

The background of the entire page is a light gray surface covered with numerous 3D geometric shapes, primarily triangles and quadrilaterals, in white and light blue. These shapes are arranged in a seemingly random pattern, creating a sense of depth and modern design. A prominent red 3D triangle is located in the lower-left quadrant. A white rectangular box with a thin blue border is positioned on the right side of the page, containing the main text and logo.

> 2020

# REPORT

on the developments  
in the fully  
funded pension  
insurance



MAPAS

Agency for Supervision of Fully  
Funded Pension Insurance

Skopje, June 2021



# MAPAS

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Agency for Supervision of Fully  
Funded Pension Insurance



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# ABBREVIATIONS

**GDP** – Gross domestic product

**Second pillar** – Mandatory fully funded pension insurance

**VPF** – Voluntary pension funds

**SSO** – State Statistical Office

**EU** – European Union

**MPF** – Mandatory pension funds

**IOPS** – International Organisation of Pension Supervisors

**KB First** – KB First company for management of mandatory and voluntary pension funds AD Skopje

**KB Pv** – KB First open voluntary pension fund - Skopje

**KB Pm** – KB First open mandatory pension fund – Skopje

**MAPAS** – Agency for Supervision of the Fully Funded Pension Insurance

**NBRNM** – National Bank of the Republic of North Macedonia

**OECD** – Organisation for Economic Co-operation and Development

**First pillar** – Mandatory pension and disability insurance based on intergenerational solidarity

**SAVA** – Company for management of mandatory and voluntary pension funds – Sava Penzisko Drustvo AD Skopje

**SAV Av** – Open voluntary pension fund Sava Penzija Plus

**SAV Am** – Open mandatory pension fund Sava Penizski Fond

**Third pillar** – Voluntary fully funded pension insurance

**TRIGLAV** – Company for management of mandatory and voluntary pension funds TRIGLAV PENZISKO DRUSTVO AD Skopje

**TRIGLAV m** – Triglav open mandatory pension fund – Skopje

**PRO** – Public Revenue Office

**PDIFNM** – Pension and Disability Insurance Fund of North Macedonia

## INTRODUCTORY ADDRESSING



*The report on the situation in the fully funded pension insurance in 2020 by the Agency for Supervision of the fully funded pension insurance - MAPAS, contains a description of the characteristics of the fully funded pension insurance, data on the fully funded pension insurance, assessment of the execution of the regulations in the area of fully funded pension insurance and other data relevant to this insurance as of 2020. The report confirms that, even as the Corona pandemic dominates everyday life in 2020 and in the first half of 2021 still generates an uncertain environment, MAPAS ensures the continued functioning, development and promotion of the second and third pillars, transparency and effective supervision of the second largest segment in the financial sector in the Republic of North Macedonia.*

*The sharp deterioration of the global epidemiological situation caused by the spread of the Corona virus followed by the introduction of measures to preserve public health in the form of partial or complete restriction of movement caused major economic effects. The global health and economic crisis has had a pronounced impact on foreign and domestic financial markets, and Macedonian pension funds have not remained immune to current global trends.*

*The crisis briefly shifted the upward trends in the parameters of mandatory and voluntary fully funded pension insurance, so that there were downward shifts at the end of the first quarter of 2020, but pension funds in a relatively short time returned and exceeded the reduced value of assets.*

*Compared to last year, the total assets of both mandatory and voluntary pension funds increased by 15% and the total assets of mandatory pension funds reached 87.3 billion MKD, i.e. the total assets of voluntary pension funds reached 2.3 billion MKD. Thus, the total assets of the pension funds in the second and third pillars reached almost 13.5% of the gross domestic product for 2020. In 2019, the coverage of the population in the second pillar increased, i.e. 93% of the total number of insured persons in the PDIFNM or 56% of the total active population are members of the second pillar. Although there was growth, the share of the population in the third pillar is still modest, i.e. only about 2.7% of the total active population in RNM are members with a voluntary individual account and are participants in a pension scheme with a professional account in a voluntary pension fund.*

*The structure of the investment portfolio of mandatory pension funds does not differ significantly compared to last year. The start-up of the mandatory pension fund TRIGLAV did not have much impact on the overall investment structure of the mandatory pension funds, given the fact that in the initial years of operation the new fund still has a small amount of funds relative to the total mandatory pension funds. The investment portfolio in 2020 consists of domestic investments that include government securities (60%), deposits (10%), shares (3%), investment fund shares (0.02%) and corporate bonds (0.03. %), as well as investments abroad that include shares of investment funds (23%) and shares (5%). At the level of mandatory fully funded pension insurance, in the seven-year period 2014-2020, an average annual yield of 5.55% in nominal amount was realized, i.e. 4.85% in real amount, calculated by changing the weighted average of the accounting units of mandatory pension funds.*

*The structure of the investment portfolio of voluntary pension funds also does not differ significantly compared to last year and consists of domestic investments that include government securities (44%), deposits (14%), shares (8%), corporate bonds (2%) and a very small share in investment fund shares (0.01%), as well as investments abroad, which include investment fund shares (22%) and shares (6%). At the level of voluntary fully funded pension insurance, in the seven-year period 2014-2020, an average annual yield of 5.56% in nominal amount was realized, i.e. 4.86% in real amount, calculated through the change of the weighted average of the accounting units of voluntary pension funds.*

*Although in difficult conditions, in 2020, work was done on improving and specifying or simplifying certain procedures within the functioning of fully funded pension insurance, but in that direction, amendments to bylaws and instructions were adopted.*

*Pension savings are long-term, and the challenges posed by fully funded pension insurance are inevitable. The situation in the pension area must be monitored continuously, and thus appropriate measures must be taken in order to strengthen individual savings by encouraging competition, promoting efficient and flexible portfolio management and expanding coverage, and in the direction of protecting the interests of the members and the realization of a secure pension in old age.*

*We assure you that as a supervisory and regulatory body, in our daily work, we are guided by our mission and as in the past years, you will invest your resources in the direction of upgrading and improving the fully funded pension insurance.*

*We believe that this report with detailed data and information on the second and third pillars will be useful to all stakeholders.*

**President of the Council of Experts,  
Maksud Ali**

## IMPORTANT DATES IN 2020

**01.01.2020 г.**

The maximum allowed fee from contributions that can be collected by the pension companies in the second pillar has been reduced (from 2.25% to 2.00% contribution fee)

**31.12.2020 г.**

There have been fifteen years of operation of mandatory fully funded pension insurance



## MAPAS, MISSION AND VISION

**The Agency for Supervision of Fully Funded Pension Insurance - MAPAS** is a regulatory and supervisory institution established in order to take care of the interests of members and retired members of pension funds and to encourage the development of fully funded pension insurance. It was established in July 2002. It has the capacity of a legal entity with public authorizations, established by the Law on Mandatory Fully Funded Pension Insurance and the Statute. It is accountable for their work before the Assembly of the Republic of North Macedonia.

**MAPAS** is responsible for issuing, withdrawing and revoking licenses for establishing pension companies, licenses for performing activities - management of pension funds and issuance, withdrawal and revocation of approvals for management of mandatory and voluntary pension funds. It supervises the operations of pension companies, mandatory and voluntary pension funds, as well as property custodians and foreign asset managers. MAPAS also promotes, organizes and encourages the development of fully funded pension insurance in RNM, in cooperation with the Ministry of Labor and Social Policy and develops public awareness about the goals and principles of pension companies and mandatory and voluntary pension funds, for the benefits of membership in a mandatory and/or voluntary pension fund, including the objectives, principles and benefits of participating in an occupational pension scheme, for the rights of members of mandatory and voluntary pension funds and other issues related to a fully funded pension insurance. MAPAS adopts acts in accordance with the laws in the field of fully funded pension insurance as well as expert instructions, manuals, etc., related to fully funded pension insurance and initiates the adoption of laws and other acts related to pension companies and the pension funds they manage. MAPAS also cooperates with relevant institutions in the RNM and abroad in order to ensure effective control of the fully funded pension insurance in the RNM.

The Agency for Supervision of Fully Funded Pension Insurance is managed by a Council of Experts, composed of a President of the Council and four members, as follows:

Maksud Ali - President,  
Mentor Jakupi - professionally engaged member,  
Darko Sazdov - professionally engaged member,  
Borce Bozinoski - external member,  
Marina Makenadzjeva - external member.

**OUR MISSION** is to protect the interests of members and retired members of pension funds and to encourage the development of fully funded pension insurance, for safer retirement days.

**OUR VISION** is to be recognized as an independent, professional and transparent institution, which protects and promotes the pension system of RNM.



# **1 ● SUMMARY OF WORLD CONDITIONS AND TRENDS IN THE PENSION AREA WITH EMPHASIS ON FULLY FUNDED PENSION INSURANCE**

# 1. Summary of world conditions and trends in the pension area with emphasis on fully funded pension insurance<sup>1</sup>

The pension systems in the world are characterized by different structures as a result of the different socio-economic and demographic conditions in the countries, the influence of the culture of the people and their habits and perceptions of pension savings. In recent decades, the risks of an ageing population and the changing nature of the labor market have prompted a wide range of pension system reforms to mitigate them, but with the same ultimate goal of ensuring a sustainable pension system and adequate income for policyholders after their retirement.

The amount of pension assets in pension systems worldwide in 2019 followed a significant upward trend. After the observed decline in pensions in some countries in 2018, pensions in 2019 increased in all surveyed countries. The total amount of pensions in 2019 is almost twice as high as the amount of pensions at the end of 2009 (immediately after the global financial crisis in 2008) when they amounted to 27 billion USD. In 2019 (before the Corona virus pandemic), worldwide pension assets reached the highest amount and exceeded 50 billion USD (49.2 billion USD in OECD countries and 1.7 billion USD in selected non-OECD countries). The main drivers of pension systems worldwide are still pension funds (assets in the amount of 32 billion in 2019). Some countries also use other forms of pension savings, such as pension insurance agreements with insurance companies (for example, Denmark, France) or products provided and managed by banks and investment companies (such as individual retirement accounts).

The size of the assets of private pension systems in all countries is different, which is probably due to the different beginnings of the establishment of the systems, whether the inclusion in the pension plan is mandatory or voluntary and, of course, the investment results. In absolute terms, in seven OECD member countries (Canada, USA, Netherlands, Switzerland, United Kingdom, Australia and Japan), pension assets exceeded \$ 1 billion. On the other hand, assets of private pension systems in 70 (out of 90 countries that are surveyed) countries represent less than 0.2 billion USD. The value of the assets of private pension systems in all countries is different and in relative terms. Eight of the 37 OECD member countries at the end of 2019 had assets over 100% of their economy. In small countries like Iceland, accumulated assets are small compared to other pension systems, but high in relation to their economy (178% of GDP). On the other hand, the amount of pensions is less than 20% of GDP in 54 of the 90 countries surveyed, including some fast-growing countries (eg China, India).

Comparing the size of the value of assets of private pensions with the size of the economy, expressed in terms of gross domestic product, gives a better picture of the relative importance of the private pension segment in the country. The amount of pension assets in OECD countries in relation to the total GDP of OECD member countries increased from 60% in 2009 to 92% in 2019. As in 2009, in 2019 Denmark leads with 220% of GDP, followed by the Netherlands (194%) and Iceland (178%). In some non-OECD countries, pension assets have almost reached GDP levels (88% in Liechtenstein and 95% in South Africa). On the other hand, despite some increase, pensions in some countries (Albania, Greece and Serbia) are still less than 1% of GDP at the end of 2019.

<sup>1</sup> Sources used: OECD, World Bank, FIAP and IOPS reports, and own analysis and observations.

Another indicator of the importance of fully funded and private pensions in a country is the coverage rate. The coverage rate is a factor that greatly affects the overall. The coverage rate can be measured by the number of active members of the pension plans (persons who have funds in the pension plans and are not yet retired) in relation to the working population (persons aged 15 to 64). Joining a pension plan can be mandatory, voluntary or encouraged through automatic inclusion. Available data shows that in 2019, in 17 of the 32 surveys on the mandatory pension plans, more than 70% of the working age population is covered. Finland (93% of the working age population) and Estonia (88%) have the highest coverage rates. In Latin America, Chile has the highest coverage rate of 88% of the working age population, which is not the case in other countries. High rates of informal work in Colombia, Mexico and Peru explain the relatively low coverage rates in the mandatory pension plans (51% in Colombia, 34% in Peru). In addition, in some of these countries, policyholders have the right to choose between a intergenerational solidarity pension system and a privately funded pension system (Colombia, Peru). The participation in voluntary pension funds varies greatly across countries. More than half of employees in Germany and Iceland, and more than half of the working age population in Belgium, the Czech Republic, Japan and Poland were included in voluntary pension plans. In some countries, participation in voluntary pension plans was quite low, especially in Albania and Bulgaria and Kazakhstan. However, in Bulgaria and Kazakhstan, many insured persons are already members of the mandatory pension plans, 85% and 78% of the working age population respectively. The low coverage in Albania may be a result of the insufficient awareness of the population about such pension plans.

The large increase in pension assets in 2019 is partly due to the investment results of fully funded and private pension plans in 2019. The real investment return on pension assets (net of management costs) in 2019, in OECD countries averaged 8.0% and 4.4% in non-OECD countries. The weighted (in terms of pension assets) real net investment return also recorded higher values, 9.7% in OECD countries and 6% in non-OECD countries, reflecting the fact that some of the largest pension markets achieved higher gains. Pension assets recorded investment gains in almost all surveyed countries (the largest gains were recorded in Ireland (18.5%) and the Netherlands (13.7%). The real investment return on pensions in fifteen other countries, including Belgium, Costa Rica, Switzerland, the United States and North Macedonia, was more than 10%.

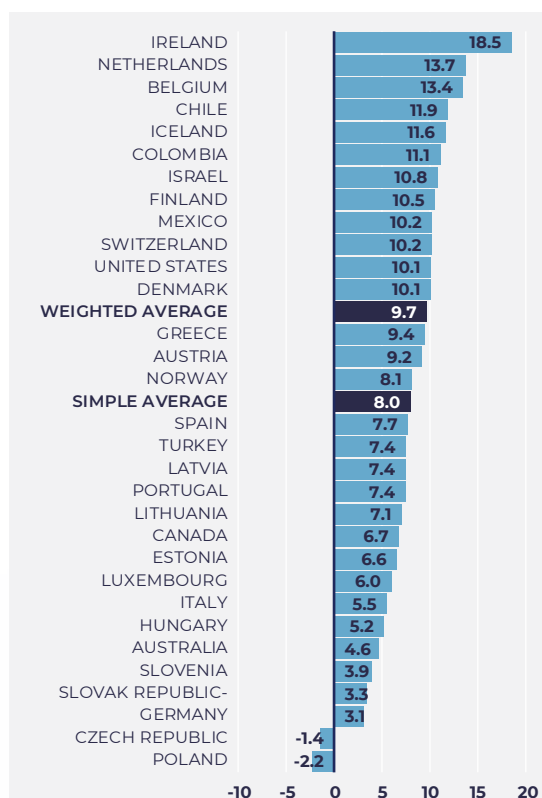
Pension assets generally recorded gains from the growth of capital markets in 2019, the major negative results in the last quarter of 2018. The ease of trade tensions between the United States and China, as well as the possibility of a Brexit deal, have contributed to the rise in securities prices. The main stock indices registered growth in 2019 compared to 2018 (eg 25% - FTSE 250, 26.5% - DAX and 28.9% - S & P500) Graph 1.<sup>2</sup> shows the real investment returns of pension assets, net of management costs for 2019, in selected OECD countries and selected non-OECD countries.

<sup>2</sup> Source: OECD, *Pension Market in Focus*, 2020.

