAS determined few irregularities in some of the sales agents' operations during the control of their activities. These controls were undertaken upon members' complaints or during regular off-site controls. MAPAS passed 10 decisions for removal of 13 sales agents from the Sales Agents Register due to marketing activities at work place, irregularities and non-compliant activities in membership contract signing, disabling the right to an individual choice of a pension fund and for concluding contracts with persons for whom switching to the second pillar is not a favorable choice.

Within its legal responsibilities, MAPAS sent three requests for torts proceedings against sales agents. Also, MAPAS sent three requests for criminal proceedings against sales agents due to documents falsification, malpractice and abuse of personal data and one request for tort proceeding due to usage of unauthorized calculations of future pensions and misleading of members.

Consequently to irregularities and non-compliance determined in operations of one of the Pension Companies in relation to errors in the record keeping of the pension fund assets in the Custodian and Central depository, MAPAS passed decision for their removal. Afterwards the Pension Company informed MAPAS that it had complied with the decision and removed the irregularities.

During daily supervision of Pension Companies and pension funds certain irregularities and mistakes were determined, but having in mind that the control is mostly proactive the errors were corrected in due time by the Pension Companies.

MAPAS issued recommendations for improvement of the Pension Companies' operations based on the findings and the notes from the controls over both Pension Companies. The recommendations were built on the good business practices, the need for continuous improvement of the Pension Companies operations in order to enhance and develop the fully funded pension insurance and to protect the interest of the pension funds members. The recommendations referred to consistency in accounting policies, strengthening of internal audits, strengthening of human capacities for pension fund operations and control and gradual decrease of costs for consulting services from the Pension Companies' founders.

As part of the institutional control, authorized persons from MAPAS undertook controls of 69 branch offices and business associates of the Pension Companies. During these controls irregularities and non-compliances were determined in 39 branch offices for which MAPAS passed seven decisions for their removal.

During on-site controls of the Pension Funds no irregularities or non-compliance were discovered.

Overview of the measures undertaken by MAPAS in 2007:

	Measure	KB Prv	NPF	Total	Remark
1	Warning	3	1	4	Due to web site changes without prior approval by MAPAS
2	Order for stopping interviews, statements and unapproved marketing materials	2	1	3	Due to web site changes without prior approval by MAPAS and issuance of unapproved marketing material
3	Decision for stopping marketing material	1	0	1	Due to usage of unapproved marketing material
4	Decision for removal of sales agent from the Sales Agents Register	6	4	10	13 sales agents removed from the Sales Agents Register
5	Decision for removal of irregularities and non-compliances	4	4	8	Due to irregularities and non-compliance in 39 branches and due to irregularities and non-compliance in record-keeping of pension fund transactions
6	Decision for annulment of membership contract registration	5	10	15	137 contracts were annulled from the Members Register
7	Request for starting torts proceeding	3	1	4	Against Sales agents
8	Request for starting a criminal proceeding	2	1	3	Against Sales agents
	TOTAL	26	22	48	

In comparison to 2006, we can notice a decrease in the number of measures, especially in the decisions for removal of sales agents from the Sales Agents Register (in 2006, 19 decisions were passed for removal of 111 sales agents from the Sales Agents Register). Also, requests for starting torts proceedings, whose number equaled 25 in 2006, shows a decreasing trend that indicates higher level of tutoring, awareness and responsibility in Pension Companies' operations and their Sales agents.

6. Information on the operations of the Agency for Supervision of Fully Funded Pension Insurance - MAPAS

The Agency for Supervision of Fully Funded Pension Insurance- MAPAS supervises the operations of the Pension Companies and pension funds in order to protect the interests of the pension funds members, to enhance the development of the fully funded pension insurance and to develop the public awareness on the characteristics of the fully funded pension insurance.

The Agency, for its operations, reports to the Government of the Republic of Macedonia. The State Audit Office of the Republic of Macedonia performs the audit of the Agency's operations and the Ministry of Labor and Social Policy supervises the legality of the operations of the Agency. Bodies of the Agency are the Management Board and the Director.