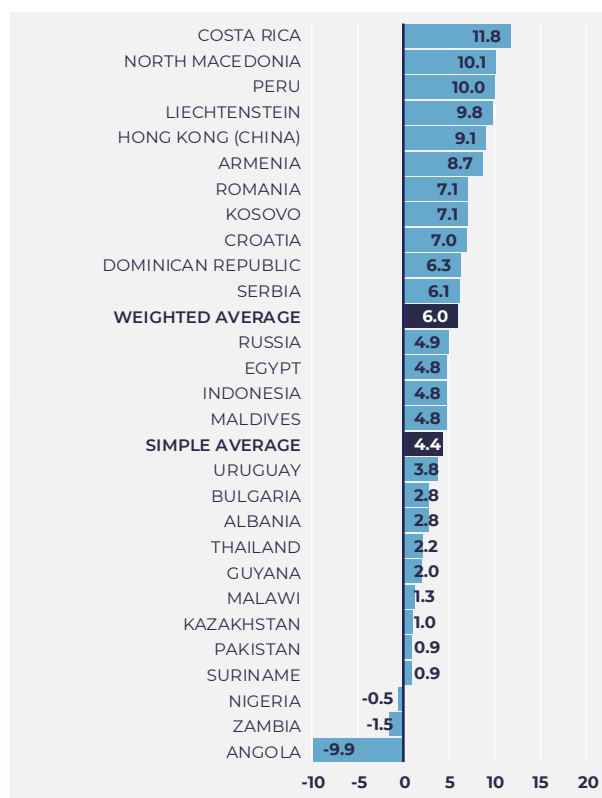
**Chart 1.1 Real investment yield on pension assets, net of management expenses, for 2019, in percentage**

(in %)

**A. Selected OECD countries**



**B. Selected other jurisdictions**



Long-term yield is more relevant indicator than short-term yield given the long-term nature of pension plans. Average nominal annual yields in the last 5, 10 and 15 years were positive in all surveyed countries, while average nominal annual yields for the same period adjusted for inflation were positive in almost all countries. Despite the relatively low and mostly negative investment results in 2018, pension plans have achieved positive real annual investment returns in the last five years in 50 of the 53 surveyed countries.

The results of investing in pension assets largely depend on the allocation of funds. In most surveyed countries, in 2019, pension assets were invested in bonds and stocks, in more than half of the investments in 34 of the 37 OECD countries and in 39 of the 47 surveyed non-OECD countries. Therefore, the development of bond and stock markets plays a major role in the financial performance of pension plans. The highest share of bonds and shares in the total portfolio of pension funds was in Chile (99%), Dominican Republic (97.3%), Mexico (96.6%), Estonia (96.4%), Nigeria (96.4 %), Romania (96.3%), Maldives (96.2%) and Croatia (95.7%). The percentage share of stocks and bonds differs in the countries in 2018. Although there is generally a greater preference for bonds, in 8 OECD countries and 11 non-OECD countries, the percentage share of shares was higher than the bonds. Government bonds, in contrast to corporate bonds, accounted for the bulk of direct bond investments in a number of countries. For example, government bonds accounted for 100% of direct bond investments in Albania and North Macedonia, 96.5% in the Maldives, 96% in Ghana and Serbia, 88.2% in the Czech Republic and 87.1% in Israel, but only 21.4% in Norway, and 12.2% in New Zealand. Also a significant part of pensions in some of the surveyed countries are in cash and deposits (22.9% of pensions in the Czech Republic). In most surveyed countries, investments in loans, real estate, private equity funds and other alternative investments account for a relatively small share of pension investment. A significant share of real estate investments (direct or indirect) is observed, for example, in Canada (more than 12% of total assets) and Switzerland (20%). The investment regulation may also provide for restrictions on investment in non-traditional instruments. Most countries restrict or completely ban investment in real estate (at least direct investment), private funds and/or loans. Some countries have reduced investment constraints in recent years and encouraged investment in infrastructure and long-term projects (such as Croatia and Romania). In Croatia, the 2014 amendments to the law expanded investment

opportunities for mandatory pension funds, for direct investment in infrastructure projects and alternative investment funds. In Romania, with the changes of the regulation from 2019, it became possible to invest the funds of the pension funds in infrastructure projects (up to 15% of the pension funds).

One of the main topics discussed in 2020, in addition to the discussions on digitalization and technology development in the pension sector, was the supervisory approach to strengthening cyber resilience in the private pension sector. The supervisors discussed supervisory measures and approaches in the field of cyber security, in order to summarize the experience so far, in order to advise financial institutions, including pension companies and pension fund managers, so that they can mitigate and respond effectively to cyber risks. In recent years, financial institutions, including private pension funds and companies, have increasingly relied on innovative technologies to develop new IT solutions, which have increased the volume of vulnerabilities and opportunities for cyber attacks. In 2020, the need for digital solutions to enable online services and information sharing, as well as work remotely through digital channels, increased with movement restrictions imposed by countries in response to the spread of the Corona virus. These conditions have increased security concerns, including the capacity of virtual networks to support remote work and information security from home access. Thus financial institutions have become quite exposed to cyber threats and attacks. Pension companies and pension funds store large amounts of personal data and assets of policyholders, making them an attractive target for cyber attacks, albeit to a lesser extent compared to banks and other payment service institutions. Insurers may incur damages related to misuse of personal data and loss of funds. Pension companies, on the other hand, may face operational challenges such as disruption of service processes and cessation of business activity, loss of data on members, non-fulfillment of financial goals and non-compliance with fiduciary duty. Therefore, cyber security is of great public interest and requires special and increased attention by supervisors nationally and internationally.

Discussions on pension projections continued in 2020. Pension projections can be a powerful tool for managing the expectations of pension fund members and can influence the decisions and choices that members have to make. They can educate members about the real value of a future pension and offer advice on making pension decisions. However, pension supervisors face major challenges in terms of providing quality projections (appropriate data, methodology, and assumptions), finding appropriate methods for presenting results, standardizing and ensuring compliance with regulations. The main questions of supervisors are mostly technical in nature and relate to the development of an appropriate methodology for long-term estimates, demographic assumptions (such as longevity) and macroeconomic assumptions (such as return on assets and interest rates on annuities). Of great importance is the challenge of how to effectively communicate the results of the projections with the members of the pension funds, and especially the presentation of the uncertainty of the projected results. In this regard, IOPS is in the process of developing good practices related to pension projections of fully funded pension systems in order to highlight and provide suggestions for the most important challenges related to pension projections from the perspective of pension supervisors.

Central to discussions in 2020 were developments in the pension area caused by the Corona virus pandemic. The pandemic disrupted business activities in all sectors, including the pension sector. The slowdown in economic activity around the world has caused unfavorable developments in the financial markets and in the labor markets, which in turn have had a major inevitable impact on the systems that ensure retirement income. The impact was reflected on pension savings, pension companies and funds, regulators and supervisors. These impacts can lead to lower retirement income and significant market failures. The main impacts that were identified are the following:

- Decrease in the value of pension savings due to the decline in financial markets
- Increase in liabilities due to decline in interest rates in pension plans with defined pensions and pension annuities
- Decreased ability to contribute to pension funds by policyholders, due to reduced wage benefits or job losses, as well as by workers affected by the financial crisis
- Operational interruptions as a result of remote operation
- Cyber-attacks, abuses and fraud against insurers, regulators, supervisors and pension companies and funds
- Reduction of savings and earned compound interest rate due to measures aimed at short-term relief which can have a serious negative impact on the long term, especially on pension adequacy (eg interruptions in contributions, enabling early access to pension savings).

Countries have introduced a variety of policies and measures to address the challenges posed by the pandemic, including pension savings. These policies applied to different participants in the pension systems, i.e. the members of the pension funds, their employers, pensioners and pension companies and funds. Five main groups of measures have been identified. The first four groups referred to ensuring the privacy of the private pension system and protection of future pension revenues and their adequacy, as follows: subsidizing contributions and funds, limiting the materialization of short-term investment losses, ensuring the solvency of guarantee plans and pension companies, protection of pension companies and funds and members from cyber risks. The last set of measures focuses on providing short-term benefits to policyholders and their employers, in order to protect short-term well-being in exchange for the potential cost of future retirement income.

Pension supervisors have taken a number of measures to protect the interests of members and beneficiaries of pensions from private pension schemes and funds, in order to maintain the operation and business continuity of pension schemes and funds and to ensure the financial strength of private pension plans in the current circumstances. In doing so, the International Organization of Pension Supervisors supported the flexible, pragmatic, proportionate and supervisory approaches based on risk assessment undertaken by its members, but also warned of some actions that could lead to a significant deterioration in pension benefits for beneficiaries. IOPS supported the need for early and clear communication, as well as guidance and advice to be provided by supervisors and supervised entities with relevant stakeholders. IOPS then reaffirmed the relevance, in such specific circumstances, of easing some regulatory constraints and providing temporary relief from certain requirements for employers or asset managers to enable them to continue their activities in a sustainable manner. The IOPS also recognized the need, in certain exceptional cases, for measures that facilitate the requirements for temporary access to pension savings accounts in order to address certain financial difficulties. In such cases, the IOPS also stressed the need to take into account the long-term interest of members and warned of certain actions that could lead to a significant deterioration in the pension benefits of beneficiaries. In this sense, early access to pension savings should be limited, temporary and proportionate to the real needs of the beneficiary, especially for the most vulnerable groups, and allow funds to be withdrawn in a meaningful way.

IOPS further emphasized the importance of:

- requests for supervised entities to prudently address the risks arising from the Corona virus crisis, including the implementation of appropriate contingency plans and loss mitigation measures in order to minimize the impact on members;
- ensuring strong supervision of pension funds and continuous careful monitoring of the activities undertaken by the entities under supervision;
- reviewing anticyclical policies in order to contribute as much as possible to the stabilization and recovery of economies;
- coordinating the policies of the private and public pension component; and
- establishment of appropriate mechanisms by supervisors and supervised entities for operational protection related to the Corona virus, including taking appropriate action to protect stakeholders from abuse of financial services users and strengthening financial education among users.

Preliminary data from the OECD for 2020 shows that pension fund assets in 2020 grew in almost all surveyed countries despite the shock caused by the Corona virus pandemic and the fall in assets at the end of March 2020. The assets of the pension funds at the end of 2020 reached 35 billion USD, which exceeded the amounts of the assets of the pension funds at the end of 2019. The assets of the pension funds in the OECD member countries, in 2020 compared to 2019, increased by 9% in the OECD member countries and reached the amount of 34.2 billion USD. Pension fund assets in non-OECD countries (31 countries surveyed) reached US \$ 0.8 billion in 2020, up just over 1% from the end of 2019.

The growth of pension fund assets in 2020 was supported by capital gains in the financial markets and government measures that helped the continued participation of members in their pension funds. A large increase in the assets of the pension funds was registered in Georgia (more than 100%), where the participation in the second pension pillar became mandatory from January 1, 2019. Only five of the 68 countries recorded reductions in pension funds (Australia, Poland, Chile, Jamaica and Peru). Pension funds in Australia, Jamaica and Poland were affected by the investment losses, while pension funds in Chile and Peru were reduced due to significant outflows of funds for members who took advantage of the repeated opportunity to withdraw part of their pension accounts savings, which was a measure triggered by the Corona virus pandemic.



However, uncertainty remains, given the emergence of new strains of the virus in different parts of the world and given the need to increase the number of immunized populations. The Corona virus and appropriate policy measures may still affect financial markets and cause potential price adjustments in the future.

In general, experts believe that the pandemic was a real-time test of the stability of pension fund management, the effectiveness of internal controls and crisis management strategies, and the communication of pension companies and funds with their members and beneficiaries. In general, the political measures caused by the pandemic, together with the economic measures, did not allow any major operational disruptions to the pension funds to occur. Similarly, it can be said that pension supervisors were tested, who also generally responded quickly to new circumstances and adapted supervision strategies accordingly. As pension systems play an important role in the financial markets, effective regulation and supervision become even more important. Pension regulators are expected to increase the focus on providing enhanced governance and enhanced risk management and change the supervisory approach to risk-based supervision. Also, an important factor, especially in conditions of economic uncertainty, is the trust of the members in the pension systems, which is directly related to the education of the members and the provision of clear information from the pension companies.

The OECD has made several valid policy recommendations addressing the impact of the pandemic on pension savings. Policy makers are advised to ensure continued membership and contribution to pension funds, while also providing flexibility for sponsors in defined-benefit pension plans to avoid requests for additional contributions in extremely difficult circumstances. Another important recommendation is to provide proportionate, flexible risk-based supervision with adequate communication. The flexibility imposed by the pandemic is expected to be removed when circumstances improve.



## **2. STRUCTURE OF THE FULLY FUNDED PENSION INSURANCE IN THE REPUBLIC OF NORTH MACEDONIA**

### **2.1. Description of the pension system**

### **2.2. The role of fully funded pension insurance in the pension system**

### **2.3. Institutions in fully funded pension insurance**

## 2. Structure of the fully funded pension insurance in the Republic of North Macedonia

### 2.1. Description of the pension system

The Macedonian pension system is part of the social insurance of the Republic of North Macedonia (RNM) and has the following structure:

- Insurance based on generational solidarity (so-called first pillar),
- Mandatory fully funded pension insurance (so-called second pillar),
- Voluntary fully funded pension insurance (so-called third pillar).

This structure is a result of the thorough reform of the pension system, which was prepared several years ago, and its legal framework was established in 2000. There are four laws and a number of bylaws that regulate the pension system in RNM. These are: the Law on Pension and Disability Insurance, the Law on Mandatory Fully Funded Pension Insurance, the Law on Voluntary Fully Funded Pension Insurance, the Law on Payment of Pensions and Pension Benefits from Fully Funded Pension Insurance and a number of bylaws that further elaborate the relevant area.

The pension system in RNM has a history of long existence, large coverage of the workforce and provision of pensions for insured persons. But the socio-economic changes in RNM in the early 1990s, had an impact on the pension system, which faced financial difficulties in its operation. They were caused by the unfavorable movements in the economy which affected the reduction of the number of active insured persons and the reduced collection of contributions, on the one hand, and the increase of the number of pensioners, on the other hand. Pension costs have been growing steadily.

Another factor that has a strong impact on the pension system is the demographic factor. Namely, the aging of the population, which is a world trend, means that people are living longer due to better living conditions and better health services, and at the same time the number of newborns is decreasing, i.e. of young people. As a result of this factor, the share of adults in the total population is increasing.

Such demographic changes in the pension system cause the emergence of an increased number of retirees and longer use of the pension, while reducing the number of insured persons. For a system with current financing, the ratio between the insured and the pensioners is very important, because the contributions from the existing insured pay the pensions to the existing pensioners. The actuary projections, made in the preparation of the pension system reform, showed that these factors might have negative impact on the solvency of the PDIFNM, in the long run, i.e. without reforms, the system would function with a pronounced deficit that will increase rapidly and significantly.

In order to meet these expected conditions, a thorough reform of the pension and disability insurance was implemented in our country, which introduced a three-pillar pension system, with a combined way of financing future pensions and diversification of demographic and economic risks, in order to ensure safe pension for current and future generations of pensioners and long-term financial stability of the pension system.

The first pillar is funded on an ongoing basis (PAYG), which means that contributions from existing policyholders pay the pensions of current pensioners. This pillar works on the principle of the so-called defined pensions, i.e. through it pensions are provided according to a predetermined formula for calculating the pension. The first pillar pays part of the old-age pension, disability pension, family pension, as well as the lowest amount of pension.

The second and third pillars are fully funded pension insurance in which the paid contributions are capitalized in the name and at the expense of the member. These two pillars operate on the principle of the so-called defined contributions, ie with them, the level of contribution to be paid is determined in advance, while the pension is determined later, depending on the accumulated amount. The second pillar pays part of the old-age pension. The third pillar provides financial protection/compensation during old age, disability and in case of death of the insured.

With the establishment of a multi-pillar pension system as a combined system of public, currently funded and private, fully funded pension insurance in RNM, it is expected to ensure long-term stability of the system and security in exercising pension and disability insurance rights, by achieving long-term benefits for individuals participating in the pension system, for the pension system itself, as well as additional effects on the economy. Namely, from the point of view of individuals, greater security is provided in the realization of the pension which will be financed from several sources, so that the risks are divided. At the same time, the reform achieves greater transparency and information of members of pension funds. The reform should lead to the establishment of a solvent pension system as well as increase savings and encourage investment of the population and stimulate economic growth.

## **2.2. The role of fully funded pension insurance in the pension system**

Fully funded pension insurance is radically different from current funded pension insurance both in terms of treatment and record of contributions paid and in terms of determining and paying the pension. In this insurance, each member has an individual account on which their assets are recorded and a close connection and dependence is provided between the volume of paid contributions and the future pensions that will be realized by each person. This type of insurance is based on the principle of accumulating funds from contributions to individual accounts, which are further invested and the realized return on investment, reduced by the operating costs of the system, is fully added to the funds accumulated on individual accounts. The future pension depends on the accumulated funds on the individual account and on the life expectancy at retirement, ie the expected period of using the pension. It is important to note that this pension savings is a long-term savings, during which there is a gradual but continuous increase in savings, due to which, initially, while the insured is young, the savings are small, but in the future, when the insured reaches retirement age, savings become significantly greater.

This insurance is characterized in a way that the funds in it are privately and competitively managed, so that the paid contributions are invested by specialized licensed pension companies that manage pension funds. In this way, the economic goals are determined to determine the investment strategy, creating an opportunity to maximize the overall return in the interest of the members. Diversification of investment risks (including international diversification) is one of the most important features of this system.

Furthermore, important features of fully funded pension insurance are the right to personal choice and the initiative of the individual. Before 1 January 2003, all employees were given the opportunity to decide whether to join the second pillar of the pension system and to choose which mandatory pension fund they wanted to join, while all newly employed persons after 1 January 2003 had the opportunity to choose a mandatory pension fund of their choice. Also with the amendments to the Law on Mandatory Fully Funded Pension Insurance from December 2018, to the members of the mandatory pension funds who voluntarily joined the second pillar (employed for the first time before 1/1/2003) and who were born before 01/01/1967, are given the opportunity to choose to terminate or resume membership in the second pension pillar. All newly employed persons after January 1, 2019 who on the date of joining the mandatory pension and disability insurance, are under the age of 40 have the opportunity to choose a mandatory pension fund of their choice. Then, the membership in the voluntary pension funds is at the choice of the individual or through participation in an occupational pension scheme, financed by the employer, or by a citizens' association. Portability is also an important right in a fully funded pension insurance system. All members of a mandatory or voluntary pension fund have the right to transfer from one pension fund to another, and their savings are transferred. In case of participation in an occupational pension

scheme, the person has the right, when transferring to another insurer, to transfer the saved funds either to another occupational pension scheme or to a voluntary individual account.

Fully funded pension insurance provides a high degree of transparency, which is one of its most important features and useful innovations in the pension system. The companies have a legal obligation, at least once a year to inform, in writing the members and retired members of the pension fund, about the balance of the funds on their individual accounts, by submitting the so-called “Green envelope”, with a report on pension savings. The green envelope also contains data on the investment of the pension fund, the collected fees and the realized return of the pension fund.

### 2.3. Institutions in fully funded pension insurance

The institutions that participate in the three-pillar pension system are:

- **Ministry of Labor and Social Policy** - responsible for creating and conducting the policy of pension and disability insurance and for supervising the implementation of the legality of this insurance.
- **Agency for supervision of fully funded pension insurance** - regulatory and supervisory institution in fully funded pension insurance. MAPAS charges a fee from the pension companies, which is calculated as a percentage of the contributions paid to the pension funds. For 2020 this percentage was 0.8%.
- **Pension company** - a joint stock company, established by financial institutions with large capital and experience, whose sole activity is managing the assets of pension funds. In the reformed pension system there is a possibility to establish three types of companies:
  - » Mandatory Pension Fund Management Company,
  - » Voluntary Pension Fund Management Company,
  - » Mandatory and Voluntary Pension Fund Management Company.
- **Pension fund assets custodian** - safely keeps the assets of the pension fund on a special account, separate from the assets of the company.
- **Public Revenue Office** - performs centralized collection of contributions and submits the total contributions for pension and disability insurance to the PDIFNM.
- **The Pension and Disability Insurance Fund of North Macedonia** distributes the pension insurance contributions between the first and second pillar and transfers the contributions and the relevant data for the members to the selected mandatory second pillar pension funds. Each company that manages a mandatory pension fund is obliged to pay a monthly fee to the PDIFNM in the amount of 0.1% of each paid contribution in the previous month in the mandatory pension fund it manages.

A pension company is a joint stock company that is established and operates in accordance with the Law on Trade Companies and the Law on Mandatory Fully Funded Pension Insurance, or the Law on Voluntary Fully Funded Pension Insurance. A pension company is established on the basis of a license from MAPAS and manages a pension fund on the basis of a pension fund management approval. A mandatory pension fund management company is established and manages only with mandatory pension funds, a voluntary pension fund management company is established and manages only with voluntary pension funds, and a mandatory and voluntary pension fund management company is established and manages with mandatory and with voluntary pension funds. The mandatory and voluntary pension fund management company should have a share capital of at least 1.8 million EUR in MKD counter-value according to the middle exchange rate of the National Bank of RNM, mandatory pension fund management company should have a share capital of at least 1.5 million EUR and a company for management of voluntary pension funds should have a share capital of at least 0.5 million EUR. In case of increase of the assets of the mandatory and / or voluntary pension fund managed by the pension company, the company is obliged to

increase the capital in accordance with the legal provisions. The only activity of the pension company is the management of pension funds, their representation before third parties and activities that directly arise from the performance of the work of management of pension funds. Basic responsibilities and activities of the pension company are: membership, asset management, risk management and control mechanisms for risk mitigation, administration and record keeping, compliance with laws and bylaws, regular reporting to members, the public and MAPAS, payment of programmed withdrawals of retired members, etc. The pension company operates in accordance with the rules for good corporate governance of the company and has a fiduciary duty to work only for the benefit of the members and retired members of the pension fund it manages, which it should implement by applying high standards of ethics and integrity and no conflict of interest. In order to perform these functions, the pension companies, in accordance with the law, charge three types of compensation. (More details on fees can be found in Chapters 5.7 and 6.7.)

A pension fund (mandatory or voluntary) is an open investment fund, which is established and operates in accordance with the Law on Investment Funds, unless otherwise regulated by the Law on Mandatory Fully Funded Pension Insurance or the Law on Voluntary Fully Funded Pension Insurance. The mandatory pension fund consists of the contributions and assets of the members, the assets of the retired members and the returns from the invested contributions and assets, reduced for the fees collected from the mandatory pension fund. The voluntary pension fund consists of voluntary contributions, paid in the name and on behalf of the members, members' funds, retired members' funds and returns on invested contributions and funds, reduced by the fees collected from the voluntary pension fund. The owners of the pension fund are its members and retired members, and their individual ownership rights are determined by the amount of funds on their accounts. The assets of the pension fund may not be subject to receivables, nor can such assets be enforced by, or on behalf of the creditors of the pension company that manages that pension fund.

In 2005 MAPAS through an international public tender, issued two licenses for the establishment of companies, thus establishing two pension fund management companies, and in 2009 MAPAS issued licenses to perform activity - management of a voluntary pension fund and approvals for management of a voluntary pension fund to the two existing mandatory pension funds management companies. During 2017 and the first half of 2018, a process of sale of the Joint Stock Company for Management of Mandatory and Voluntary Pension Funds "NLB Nov Penziski Fond" Skopje was conducted, i.e. 100% of the shares issued by NLB Nov Penziski Fond AD Skopje<sup>3</sup> were transferred to Pozavarovalnica Sava dd Ljubljana, Republic of Slovenia. In June 2018, MAPAS gave approval for changing the name of the company Joint Stock Company for Management of Mandatory and Voluntary Pension Funds "NLB New Pension Fund" Skopje voluntary pension funds Sava pension company a.d. Skopje, gave approval for change of the name of the pension fund Open Mandatory Pension Fund - "NLB Penziski fond" Skopje in Open Mandatory Pension Fund Sava Pension Fund and gave approval for change of the name of the pension fund Open Voluntary Pension Fund Skopje in Open Voluntary Pension Fund Sava Penzija plus. In 2019, a third pension company was established. Namely, at the end of March 2019, MAPAS issued a license for establishment of a company for management of mandatory and voluntary pension funds of Zavarovalnica Triglav DD Ljubljana, Republic of Slovenia and approval for management of a mandatory pension fund and approval for pension management.

As of December 31, 2020, in RNM, there are three pension companies that manage one mandatory and one voluntary pension fund, as shown in Table 2.1.

<sup>3</sup> Shareholders of the Joint Stock Company for Management of Mandatory and Voluntary Pension Funds "NLB Nov penziski fond" Skopje were Nova Ljubljanska Banka, DD, Ljubljana, Republic of Slovenia which participated with 51% in the capital of the company and NLB Banka AD Skopje, Republic of North Macedonia which participated with 49% in the majority of the company

**Table 2.1. Pension companies and pension funds in RNM**

<b>Company for management of mandatory and voluntary pension funds Sava Penzisko drustvo a.d. Skopje</b>	<b>KB First Management Company of mandatory and voluntary pension funds AD Skopje</b>	<b>Company for management of mandatory and voluntary pension funds TRIGLAV PENZISKO DRUSTVO AD Skopje</b>
Which manages:	Which manages:	Which manages:
<ul style="list-style-type: none"> <li>• Open Mandatory Pension Fund Sava Pension Fund</li> <li>• Open voluntary pension fund Sava Penzija Plus</li> </ul>	<ul style="list-style-type: none"> <li>• KB First Open Mandatory Pension Fund - Skopje</li> <li>• KB First Open Voluntary Pension Fund - Skopje</li> </ul>	<ul style="list-style-type: none"> <li>• Triglav Open Mandatory Pension Fund - Skopje</li> <li>• Triglav Open Voluntary Pension Fund - Skopje</li> </ul>
Pension fund custodian: NLB Banka AD Skopje	Pension fund custodian: Sparkasse Macedonia AD Skopje	Pension fund custodian: Komerijalna Banka AD Skopje
Shareholder: - Pozavarovalnica Sava d.d. Ljubljana, Republic of Slovenia - 100% participation in the capital of the company.	Shareholders: - Skupina First Zavarovalni Holding DD Ljubljana, Republic of Slovenia - 51% share in the capital of the company.  - Komerijalna Banka AD Skopje, Republic of Northern Macedonia - 49% share in the capital of the company.	Shareholder: - Zavarovalnica Triglav DD Ljubljana, Republic of Slovenia - 100% share in the capital of the company.
Founding capital: 2.1 million EUR	Founding capital: 1,8 million EUR	Founding capital: 3 million EUR

One of the pension companies had a combination of domestic (49% share) and foreign (51% share) shareholders, while two pension companies have a single foreign shareholder (100% share). The shareholders of the three pension companies are listed in Table 2.1.

The assets of the pension fund are completely separate from the assets of the company that manages that fund and are kept by a property banker. This segregation of assets is extremely important in order to achieve a high degree of asset security and additional control of transactions with the assets of the pension fund. The function - custodian of property, for both mandatory and voluntary pension funds, is performed by commercial banks that meet the legal requirements and with which the company has concluded agreements for custody of the assets of the pension funds. The three pension companies have selected a custodian for the two pension funds they manage, as shown in Table 2.1. For their custody function of the mandatory and voluntary pension funds, the custodians charge a fee from the pension companies. The fees are calculated as a percentage of the assets of the pension funds, in accordance with the concluded agreements for safekeeping of the assets of the pension funds. Table 2.2 gives an overview of the fees charged by the custodians of the pension companies in 2020.



**Table 2.2 Fees charged by custodians of pension companies for custody of pension fund assets**

<b>For mandatory pension funds</b>	<b>Amount (annually)</b>	<b>For assets value (in million EUR)</b>	<b>Date of application</b>
Sparkasse Macedonia AD Skopje as an asset custodian of KBPm	0.036%		3 October 2019
	0.034%		3 October 2020
	0.032%		3 October 2021
	0.030%		3 October 2022
Komercijalna Banka AD Skopje as an asset custodian of SAVAm	0.092%	to 100	21 July 2015
	0.087%	over 100 to 200	
	0.077%	over 200 to 300	
	0.070%	over 300 to 400	
	0.064%	over 400 to 500	
	0.060%	over 500 to 600	
	0.053%	over 600 to 700	
	0.046%	over 700 to 800	
	0.042%	over 800 to 900	
	0.034%	over 900	
NLB Banka AD Skopje as an asset custodian of SAVAm	0.058%	to 100	4 April 2019
	0.055%	over 100 to 200	
	0.050%	over 200 to 300	
	0.048%	over 300 to 400	
	0.040%	over 400 to 500	
	0.037%	over 500 to 600	
	0.035%	over 600 to 700	
	0.032%	over 700 to 800	
	0.029%	over 800 to 900	
	0.025%	over 900 to 1000	
	0.024%	over 1000	
Komercijalna Banka AD Skopje as an asset custodian of TRIGLAVm	0.050%	to 50	1 April 2019
	0.041%	over 50 to 100	
	0.038%	over 100 to 200	
	0.035%	over 200 to 300	
	0.033%	over 300 to 400	
	0.028%	over 400 to 500	
	0.026%	over 500 to 600	
	0.025%	over 600 to 700	
	0.023%	over 700 to 800	
	0.020%	over 800 to 900	
	0.018%	over 900 to 1000	
	0.017%	over 1000	
<b>For voluntary pension funds</b>	<b>Amount (annually)</b>	<b>For assets value (in million EUR)</b>	<b>Date of application</b>
Sparkasse Macedonia AD Skopje as an asset custodian of KBPv	0.06%		3 October 2018
Komercijalna Banka AD Skopje as an asset custodian of SAVAv	0.25%	to 50	15 July 2009
	0.20%	over 50	
NLB Banka AD Skopje as an asset custodian of SAVAv	0.180%	to 50	4 April 2019
	0.144%	over 50	



# **3. Amendments to the laws and bylaws which regulate fully funded pension insurance**

### **3. Amendments to the laws and bylaws which regulate fully funded pension insurance**

During 2020, two decrees with legal force were adopted regarding the fully funded pension insurance. On the other hand, during 2020 the MAPAS Council of Experts adopted five amendments to the regulations, which refer to the mandatory and/or voluntary fully funded pension insurance.

During 2020, the Government of the Republic of North Macedonia adopted two decrees with legal force regarding the application of the provisions of the laws related to the fully funded pension insurance, as follows:

1. Decree with legal force for application of the provisions of the Law on Mandatory Fully Funded Pension Insurance during a state of emergency ("Official Gazette of RNM" no. 94/20120 of 7.4.2020) and
2. Decree with legal force for application of the provisions of the Law on Payment of Pensions and Pension Benefits from the Fully Funded Pension Insurance during a State of Emergency ("Official Gazette of the RNM" No. 94/20120 of 7.4.2020)

These two decrees apply during the state of emergency in the country in conditions of a coronavirus pandemic. Pursuant to the Decree on the Law on Mandatory Fully Funded Pension Insurance, the deadlines set by the Law on Mandatory Fully Funded Pension Insurance are set for MAPAS to take certain actions related to licensing and examination for agents, and in relation to administrative procedure, stop going during the duration of the state of emergency and continue after the expiration of the duration of the state of emergency, but only for the remaining days, from the day of the expiration of the duration of the state of emergency. Pursuant to the Decree on the Law on Payment of Pensions and Pension Benefits from Fully Funded Pension Insurance, the deadlines that in accordance with the Law on Payment of Pensions and Pension Benefits from Fully Funded Pension Insurance, are set for taking certain actions of the PI Fund for exercising the right to an old-age pension from the second pillar, which expire during the duration of the state of emergency, cease to flow during the duration of the state of emergency and continue after the expiration of the duration of the state of emergency, but only for as many days as that from the day of the expiration of the duration of the state of emergency.

During 2020, MAPAS prepared amendments to the existing bylaws related to the mandatory and/or voluntary fully funded pension insurance, as follows:

1. Rulebook on amending and supplementing the Rulebook on the rules and minimum standards for determining interest rates ("Official Gazette of RNM" no. 6/2020 from 10.1.2020);
2. Rulebook on amending and supplementing the Rulebook on the rules and minimum standards for determining interest rates ("Official Gazette of RNM" no. 174/2020 dated 30.6.2020);
3. Rulebook on amending the Rulebook on the manner and procedure of marketing of pension funds ("Official Gazette of RNM" no. 116/20120 of 5.5.2020);

4. Rulebook on amending and supplementing the Rulebook on the manner of membership of a voluntary pension fund ("Official Gazette of the RNM" no. 211/2020 from 2.9.2020);
5. Rulebook on amending and supplementing the Rulebook on reporting to the Agency for Supervision of Fully Funded Pension Insurance by the custodian ("Official Gazette of RNM" no. 294/2012 from 11.12.2020);

The amendments to the rulebooks were made in order to specify certain procedures and compliance with amendments to the relevant acts. Namely, the amendments to the rulebook regarding the rules and minimum standards for determining interest rates supplemented the provision regarding the conditions for determining the nominal interest rate in case the fund has been operating for less than three calendar years, were revised and specified. The minimum standards for selection of interest rate for annuity factor related to medium-term and long-term government securities and it was determined that the interest rate used for calculation should not be less than zero. Then, with the amendment of the rulebook regarding the marketing of the pension funds, the obligation of the pension company to exclude the marketing materials published in audio form, to contain information about MAPAS in order to increase the efficiency in informing the public through radio marketing materials and to reduce the possibility of confusion with the contact data of MAPAS and the pension companies has been reduced. The amendment of the Rulebook for membership in a voluntary pension fund clarifies the provision regarding the termination of the contract for membership in a voluntary pension fund between the payer and the member and the provisions are being supplemented which refer to transferring the assets from the professional account on a voluntary individual account, which determines that if the participant in the occupational pension scheme is a retired member, the company keeps the funds on the occupational account. The amendments to the Rulebook on reporting to the Agency for Supervision of Fully Funded Pension Insurance by the custodian complied with the provisions with the Rulebook on assessment of the assets of the mandatory and voluntary pension funds, according to which the pension company in determining the market value of a certain security which is traded on the market of the EU and OECD countries, in addition to Bloomberg, can use the information about the financial instrument and the financial information service Refinitiv.