As regulatory and supervisory body, the Agency performs the following activities:

(a) Performs the activities for collecting bids in the tender processes, grant, withdraw and abrogate licenses for establishment and approvals for managing Pension Funds;
(b) Supervises the operation of pension companies and the pension funds under their management and especially control their legal operation;
(c) Supervises the operation of legal entities acting as custodians or foreign asset managers of pension fund assets in relation to operating with such assets;
(d) Promotes, organizes and enhances the development of the fully funded pension insurance in the Republic of Macedonia, in co-operation with the Ministry of Labor and Social Policy;
(e) Develop public awareness of the purposes and operating principles of pension companies and the pension funds, on the benefits of pension fund membership, on the rights of pension fund members and other issues relating to the pension fund system;
(f) Proposes torts and criminal proceedings before authorized bodies against pension companies, custodians, foreign asset managers, and other entities in case of breaking the provisions of Law on Mandatory Fully Funded Pension Insurance or other Laws;
(g) Monitors and reviews the financial statements of Pension Funds and Pension Companies;
(h) Maintains a register of sales agents;
(i) Works in conjunction with the Ministry of Finance, the National Bank of the Republic of Macedonia, the Securities and Exchange Commission and other bodies and institutions in the country and abroad, to ensure an effective supervision and regulation of the fully funded pension insurance and the financial sector. The scope, content and the form of the cooperation shall be mutually regulated between the Agency and competent bodies and institutions;
(j) Co-operates with the Pension and Disability Insurance Fund of Macedonia on the authorizations assigned to the Pension and Disability Insurance Fund of Macedonia in accordance with the Law on Mandatory Fully Funded Pension Insurance;
(k) Issues regulations in accordance with the Law on Mandatory Fully Funded Pension Insurance;
(l) Issues internal guidelines regarding its operation and prepares guides, manuals etc. related to the fully funded pension insurance;

(m) Initiates passing of regulations and other acts relating to Pension Companies and Pension Funds;

(n) Becomes a member and participates in domestic or international organizations, where such participation is in the interests of the Macedonian pension system; and

(o) Performs other activities in accordance with the Law on Mandatory Fully Funded Pension Insurance.

If the Agency, during the inspection of the operations of the pension company and the management of pension funds, finds out that there are matters or acts subject to penalty by the Law, the Director or a person authorized by him/her shall submit a proposal for proceeding to the authorities. Pension fund members or former pension fund members may make a complaint to the Agency against a pension company for activities performed by that pension company, which are not in accordance with the Law and with that pension company's acts. A complaint may be made to the Agency by a pension fund member against other entities which had a business or contractual relationship with a pension fund and a pension company, in case the pension fund member believes that his/her interests as a pension fund member have been damaged as a result of violation of the Law by those entities in terms of their business or contractual relationships.

7. Summary of 2007 and planed activities for 2008

7.1 Summary of 2007

By the end of 2007, two years of implementation of the fully funded pension insurance have passed. The number of its members, as of December 31, 2007, was around 160,000 and the total amount of paid contributions was 3.2 billion denars during the first two years of the system's operations. The flow of contributions in the pension funds and their investments started with the payment of the January's 2006 salaries. The pension companies started investing the pension funds assets in deposits and government securities and then gradually moved towards investing in domestic shares, as well as shares abroad, which contributed to diversified investment of the pension funds' assets. They manage assets in amount of over 50 millions of Euros. The average rate of return for the first two years of operation, on annual level, is around 7.4%. At the same time, all institutions involved in the reduced their fees, which contributed to a decrease of the overall costs of the system, which directly or indirectly influences higher expected pension benefits for the members.

In this year, the complex process of reforming the pension insurance system has been completed, with the development of the design and the preparation of the legislation for introduction of the voluntary fully funded pension insurance.

7.2 Planned activities for 2008

The implementation of the third pillar is expected for mid 2008, which is conditioned with the adoption of amendments and additions to the Law on Mandatory Fully Funded Pension Insurance and the necessary adjustments in the existing secondary regulations, as well as preparation of new secondary regulation related to the voluntary fully funded pension insurance. At the same time, the amendments and the additions to the Law on Mandatory Fully Funded Pension Insurance will enable opening of the pension market and establishment of new pension companies. This will lead to new activities related to pension companies and pension funds licensing. With the implementation of the third pillar, marketing activities, membership and voluntary contribution payment in the third pillar will start.

As of January 1, 2008, transfer between pension fund members is allowed. Thus, activities related to this issue are expected during the following year.

In 2008, an analysis will be prepared with the assistance of consultants, which will cover the capital and financial markets from the viewpoint of the supply of pension funds assets vis-à-vis the supply of allowed financial instruments available for pension fund investment during the following years.

In addition, in the following year, it is expected that commercial banks in Macedonia will develop and implement the role of a custodian of pension fund assets.

Also, it is planned that in 2008 will be adopted the new law that shall regulate the in detail manner of payment and types of pension benefits from the second and third pillar.

MAPAS will continue, on a daily basis to monitor the developments in the fully funded pension insurance, to react accordingly and to collaborate with the institutions involved in the implementation of this insurance, as well as with other relevant institutions from the financial sector and the capital market. Also, MAPAS will continue to initiate changes of the laws and the secondary regulations in order to enhance the development of the fully funded pension insurance and to protect the interests of the pension funds members.

No. 01-783/1 Director,
May 6 2008 Zorica Apostolska