During 2020, MAPAS updated the existing ones and prepared new ones, and adopted the following guidelines:

1. Instructions for filling in the pension savings reports (January 2020);
2. Technical instructions for agents of pension companies (May 2020).

## **4. Data on the financial operations of the pension companies**

**4.1. Revenues and expenses of the pension companies for 2020**

**4.2. Financial result of the pension companies**

**4.3. Capital, share capital and own funds of pension companies**

**4.4. Indicators**

## 4. Data on the financial operations of the pension companies

Pension companies prepare financial statements for their financial operations, in accordance with the Law on Trade Companies, the Rulebook on the form and content of the financial statements of the pension company and the Rulebook on Accounting and the applicable international accounting standards. The data, on the basis of which the analysis in this chapter is made, is from the unaudited annual financial statements of the three pension companies, as of December 31, 2020.

### 4.1. Revenues and expenses of the pension companies for 2020

For performing the sole activity - managing the assets of pension funds, the pension companies are financed through legally determined fees, i.e. they charge a fee from contributions, a fee from the funds of the pension funds and a transfer fee. Pension companies also have financial income as a result of investing free cash in deposits and securities, which are allowed in accordance with the Law on Voluntary Fully Funded Pension Insurance. The revenues of the three pension companies for 2020 are given in Table 4.1.

Table 4.1. Revenues of pension companies for 2020 (in MKD)

BASE	SAVA		KB FIRST		TRIGLAV	
Revenues from the management of the mandatory pension fund						
Reimbursement of contributions	86,584,659	33.57%	94,206,834	32.92%	4,200,769	44.02%
Compensation of funds	134,526,679	52.16%	150,520,633	52.60%	2,639,638	27.66%
Transfer fee	3,776	0.00%	2,790	0.00%	1,851	0.02%
Total income from managing the mandatory pension fund	221,115,114	85.73%	244,730,257	85.52%	6,842,258	71.70%
Revenues from the management of the voluntary pension fund						
Reimbursement of contributions	4,161,449	1.61%	4,216,912	1.47%	0	0.00%
Compensation of funds	12,471,639	4.84%	9,317,016	3.26%	0	0.00%
Transfer fee	0	0.00%	0	0.00%	0	0.00%
Total income from managing the voluntary pension fund	16,633,088	6.45%	13,533,928	4.73%	0	0.00%
Financial revenues	17,884,298	6.93%	25,877,053	9.04%	2,628,117	27.54%
Other revenues	2,296,995	0.89%	2,019,805	0.71%	72,471	0.76%
Total revenues	257,929,495	100.00%	286,161,043	100.00%	9,542,846	100.00%

In carrying out their sole business, pension companies generally have costs for managing the assets of the pension funds, for assessing the assets, subscribing, keeping accounts of the members and for informing the members as well as for paying the fees for MAPAS, for the PDIFNM both for the assets custodian and for covering costs related to the operation of the pension companies. The costs of the pension companies are divided into three groups: costs for managing the mandatory pension fund, costs for managing the voluntary pension fund and costs for managing the company. The costs of the three pension companies in 2020 are shown in Table 4.2.

Table 4.2. Expenses of pension companies for 2020\* (in MKD)

BASE	SAVA		KB FIRST		TRIGLAV	
Mandatory pension fund management costs						
Expenses for company agents	929,055		854,595	0.65%	3,041,533	7.29%
Marketing costs	10,621,718		7,438,096	5.69%	2,150,196	5.15%
Transaction costs	38,559		0	0.00%	0	0.00%
Costs for MAPAS	34,608,160		37,654,926	28.82%	1,685,603	4.04%
Property custodian costs	13,456,118		14,878,157	11.39%	369,213	0.88%
Expenses for the PDIFNM	4,277,862		4,709,521	3.60%	208,698	0.50%
Other costs of fund management	1,150,830		1,137,429	0.87%	1,222,112	2.93%
Total costs for managing the mandatory pension fund	65,082,302		66,672,724	51.03%	8,677,355	20.79%
Expenses for managing the voluntary pension fund						
Expenses for company agents	3,774,829	2,48%	581,579	0.45%	0	0.00%
Marketing costs	731,018	0,48%	718,180	0.55%	0	0.00%
Transaction costs	33,932	0,02%	0	0.00%	0	0.00%
Costs for MAPAS	1,293,467	0,85%	1,240,577	0.95%	0	0.00%
Property custodian costs	1,881,324	1,24%	623,137	0.48%	0	0.00%
Other costs of fund management	56,183	0,04%	67,565	0.05%	0	0.00%
Total costs for managing the voluntary pension fund	7,770,753	5,11%	3,231,038	2.47%	0	0.00%
Pension company management costs						
Salaries and allowances for employees	49,458,717	32.51%	35,852,733	27.44%	15,978,212	38.28%
Service costs	14,593,653	9.59%	6,211,414	4.75%	10,032,386	24.03%
Costs for raw materials and other materials	1,022,806	0.67%	1,023,211	0.78%	527,526	1.26%
Depreciation	1,850,417	1.22%	4,175,263	3.20%	2,919,576	6.99%
Financial expenses	132,541	0.09%	5,010,332	3.84%	0	0.00%
Other expenses from the work	11,987,619	7.88%	7,059,157	5.40%	2,802,448	6.71%
Cost and risk provisions	255,471	0.17%	1,408,530	1.08%	806,253	1.93%
Total costs of managing the company	79,301,224	52.12%	60,740,640	46.49%	33,066,401	79.21%
Total costs	152,154,279	100.00%	130,644,402	100.00%	41,743,756	100.00%

\* For the costs, the data that cannot be separated, according to the mandatory and voluntary pension fund, the pension company uses the number of members in the mandatory, i.e. in the voluntary pension fund as a separation weight.

Within the revenue, both SAVA and KB First show an increase in total revenues in 2020 compared to 2019, by about 6% at SAVA and 5% at KB First. Thereby, most of the revenues of SAVA and KB First, in 2020, come from the compensation of funds from the mandatory and voluntary pension funds (about 57% with SAVA and 56% with KB First), followed by the compensation of contributions in the mandatory and voluntary pension funds (about 35% in SAVA and 34% in KB First). Compared to the previous year the percentage share of the income from the contributions from the contributions in the total income in both pension companies, decreased by about five percentage points in SAVA and about four percentage points in KB First. Consequently, the percentage share of the revenues from the compensation of funds increased by about five percentage points with SAVA and KB First. Compared to 2019, the percentage share of financial income with SAVA remains approximately at the same level, while with KB First it decreased by about one percentage point. The percentage share of the other revenues of the companies is the lowest and remains at approximately the same level compared to the previous year in both pension companies.

Regarding the expenditures in 2020, compared to 2019, both SAVA and KB First saw a decrease in total costs by about 0.5% at SAVA and about 2.5% at KB First. At SAVA, most of the costs, i.e. about 52% of the costs are related to the operation of the company, in which the largest are the costs of salaries and allowances for employees, followed by service costs and other operating costs. At KB First in 2020, the costs related to the operation of the company amount to about 46%. Again, most of these costs relate to the cost of salaries and allowances for employees, followed by other operating costs and service costs. The remaining 54% of the costs of KB First refer to the costs of managing the pension funds. At SAVA, the costs for managing the pension funds were about 48%. Thereby, the costs for marketing and agents are about 11% of the total costs with SAVA and about 7% of the total costs with KB First, which compared to the previous year means that in both pension companies the share of these costs remained at approximately the same level. About 37% of the costs with SAVA and 45% of the costs with KB First refer to the fees for MAPAS, the PDIFNM and the assets custodians.

TRIGLAV started with pension fund management activities and marketing activities of a mandatory and voluntary pension fund and public opinion poll from 1.4.2019. As of the end of 2020, there is still no recorded payment of voluntary contribution in Triglav Voluntary Pension Fund - Skopje. That is, during the period until 31.12.2020, only Triglav Open Mandatory Pension Fund - Skopje operates. Hence, the revenues and expenditures in 2020 of TRIGLAV are related only to the mandatory pension fund. There is a significant difference in the amounts and distributions on the basis of income and expenses in relation to SAVA and KB First, which have been operating for fifteen years. In TRIGLAV, the revenues from the contribution fee, i.e. about 44% of the total revenues, have the largest share on the revenue side. Compensation income has a smaller share of about 28%. This is to be expected, because in the first years of the fund's operation, the funds in the mandatory pension fund are smaller. Significant share (about 28%) in the total income of TRIGLAV have the financial income, which is due to the amount of own funds invested by the company and the amount of the founding capital. In terms of expenses, most of the costs, i.e. about 79% of the costs relate to the operation of the company, in which the largest are the costs of salaries and allowances for employees, followed by service costs and other operating costs. The costs for managing the mandatory pension fund are about 21%. The costs for marketing and agents are about 12% of the total costs. About 5% of the costs refer to the fees for MAPAS, the PDIFNM and the custodians and about 3% are other costs from the management of the mandatory pension fund.



Chart 4.1. Revenue structure per company, for 2019 and 2020

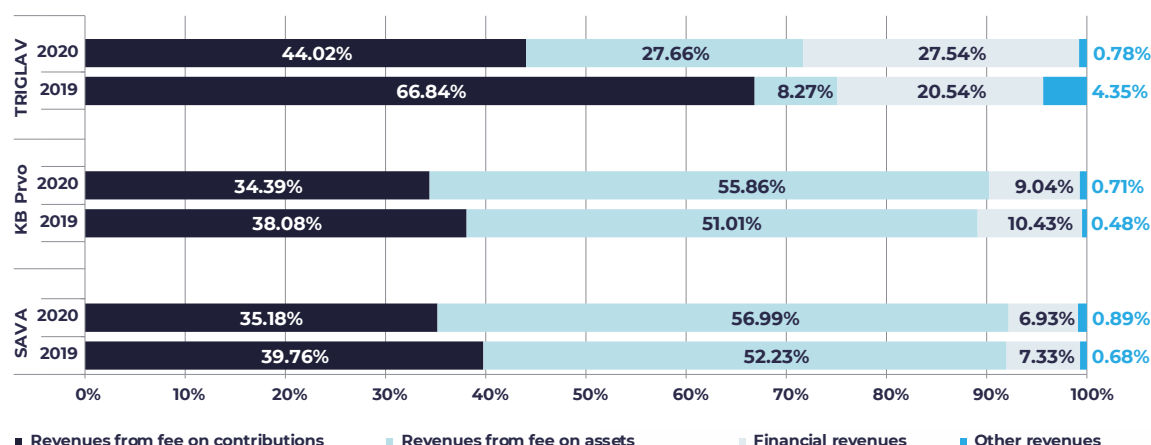
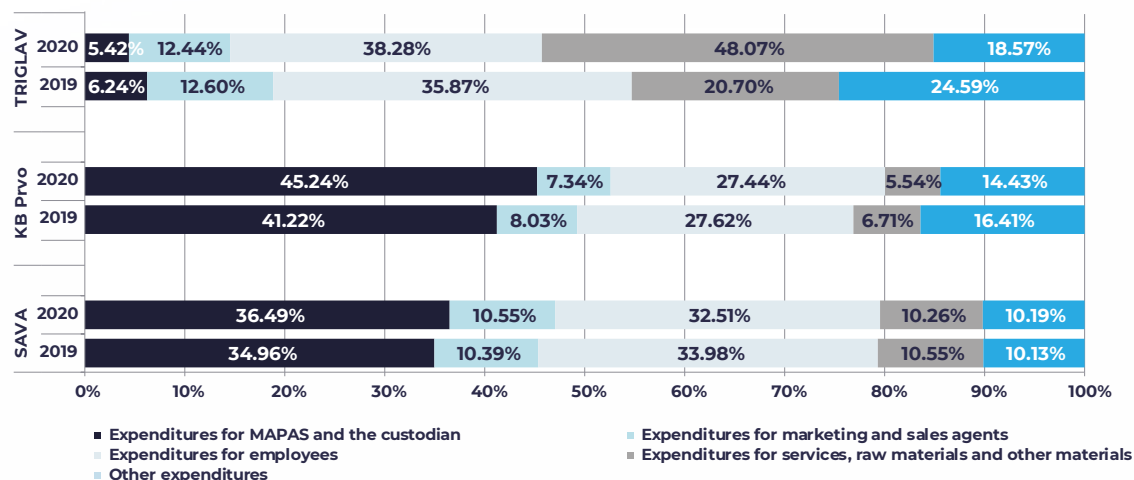


Chart 4.2. Expenses structure per company, for 2019 and 2020.



## 4.2. Financial result of the pension companies

SAVA and KB First and in 2020, achieved a positive financial result. Both pension companies ended 2020 with a net profit (profit after tax). KB First has achieved higher net profit than SAVA, which is mostly due to the fact that KB First has achieved higher revenues, and also has lower costs than SAVA, for 2020. Both pension companies, in 2020, record higher net profit compared to 2019, SAVA by 18% and KB First by 13%. Also, the two pension companies made a total comprehensive profit, namely, SAVA in the amount of about 97 million MKD and KB First, in the amount of about 140 million MKD. The accumulated profit (as of 31.12.2020) of SAVA is around 354 million MKD and of KB First is about 369 million MKD. TRIGLAV has a negative financial result in the second year of its operation. This result is common and expected for the initial years of operation of a pension company. TRIGLAV works only with the mandatory pension fund, which still has a relatively small number of members and the funds are smaller, which affects the smaller amount of income on the one hand, and on the other hand there are significant costs for establishing the system, infrastructure and employees, marketing costs, and current fund management costs. More detailed data on the financial result of the pension companies are shown in Table 4.3.

**Table 4.3. Financial result of the pension companies for 2020 (in MKD)**

Description*	SAVA	KB First	TRIGLAV
Profit / Loss (for 2020)	105,775,216	155,516,640	-32,200,910
Profit / Loss after tax (for 2020)	97,420,623	139,764,187	-32,200,910
Extraordinary expenses	0	0	0
Net profit (for 2020)	97,420,263	139,764,187	-32,200,910
Another comprehensive profit **	7,169,000	0	0
Total comprehensive profit ***	104,589,263	139,764,187	-32,200,910
Accumulated profit / Transferred loss (as of 31.12.2020)	354,319,402	369,044,604	-32,200,910

\*Data on other comprehensive profit and total comprehensive profit are from the audited financial statements of the pension companies for 2020.

\*\* Data for other comprehensive profit includes unrealized gains or losses, which are not shown in the income statement.

\*\*\* Total comprehensive profit data includes net profit and other comprehensive income.

### 4.3. Capital, share capital and own funds of pension companies

It is of great importance for the system and the members for the pension companies to be strong and stable institutions and to have an adequate basic capital. The three pension companies should have a share capital of at least 1.8 million EUR, in MKD counter-value, according to the middle exchange rate of the National Bank of RNM. In case of increase of the assets of the mandatory and/or voluntary pension fund, which is managed by the pension company, the company is obliged to increase the capital, in accordance with the legal provisions.

The basic capital of the pension company is paid only in cash. In order to increase the financial strength of pension companies, the principal is not allowed to come from loans and credits and can not be encumbered in any way. The share capital of the company must originate from legal sources and be taxed in accordance with the regulations of the RNM and the regulations of the country in which each foreign shareholder is established as a legal entity.

The company is obliged, at all times, to maintain the amount of the principal, but not less than one half of the amount of the share capital. The company is obliged, at all times, to maintain its own funds, in an amount not less than one half of the amount of the basic capital.

**Table 4.4. Capital, share capital and own funds of pension companies (in MKD)**

Description*	SAVA	KB First	TRIGLAV
Equity and reserves	631,328,656	656,471,715	133,181,832
Basic capital	130,001,478	110,459,024	184,483,800
Excess principal above the legally established minimum	485.63%	594.31%	72.19%
Own funds *	554,696,956	608,150,692	118,165,222
Excess own funds above the legal minimum **	131.27%	124.72%	113.49%

\*Own funds are calculated in accordance with the Rulebook on the methodology for calculation of own funds of a pension company.

\*\* In accordance with the legal obligation, SAVA, from January 2020, is obliged to maintain increased capital in relation to the share capital, ie. principal in the amount of EUR 7.8 million in MKD counter-value, because the amount of funds of the mandatory and voluntary pension fund, which it manages, exceeded the amount of EUR 600 million. While, on the other hand, KB First, from August 2020, is obliged to maintain an increased capital in relation to the basic capital, i.e. principal in the amount of EUR 8.8 million in MKD counter-value, due to the fact that the amount of the assets of the mandatory and voluntary pension fund, which it manages, exceeded the amount of EUR 700 million.

#### 4.4. Indicators

When analyzing the financial data of the pension companies, the movement of certain indicators per member is important as well as the efficiency coefficient. Table 4.5 shows the most important indicators per member and the efficiency coefficient of the three pension companies for 2020.

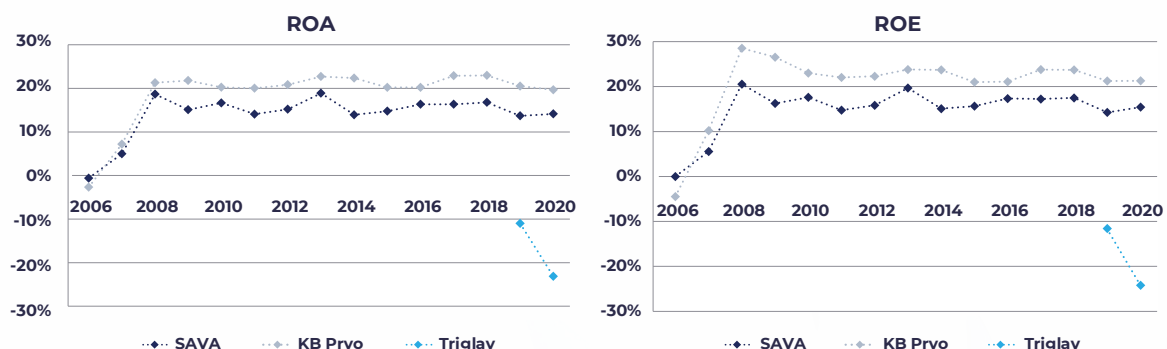
**Table 4.5. Indicators(in MKD)**

Description	SAVA	KB First	TRIGLAV
<b>Revenue and expenditure indicators per member</b>			
Average income per member	999.25	1,020.90	544.99
Average expenditures per member	589.46	466.08	2.384,00
Profit / Loss per member	409.78	554.82	-1.839.00
<b>Efficiency indicators</b>			
Efficiency coefficient (total costs / total revenue)	58.99%	45.65%	437.44%

Compared to 2019, the average income per member increased by 3% at SAVA and in KB First while at TRIGLAV they decreased by 9%. Then, compared to 2019, the average expenditures per member by all three companies recorded reduction (3% in SAVA, 5% in KB First and 9% in TRIGLAV). Thereby, in both companies that have been operating for more than fifteen years, there is an increase in profit per member compared to 2019 in the amount of about 15% at SAVA and 10% at KB First. It is also noted that the efficiency ratio for both companies show a decrease compared to 2019, about 6% at SAVA and about 8% at KB First. TRIGLAV recorded a loss per member in 2020, at the same time the efficiency coefficient shows a large representation of total costs in relation to total revenues.

Chart 4.3 and Table 4.6 show the movement of profitability indicators ROA (net profit/total assets) and ROE (net profit/capital), compared to SAVA, KB First, for the period from 2006 to 2020, and for TRIGLAV for 2019 and 2020. It can be noticed that, in 2020, compared to 2019, the rate of return on funds with SAVA is at approximately the same level, while at KB First there is a slight decrease. The rate of return on equity in 2020, compared to 2019 at SAVA increased by 1 percentage point, while at KB First it is at approximately the same level. The coefficients of ROA and ROE for TRIGLAV are also negative in 2020 (-23% ROA and -24% ROE).

**Chart 4.3. ROA and ROE per company and per years**



**Table 4.6. Profitability indicators**

Pension company	SAVA		KB First		TRIGLAV	
Year/Description	ROA	ROE	ROA	ROE	ROA	ROE
2006	-0.60%	0.00%	-2.69%	-4.45%		
2007	4.97%	5.57%	7.19%	10.19%		
2008	18.66%	20.55%	21.30%	28.53%		
2009	15.09%	16.26%	21.80%	26.54%		
2010	16.66%	17.60%	20.24%	23.00%		
2011	14.09%	14.75%	20.02%	22.03%		
2012	15.21%	15.84%	20.84%	22.31%		
2013	18.88%	19.68%	22.71%	23.80%		
2014	13.94%	15.09%	22.35%	23.71%		
2015	14.77%	15.65%	20.20%	21.00%		
2016	16.34%	17.34%	20.23%	21.09%		
2017	16.35%	17.23%	22.89%	23.78%		
2018	16.79%	17.49%	22.96%	23.71%		
2019	13.70%	14.26%	20.52%	21.24%	-10.99%	-11.55%
2020	14.13%	15.43%	19.66%	21.29%	-23.13%	-24.18%

# **5. Information on mandatory pension funds**

## **5.1. Membership in the mandatory pension funds**

## **5.2. Mandatory pension fund membership data**

## **5.3. Transfer of a member from one to another mandatory pension fund**

## **5.4. Contributions to mandatory pension funds**

5.4.1. Compensation for untimely transfer of contributions

5.4.2. Refunds to the PDIFNM

## **5.5. Investment and portfolio structure of mandatory pension funds**

## **5.6. Net assets, accounting unit and rate of return on mandatory pension funds**

## **5.7. Compensation for mandatory pension funds**

## **5.8. Payment of pensions from mandatory fully funded pension insurance**

# 5. Information on mandatory pension funds

## 5.1. Membership in the mandatory pension funds

An insured person can acquire a membership in a mandatory pension fund in two ways:

- 1) by signing an agreement for membership in a mandatory pension fund and by registration in the Register of members maintained by MAPAS;
- 2) by distribution in a mandatory pension fund at random, by the PDIFNM, in case the insured, who is obliged to become a member of a mandatory pension fund, has not signed a membership agreement in the period for selection of a mandatory pension fund and with registration in the Register of members maintained by MAPAS.

The amendments to the Law on Mandatory Fully Funded Pension Insurance ("Official Gazette of the Republic of Macedonia" no. 245/2018 of 28.12.2018 and no. 180/2019 of 2.9.2019) envisage several substantial changes regarding the accession in mandatory fully funded pension insurance which are valid from 1.1.2019.

Namely, there are two categories of insured persons who are members of the second pillar:

- Mandatory members
  - » the insured persons who have been employed, i.e. who have joined the mandatory pension and disability insurance, for the first time, after January 1, 2003 and were born after January 1, 1967;
  - » Insured persons who have been employed, i.e. entered into compulsory pension and disability insurance, for the first time after January 1, 2019 and who on the date of accession are under 40 years old.
- Voluntary members
  - » Insured persons who were employed for the first time, before January 1, 2003, who by their own choice by concluding a membership agreement entered into a mandatory fully funded pension insurance and were born after January 1, 1967;
  - » Insured persons who were employed for the first time, before January 1, 2003, who voluntarily joined the mandatory fully funded pension insurance, were born before January 1, 1967 and who signed a statement for extension of membership in the mandatory fully funded pension insurance.

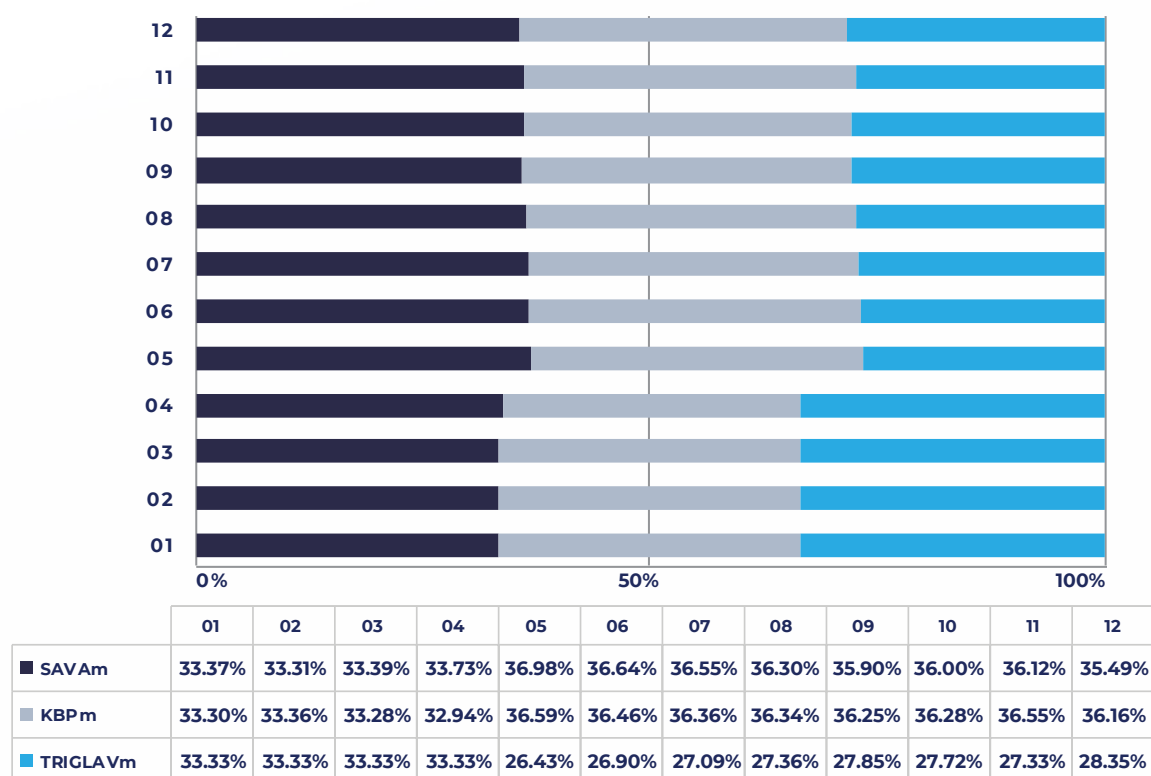
The insured persons whose insurance length of service is considered with increased duration and the insured persons belonging to Chapter VII - "Acquisition and realization of the rights of certain categories of insured persons under special conditions of the Law on Pension and Disability Insurance" (employees with beneficial length of service in the Ministry of Interior, correctional homes, ARM, etc.) are not included in the second pillar, if they have completed insurance experience with increased duration, which allows lowering the age limit for achieving a legal old-age pension for at least one year. When insured persons who are members of a mandatory pension fund complete an insurance service with increased duration that allows lowering the age limit for exercising the right to old age pension for at least one year in accordance with Article 118 paragraph (3) of the Law on Pension and Disability Insurance, have the right to choose to extend the membership in the second pillar with a written statement for extension of the membership in the mandatory pension fund within three months from the completion of the insurance service. If these members do not give a written statement, their membership in a mandatory pension fund ends after the expiration of this term.

## 5.2. Mandatory pension fund membership data

Insurers who are mandatory members of fully funded pension insurance are required to join a mandatory pension fund within three months from the date of first employment. The PDIFNM temporarily distributes these insured persons in the mandatory pension funds, at random, from the moment of their employment, in order for their funds to be invested immediately after employment. If they do not sign a membership agreement with any company within the legal deadline, these insured persons remain members of the mandatory pension fund in which they were previously temporarily distributed.

The weight, according to which the temporary distribution of the insured persons in mandatory mandatory pension funds is done at random, is determined by MAPAS for each mandatory pension fund, on the first working day of each month. The weight depends on the value of the contribution fee charged by the pension company and the return in nominal amount realized by the pension fund, with the return (70%) having a greater impact than the contribution fee (30%)<sup>4</sup>. The weights used for the distribution of the insured persons in the mandatory pension funds during 2020 are shown in Chart 5.1.

Chart 5.1. Weight for distribution of members in the mandatory pension funds



On April 1, 2019, the mandatory pension fund TRIGLAVm started operating, by which starting from April 2019 the insured are distributed in three mandatory pension funds. In order to support the operation in the initial years of operation of a new mandatory pension fund, and in accordance with the defined provisions in the regulation, if the mandatory pension fund operates less than 12 months as a value for return (for weight calculation) amount of existing mandatory pension funds. Then, if the fund has been operating for less than 36 months and more than 12 months, then as a return value (for the calculation of the weight) is taken the higher value between: the return in nominal amount of the mandatory pension fund and the average return in nominal amount of existing mandatory pension funds including the contribution in nominal amount of the mandatory pension fund. This principle of distribution of insured persons is justified in order to encourage competition in fully funded pension insurance, in order to increase the choice of pension funds for members and to encourage better investment results of pension funds. In the first four months of 2020, the weights for the three mandatory pension funds had

<sup>4</sup> The weigh calculation formula is prescribed in the Rulebook on membership in the mandatory pension fund



approximately the same value, given that the calculation of the yield for TRIGLAVm takes into account the average of the returns in nominal amount of the existing mandatory pension funds. Then, in the next eight months, the weight of TRIGLAVm is lower compared to SAVAm and KBPm because in the calculation of the weight, for the return of TRIGLAVm is taken the average of the returns in nominal amount of all three mandatory pension funds. The yield of TRIGLAVm in this period was significantly lower and affected the average of the returns in nominal amount of all three mandatory pension funds. Then, despite the fact that the amount of the contribution fee, in 2020, decreased, having in mind the fact that the three-member companies charged a contribution fee in the same amount and the fact that the realized return in nominal amount with SAVAm and KBPm did not differ very much, the weights in 2020 - for SAVAm and KBPm had approximately the same value.

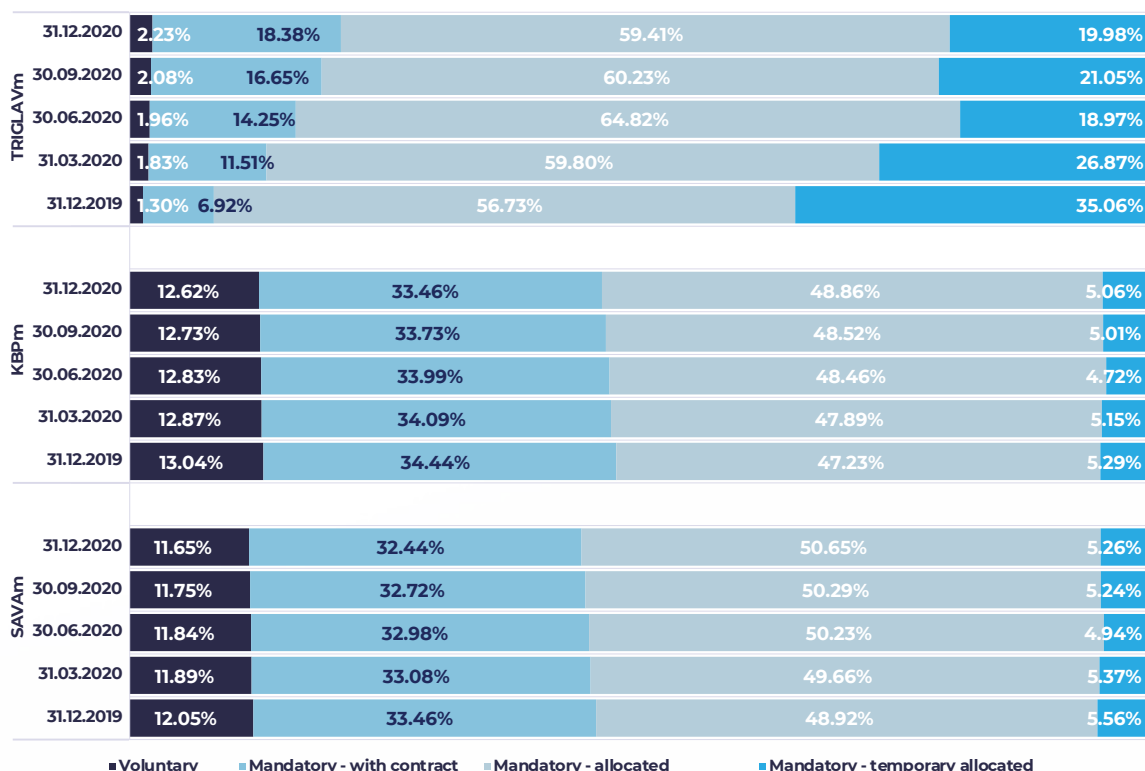
The total number of members and temporarily assigned insured persons in the mandatory pension funds, as of December 31, 2020, is 529,983, which means an increase in the number of members of the second pillar by 22,427, or about 4%, compared to 2019. The increase of membership in 2020 compared to 2019 maintains the same slow growth as last year, which was mostly influenced by unfavorable movements in the labor market in conditions of pandemic of the Corona virus.

Regarding the distribution of membership by mandatory pension funds, it is expected that in 2020 the largest number of insured persons will be members of SAVAm and KBPm. So, of the total number of members and temporarily distributed insured persons under the mandatory pension funds, as of 31.12.2020, 50% are in KBPm, 47% are in SAVAm and 3% are in TRIGLAVm.

Of the total number of members of the second pillar, 62,668 or 12% are voluntary members, while 467,315 or 88% are mandatory members. Out of the total number of mandatory members, 172,155 members signed a membership agreement, 265,221 did not sign an agreement and are permanently assigned and 29,939 insured persons are temporarily assigned. In 2020, the trend of a small number of new insured persons signing membership agreements continues. Namely, it can be noticed that in 2020 only about 4% of the insured persons who are obliged to join a mandatory pension fund in 2020 and for which the deadline for selection of a mandatory pension fund has expired, signed a membership agreement, while the rest, about 96% did not sign a contract and remained in the fund where they were previously allocated.

In the structure of members and temporarily assigned insured by membership status, in 2020, for SAVAm and KBPm, no unexpected and significant changes occurred. The structure of members and temporarily assigned insured persons by membership status in 2020 is similar with SAVAm and KBPm. It can be noticed that in each quarter, the percentage participation of voluntary members decreases, while the participation of mandatory members increases, which is to be expected, because the influx of mandatory members increases every year. It can also be noted that the percentage share of mandatory members who have signed a membership agreement gradually decreases from quarter to quarter, in contrast to the share of mandatory members who are permanently distributed, which gradually increases from quarter to quarter. The structure of members and temporarily assigned insured persons by TRIGLAVm membership status differs significantly compared to SAVAm and KBPm, which is to be expected, as TRIGLAVm has been operating for less than two years. It can be noticed that in the fourth quarter of the operation in TRIGLAVm, the highest percentage of mandatory members are distributed, followed by the percentage of temporarily allocated insured persons. In the following quarters, the participation of mandatory members who have signed a membership agreement is gradually increasing, although the participation of voluntary members is gradually increasing minimally. Voluntary members of TRIGLAVm are insured persons who have signed contracts for transfer from SAVAm or KBPm to TRIGLAVm. Also, in the following quarters, the percentage share of mandatory members who are assigned increases, while the share of temporarily assigned insured persons decreases. The structure of members and temporarily assigned insured persons by the mandatory pension funds and by membership status in 2020 is shown on a quarterly basis, in Chart 5.2.

**Chart 5.2. Structure of members and temporarily assigned insured persons by membership status and MPF**



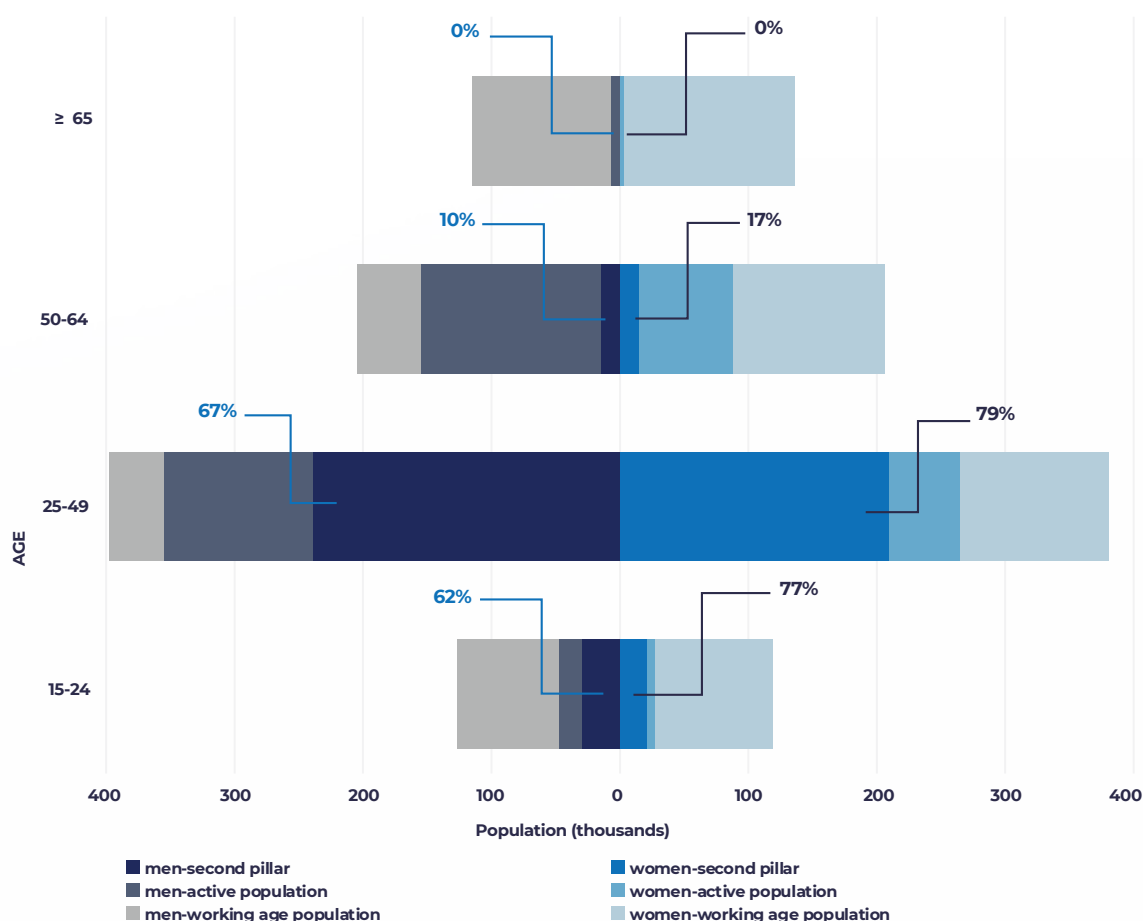
The analysis of the structure of the members by age shows that the members, for the most part, are young people. Mandatory members are young people, with 79% of the mandatory members being up to 40 years old, while voluntary members are slightly older and 83% of them are up to 50 years old. The average age of the mandatory members is 34 for men and 35 for women, and for the voluntary members it is 46 years (for both men and women), and for all members, in total, it is 36 years. The structure of the members of the two-pillar pension system by age, sex and category of membership is shown in Chart 5.3

**Chart 5.3. Structure of the members of the two-pillar pension system by age, sex and by category of membership**



According to SSO<sup>5</sup> data, at the end of 2020, the total number of working-age population<sup>6</sup> in the RNM was 1,685,589, while the total active population<sup>7</sup> was 950,857. As of the end of 2020, about 31% of the total working age population in the RNM are members of the two-pillar system, ie about 56% of the total active population in the RNM are members of the two-pillar pension system. The structure of the members in the two-pillar pension system, in the total working population and active population in the RNM, by age groups and by gender, as of 31.12.2020, is shown in Chart 5.4. It can be noticed that a significant percentage (over 70%) of the active population aged 15 to 49 is included in the two-pillar pension system.

**Chart 5.4. Structure of members in the two-pillar pension system in the total working population and active population, by age groups and gender**



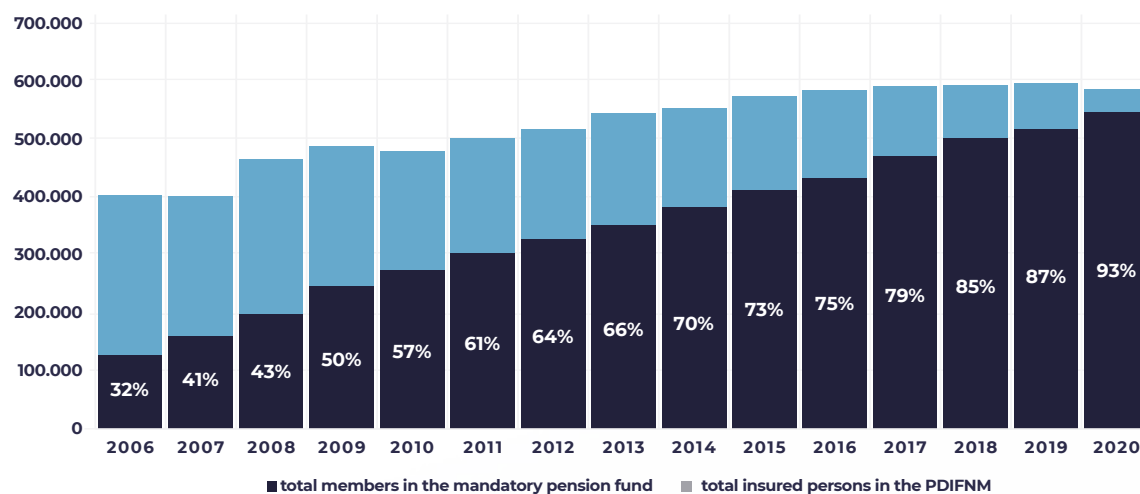
According to the data of the PDIFNM for the number of insured persons as of 31.12.2020, about 93% of the total number of insured persons in the PDIFNM, are members of the two-pillar pension system. Chart 5.5 shows the increase of the participation of the members in the two-pillar pension system in the total number of insured persons in the PDIFNM since the beginning of the work of the second pillar can be seen.

<sup>5</sup> Source: State Statistical Office - Active Population in RNM, Labor Force Survey Results, 2019.

<sup>6</sup> Working population - consists of all persons aged 15 to 79 years

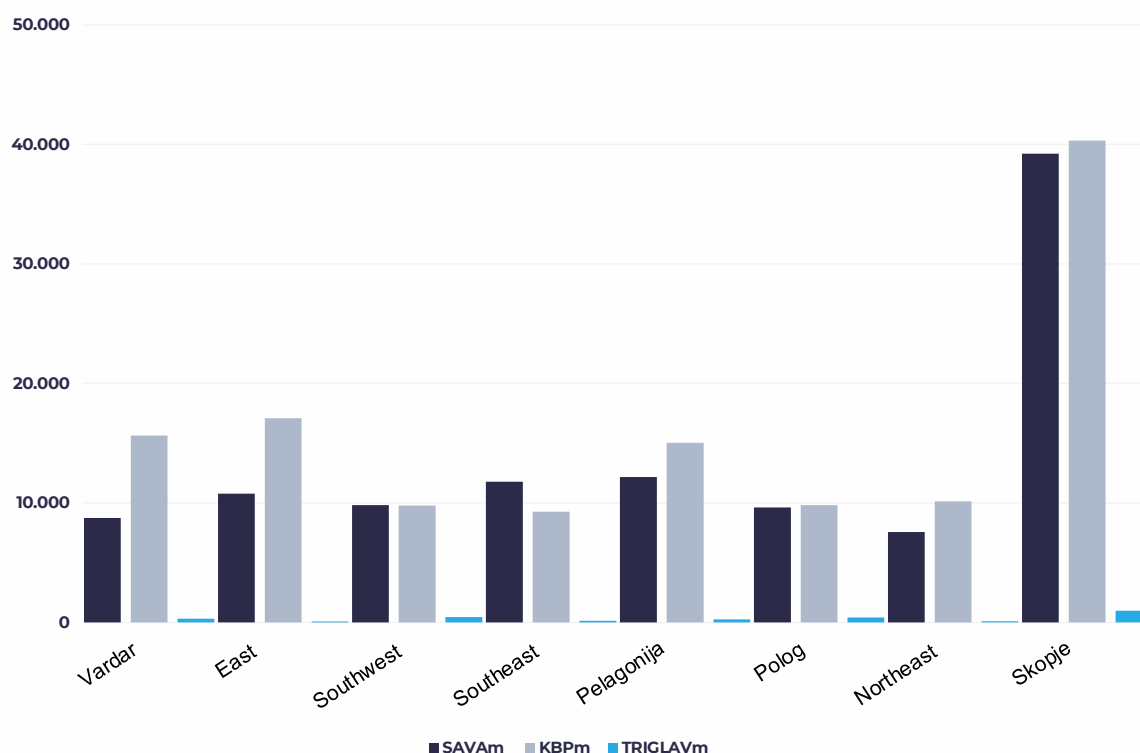
<sup>7</sup> Economically active population - consists of employed and unemployed people

**Chart 5.5. Participation of members in the two-pillar pension system in insured persons in the PDIFNM by years, 2006-2020**



The structure of the members in the mandatory pension funds, by statistical regions<sup>8</sup> in the RNM, is given in Chart 5.6. Most members in all three mandatory pension funds are from the Skopje region. The fewest members of SAVAm are from the Northeast region, the least members of KBPz are from the Southeast region, and the least members of TRIGLAVm are from the Eastern region.

**Chart 5.6. Structure of members in the second pillar, by statistical regions**



<sup>8</sup> Statistical regions are defined in accordance with SSO – territorial units. The nomenclature of territorial units is based on territorial organization of the local self-government in RNM and is complied with the EU classification.

### 5.3. Transfer of a member from one to another mandatory pension fund

Every member of a mandatory pension fund has the right to transfer to another mandatory pension fund, if he/she is not satisfied with the mandatory pension fund where he/she is a member, i.e. from the company that manages it. If the person has been a member of the mandatory pension fund for less than 24 months, upon transfer, he/she is obliged to pay a transfer fee. If the person has been a member of a fund for more than 24 months, then the transfer to another fund is free. Upon transfer, the total funds from the member's account are also transferred.

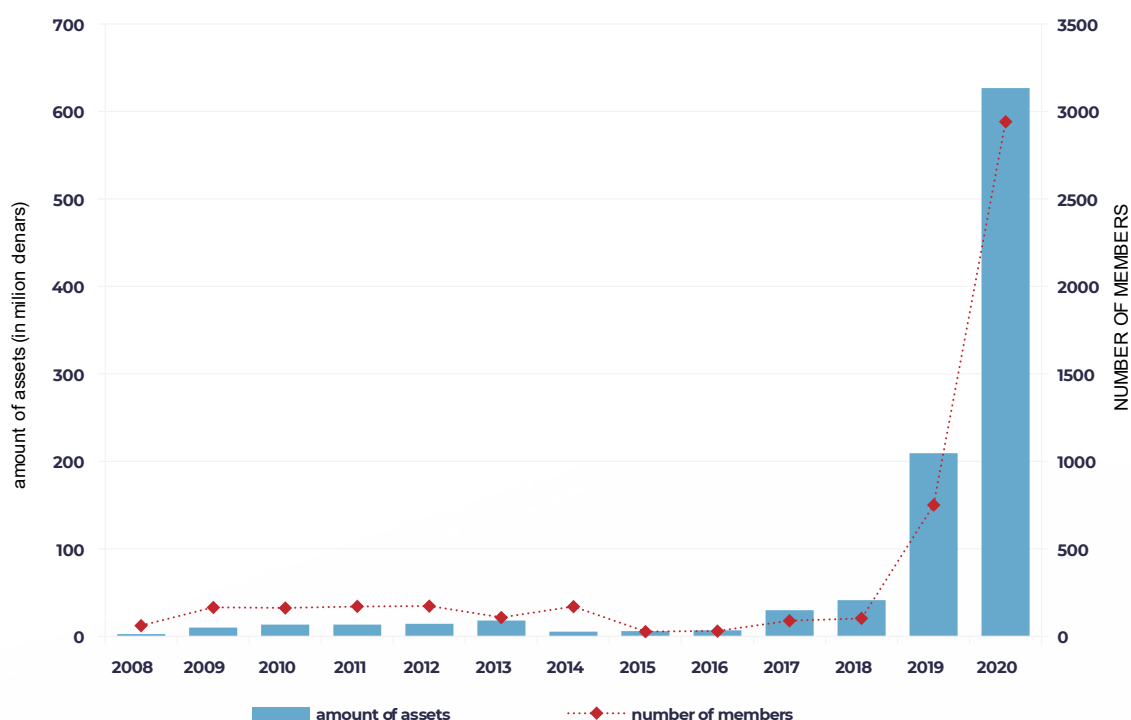
Table 5.4 shows data on the number of members who have transferred from one mandatory fund to another and on the amount of funds transferred from one mandatory fund to another, on that basis, during 2020.

**Table 5.4. Transfers of members from one to another mandatory pension fund**

2020		MPF in which members have been transferred to i.e. where assets have been transferred			
		SAVAm	KBPM	TRIGLAVm	Total
Members who have been transferred from MPF	SAVAm	-	87	1,280	1,367
	KBPM	150	-	1,420	1,570
	TRIGLAVm	2	2	-	4
	<b>TOTAL</b>	152	89	2,700	2,941
Assets which have been transferred to MPF (in MKD)	SAVAm	-	40,519,599	248,714,419	289,234,018
	KBPM	46,810,791	-	289,560,411	336,371,202
	TRIGLAVm	228,810	685,680	-	914,490
	<b>TOTAL</b>	47,039,601	41,205,279	538,274,830	626,519,710

The movement in the trend of transitions of members from one mandatory fund to another, which was encouraged by the start of operation of the third mandatory pension fund in 2019, continued in 2020. During 2020, the total number of members in the mandatory pension funds, who transferred from one to another mandatory pension fund, is 29.41, which is 0.55% of the total number of members. Although the percentage share of members who made a change in the mandatory pension fund in the total number of members is still small, still in 2020, the number of members who made a change in the mandatory pension fund is significantly higher compared to 2019. Thereby, 152 members switched to SAVAm, 89 switched to KBPM and 2,700 members switched to TRIGLAVm. During the transfer, about MKD 47 million were transferred to SAVAm, about MKD 41 million were transferred to KBPM and about MKD 538 million were transferred to TRIGLAVm. Chart 5.7 provides an overview of all transfers of members from one mandatory pension fund to another and total funds transferred from one to another mandatory pension fund from 2008 to 2020.

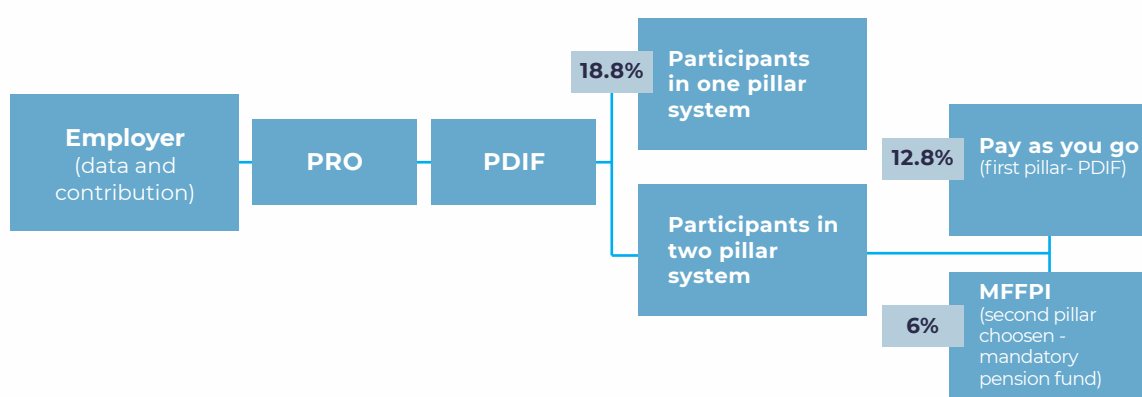
Chart 5.7. Transfers from one to another mandatory pension fund by years, 2008-2020



## 5.4. Contributions to mandatory pension funds

The payment of the contributions for pension and disability insurance is made by the debtor for payment of the contribution, ie the employer, on behalf of the employee. The Public Revenue Office performs integrated collection of compulsory social insurance contributions (pension and disability insurance contribution, health insurance contribution and employment contribution in case of unemployment) and personal income tax.

Chart 5.8. Schematic representation of the payment and distribution of contributions



For the insured persons who participate in a one-pillar system, the total paid contribution remains in the PDIFNM (for 2020, it was 18.8% of the gross salary). For the insured persons who are included in the two-pillar system, the PDIFNM distributes the paid contribution between the first and second pillar. The amount of the contribution, which is transferred to the mandatory pension fund, is 6% of the gross salary, and in the PDIFNM remains the contribution in the amount received as the difference between the total contribution for pension and disability insurance and the contribution paid to the mandatory pension fund for 2020, it was 12.8% of the gross salary (12.8% = 18.8% - 6%).

Immediately, and no later than five working days from the receipt of the contributions, the PDIFNM transfers the contributions of the members of the mandatory pension funds to the individual accounts in the selected mandatory pension funds, provided that appropriate data in accordance with by law, which enable the PDIFNM to perform that obligation. If the PDIFNM does not transfer the contributions of the members of the mandatory pension funds to the accounts of the selected mandatory pension funds immediately, and no later than within five working days from the day of Receipt of contributions due to lack of adequate data, the PDIF is obliged within a period not longer than three months from the date of receipt of contributions to provide adequate data and to transfer the contributions of the members of the mandatory pension funds to the accounts of the selected mandatory pension funds at the custodian. Then, the PDIFNM submits data to the companies and MAPAS regarding the performed transfer of contributions.

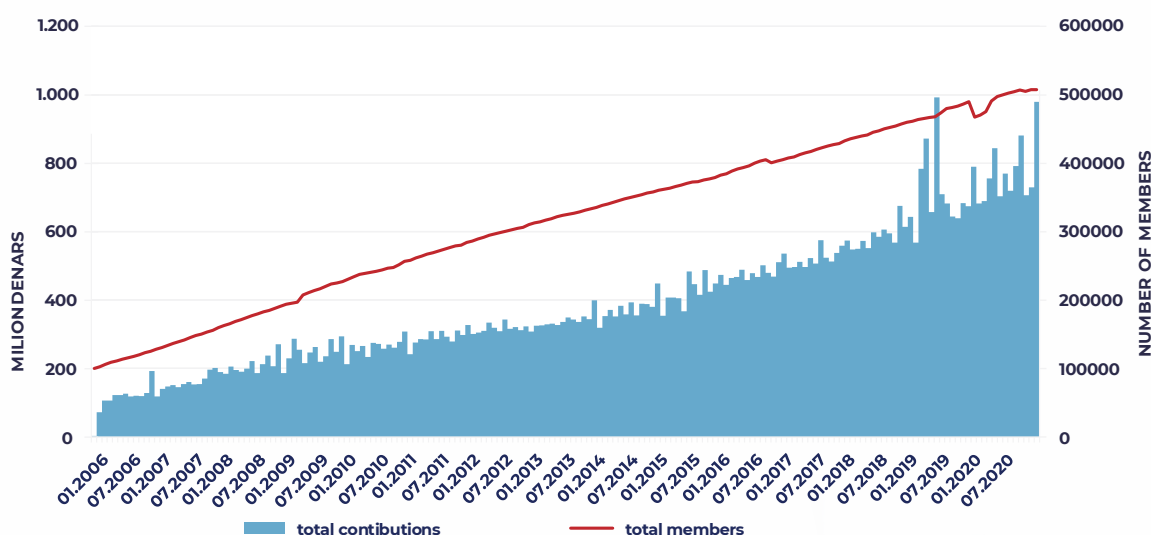
During 2020, contributions in the amount of about 9.3 billion MKD were transferred to the mandatory pension funds, or by months (in millions of MKD), as shown in Table 5.5.

**Table 5.5. Paid contributions in the second pillar (in millions of MKD)**

	Total 2019	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct	Nov.	Dec.	Total 2020
<b>SAVAm</b>	4,090	321	324	355	397	329	358	338	371	411	328	339	457	4,328
<b>KBPm</b>	4,438	350	353	386	431	360	395	365	401	448	358	369	494	4,710
<b>TRIGLAVm</b>	163	10	11	14	16,42	14	17	17	19	22	19	21	29	211
<b>Total</b>	8,691	682	689	756	844	703	769	720	791	881	706	729	980	9,249

Chart 5.9 shows the total contributions (in millions of MKD), paid in the second pillar, every month, from the beginning of the operation of the mandatory fully funded pension insurance until 31.12.2020 and the total number of members, at the end of each month, in the same period.

**Chart 5.9. Paid contributions and members in the second pillar**





It can be noted that, in general with the increase in the number of members, the paid contributions in the mandatory pension funds increase (although the payment trend is not completely linear, but there are some declines and larger increases in certain months). Larger increase of paid contributions in the months of the first half of 2019 are probably due to the paid contributions for the insured which were untimely distributed in the second pillar. Decline of the membership state during the first month of 2019 was due to the membership termination of certain categories of insurers on 01.01.2021 in accordance with the amendments to the law.

#### 5.4.1. Compensation for untimely transfer of contributions

The amendments to the Law on Mandatory Fully Funded Pension Insurance from 28.12.2018 provide for an obligation of the PDIFNM to pay compensation for untimely transfer of contributions in case the PDIFNM did not distribute the insured persons who were mandatory members of the second pillar according to the second pillar. of the amendments to the law, in case the PDIFNM does not distribute the insured persons who are mandatory members of the second pillar in accordance with the new criteria for membership within three months after their accession to the mandatory pension and disability insurance and in case the PDIFNM does not transfers the contributions of the members of the mandatory pension funds to the accounts of the selected mandatory pension funds within three months from the day of receiving the contributions. The funds for mandatory fully funded pension insurance, realized on the basis of untimely and incomplete payment of contribution, transferred to the individual account of the member of the mandatory pension fund.

The amount of compensation for untimely transfer of contributions is determined<sup>9</sup> on the basis of assessment of the situation of the hypothetical individual account of the member of the mandatory pension fund, which has identical history of payments of contributions with the insurer with untimely allocation i.e. on the basis of the assessment of the situation of part of the assets of the individual account of the member of the mandatory pension fund, the amount of the total untimely transferred contributions and the compensations from contributions charged by the pension company.

In 2020, in the mandatory pension funds, the PDIFNM transferred a total of about 4 million MKD as compensation for untimely transfer of contributions to members for whom it did not transfer contributions to the accounts of selected mandatory pension funds within three months from the date of receipt of contributions. Table 5.7 shows a detailed data on the transferred fees for untimely transfer of contributions by funds.

**Table 5.7. Compensation paid for untimely transfer of contributions for untimely transfer of contributions in the second pillar in 2020 (in millions of MKD)**

Mandatory pension fund	Compensation for untimely transfer of contributions
SAVAm	2.09
KBPm	1.67
TRIGLAVm	0.13
<b>Total</b>	<b>3.89</b>

<sup>9</sup> The formula for compensation calculation for untimely transfer of contributions is prescribed in the Rulebook of untimely transfer of contributions.

### 5.4.2. Refunds to the PDIFNM

During 2020, a part of the paid funds in the mandatory pension funds (about 2.8 billion MKD) was returned to the PDIFNM for several reasons:

- Exercising the right to disability or family pension;
- Excess of paid contributions in the second pillar due to technical errors or excess of payments by the employer
- Termination of membership agreements or annulment of distribution;
- Termination of membership of insured persons who during the insurance have completed insurance service with increased duration that allows lowering the age limit for exercising the right to old age pension for at least one year.

In 2020, most of the returned funds in the PDIFNM (85%) refer to the termination of the membership of the insured who during the insurance have completed an insurance service with increased duration that allows lowering the age limit for exercising the right to old age pension for at least one year and no written statement for extension of the membership in the mandatory pension fund within three months from the completion of the insurance service.

The structure of the returned funds in the PDIFNM, by mandatory pension funds, is presented in detail in Table 5.8.

**Table 5.8. Structure of refunds in the PDIF, by LFS (in millions of MKD)**

Reasons	From the mandatory pension fund			Total
	SAVAm	KBPm	TRIGLAVm	
<b>Realized pension</b>	24,93	26,14	0,35	51,42
- disability pension	3,82	7,71	0,17	11,70
- family pension	21,11	18,43	0,18	39,72
<b>Excess contribution payments</b>	177,87	190,22	7,979	376,06
<b>Termination of contracts and cancellation of distributions</b>	0,01	0,00	0,04	0,06
<b>Termination of membership</b>	1,043,10	1,303,86	0,00	2,346,96
- members who during the insurance have completed an insurance period with increased duration that allows lowering the age limit for exercising the right to old age pension for at least one year	1,043,10	1,303,86	0,00	2,346,96
<b>Total</b>	1,245,91	1,520,22	8,372	2,774,50

## 5.5. Investment and portfolio structure of mandatory pension funds

Typically, in fully funded pension systems, proactive control and quantitative and qualitative investment constraints are used in the initial phase. Based on that, the law and bylaws define the investment goals and principles, the types of instruments in which the funds of the mandatory pension funds can be invested, the conditions that must be met by the regulated secondary capital markets, where the funds are traded. of mandatory pension funds, the quality of the instruments in which the assets of the mandatory pension funds can be invested, countries or groups of countries in which the assets of the mandatory pension funds can be invested, investment restrictions within the instruments and issuers, prohibited investments, overcoming of investment restrictions etc.

The company is obliged to invest the assets of the mandatory pension fund in accordance with the laws and bylaws and its investment strategy, in order to achieve the highest return, only for the benefit of members and retired members of the mandatory pension fund and through diversification and financial analysis, to minimize the risk of losses incurred due to non-payment by the issuer or the other contracting party arising from the impact on the domestic and foreign financial markets, losses in the fair value of the mandatory pension fund due to inflation and losses resulting from the sale of the assets of the mandatory pension fund due to providing liquidity to the mandatory pension fund. Thereby, a member of the Board of Directors and the Supervisory Board in the company, in the management and control of the investment of the assets of the mandatory pension fund, is obliged to apply a degree of care, effectiveness and skills that a reasonable person would apply when investing his own funds. Each member of the board of directors and the supervisory board in the company should fulfill his obligation in accordance with his fiduciary duties and should ensure their application by every employee and a person engaged in the company.

The law and bylaws stipulate that the assets of mandatory pension funds can be invested in bank deposits and certificates of deposit, bonds and other debt securities, in shares and commercial bills issued by issuers based in RNM and abroad, in EU or OECD member states. Given that it is necessary to achieve appropriate diversification between different types of investments, maximum restrictions on investing in a particular company and maximum limits on the amounts that can be invested in certain types of instruments are provided. In order to prevent investments in instruments that are not suitable for investment in mandatory pension funds, the following is prohibited by law: investments in stocks, bonds and other securities that are not listed on the official market or that are not traded publicly. Instruments that cannot be legally available, instruments that cannot be immediately assessed and most forms of property that cannot be immediately assessed and items of uncertain value, for example, antiques, works of art, etc are also prohibited.

Given that the assets of mandatory pension funds are constantly growing, their increase is accompanied by the opportunity to enter a larger number of capital markets and on a larger scale, as the domestic market becomes smaller in terms of investment needs of mandatory pension funds funds, as well as in order to enable greater diversification of funds in their investment and greater choice of companies for investing the assets of mandatory pension funds by companies. The maximum investment constraints are shown in Table 5.9.

**Table 5.9. Maximum investment restrictions**

<b>Foreign Investment (EU and OECD)</b>	<b>50%</b>
- bonds and other securities issued by foreign governments and central banks	50%
- securities issued by non-state foreign companies, banks or investment funds	30%
<b>Securities issued or guaranteed by the RNM on the domestic market or the NBRNM</b>	<b>80%</b>
<b>Bank deposits, certificates of deposit, bonds, mortgage-backed securities and other securities issued by domestic banks</b>	<b>60%</b>
- bank deposits	30%
<b>Bonds issued by local self-government units and non-bank domestic joint stock companies and commercial bills by non-bank domestic joint stock companies</b>	<b>40%</b>
-bonds issued by the units of local self-government	10%
<b>Shares issued by domestic joint stock companies</b>	<b>30%</b>
<b>Share documents and shares of open, closed and private investment funds in RNM</b>	<b>5%</b>
-documents for share of private investment funds	1.5%

MAPAS may prescribe restrictions on investments of certain types of instruments other than the restrictions set out in the law, which will be valid for a period also prescribed by MAPAS, but not longer than five years. In 2019, decisions were made on additional restrictions according to which the maximum percentage of the value of the assets of a mandatory and voluntary pension fund that can be invested in deposits with banks licensed by the NBRNM, if they carry interest, ie in bonds and other securities that issued or guaranteed by the RNM on the domestic market, in a period of one year from the date of the first payment in the mandatory and voluntary pension fund, is 100%.

The structure of investments of the mandatory pension funds SAVAm and KBPm, since the beginning of the functioning of the system (for the period 2006 - 2019, on an annual basis, and for 2020, on a quarterly level) is shown in Chart 5.10 and Chart 5.11. The structure of the investments of the mandatory pension fund TRIGLAV, since the beginning of the fund's operation (April 1, 2019) on a quarterly basis is shown on Chart 5.12.

**Chart 5.10. SAVAm investment structure**

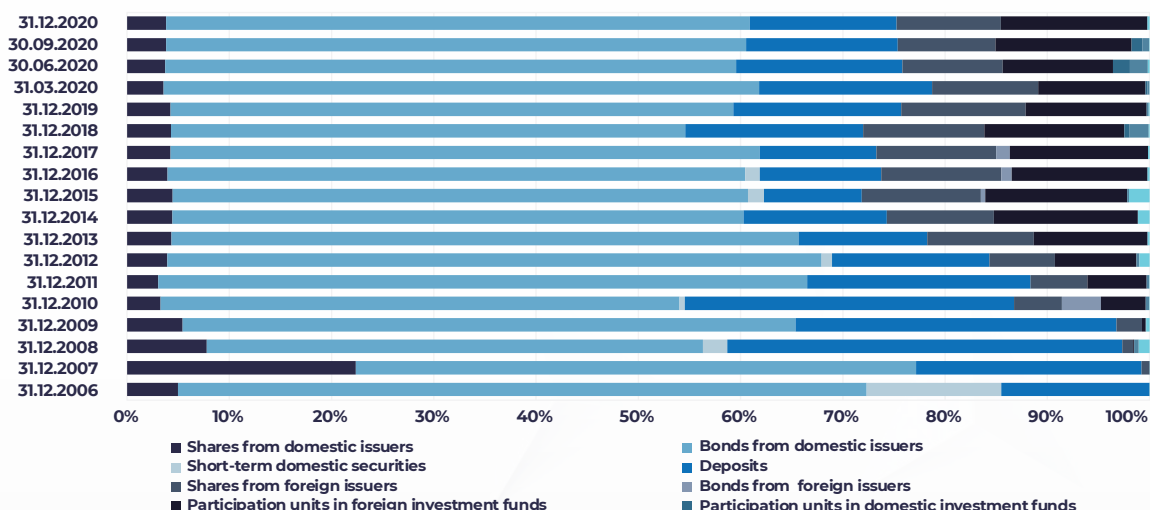


Chart 5.11. Structure of investments of KBPm

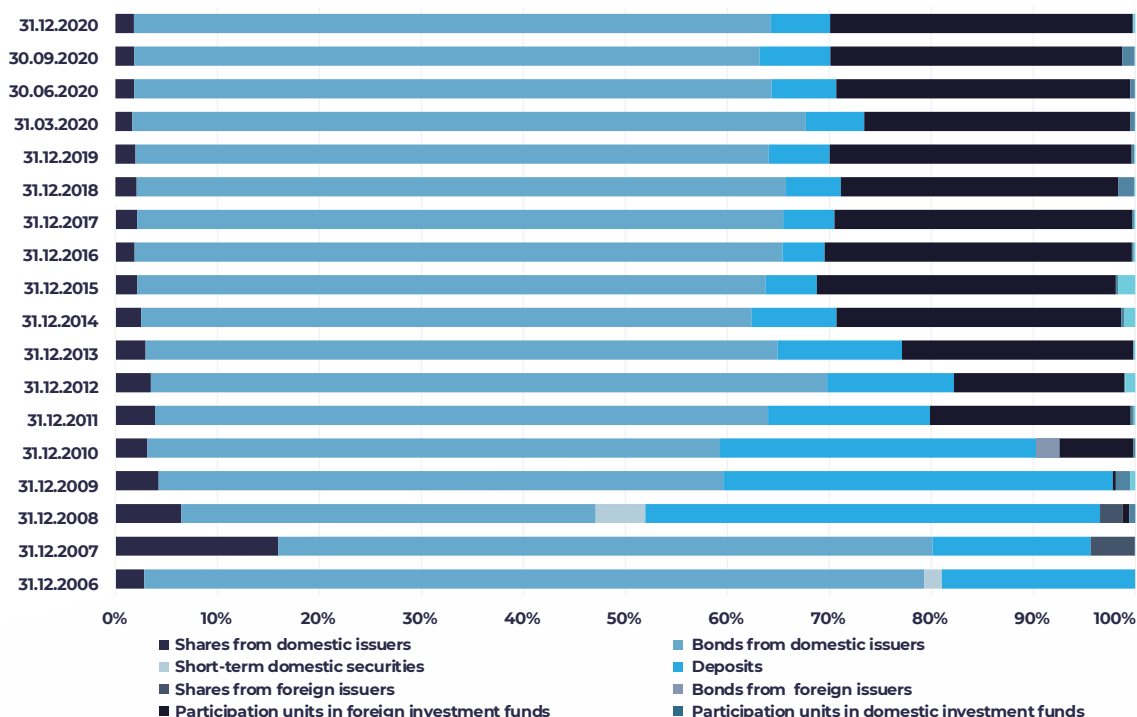
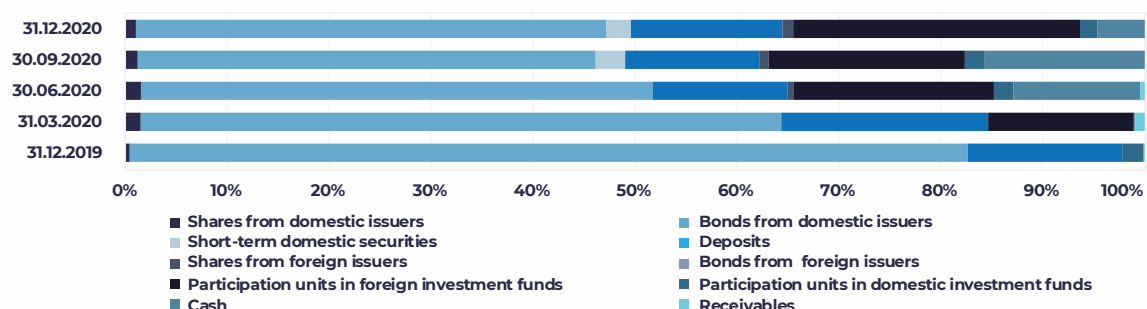
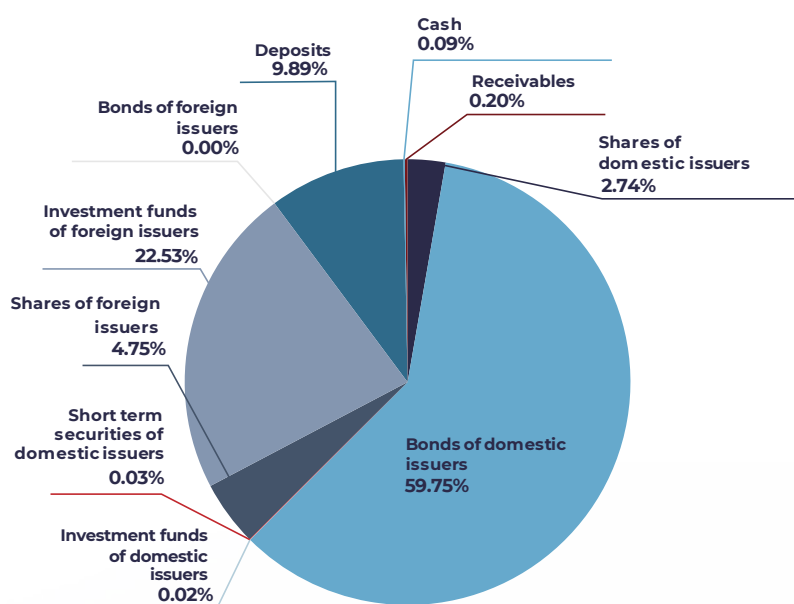


Chart 5.12. TRIGLAVm investment structure



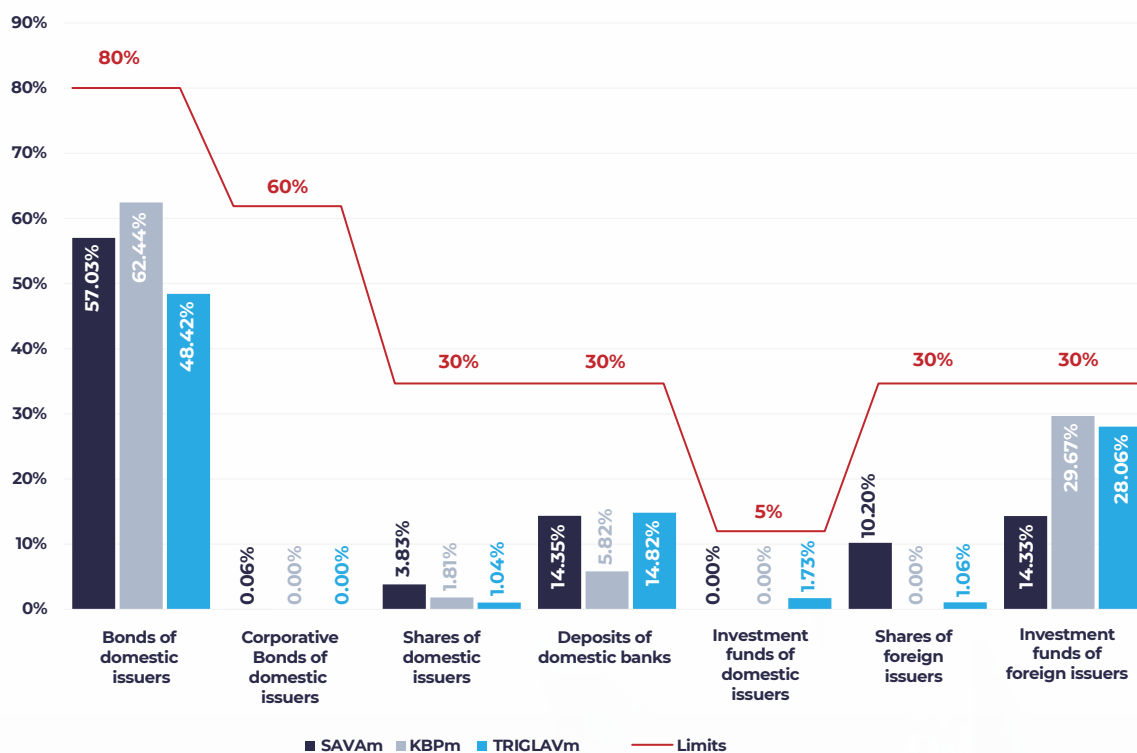
The investment structure of the mandatory pension funds, as of 31.12.2020, does not differ much compared to the investment structure of the mandatory pension funds, as of 31.12.2020 and it is shown in Chart 5.13. The mandatory pension fund TRIGLAVm did not have much impact on the overall investment structure of the mandatory pension funds, given the fact that in the initial years of operation the new fund has small funds that represent a small share in the total assets of the mandatory pension funds which include domestic government bonds (59.72%) and corporate bond (perpetual bond issued by a bank - 0.03%) is 59.75% which means it is slightly increased compared to the situation on 31.12.2019 (58.86%). A very small part of the investments of the mandatory pension funds belongs to short-term securities by domestic issuers that include a 12-month treasury bill (0.03%). The share of bank deposits is minimally reduced and amounts to 9.89%. Domestic shares own a small part of the portfolio (2.74%) and this share remains almost at the same level compared to the situation on 31.12.2019. A very small part of the investments of the mandatory pension funds belongs to investments in shares of domestic investment funds (0.02%). In 2020, the share of investments abroad is almost at the same level, compared to the previous year, and is 26.83%. Investments in foreign securities include investments in shares of investment funds (22.53%) and investments in shares (4.75%). Other assets are cash 0.09% and receivables 0.20%.

Chart 5.13. Structure of investments in the second pillar, as of 31.12.2020



During 2020, the three mandatory pension funds invested within the maximum investment limits. Chart 5.14 shows the percentage share in the portfolio by asset classes with SAVAm, KBPm and TRIGLAVm and the legal restrictions, as of 31.12.2020.

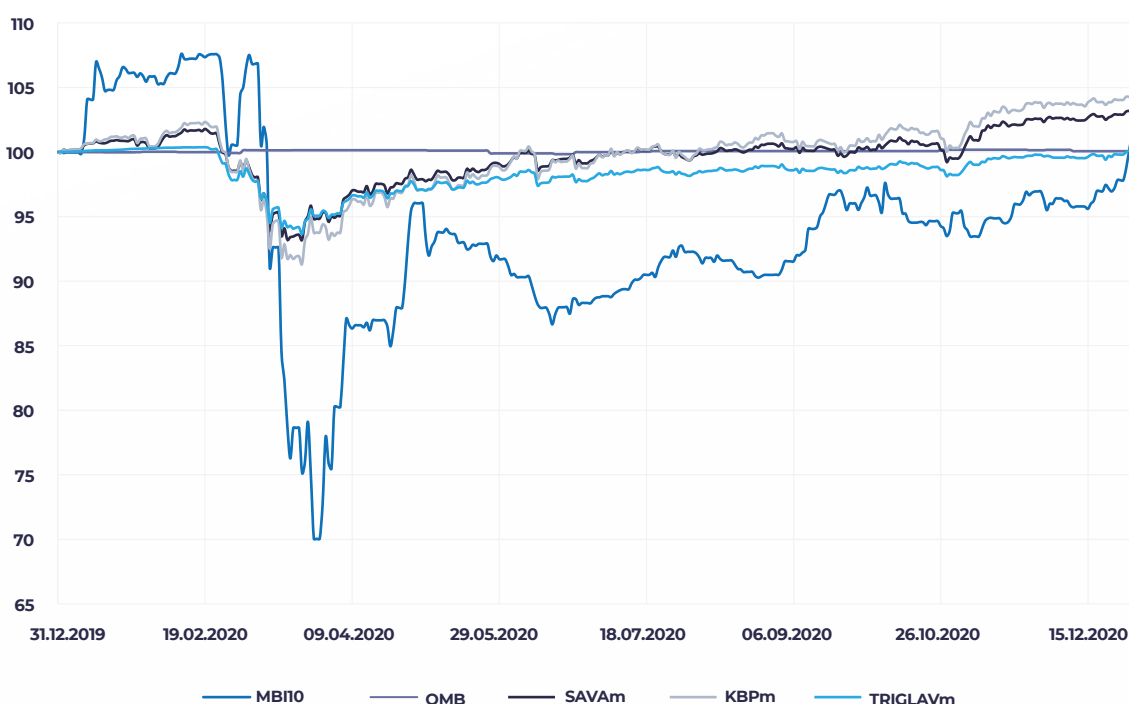
Chart 5.14. Asset classes in the MPF portfolio compared to legal restrictions



As in the previous year, in 2020, a small percentage of the assets of the mandatory pension funds (2.74%) are invested in shares of domestic issuers. In 2020, both SAVAm and KBPm, the exposure in shares, compared to 2019, is almost at the same level. Thereby, the exposure of shares in domestic issuers is twice higher with SAVAm (3.83%) compared to KBPm (1.81%). The exposure in shares of domestic issuers of TRIGLAVm in the second year of its operation compared to 2019 has increased and is 1.04%.

In comparison, the movement<sup>10</sup> of the value of the Macedonian Stock Exchange Index - MBI10, the Bond Index of the Macedonian Stock Exchange - OMB and the values of the accounting units of the mandatory pension funds, during 2020, is shown in Chart 5.15. The value of the accounting unit of SAVA increased by 3.15%, the accounting unit of KBPm increased by 4.28% and the accounting unit of TRIGLAVm increased by 0.09%. During 2020, MBI10 increased by about 1.20%. During 2020, OMB increased by about 0.08%<sup>11</sup>.

**Chart 5.15. Comparative movement of the value of MBI10, OMB and value of the accounting unit of MPF 2020**



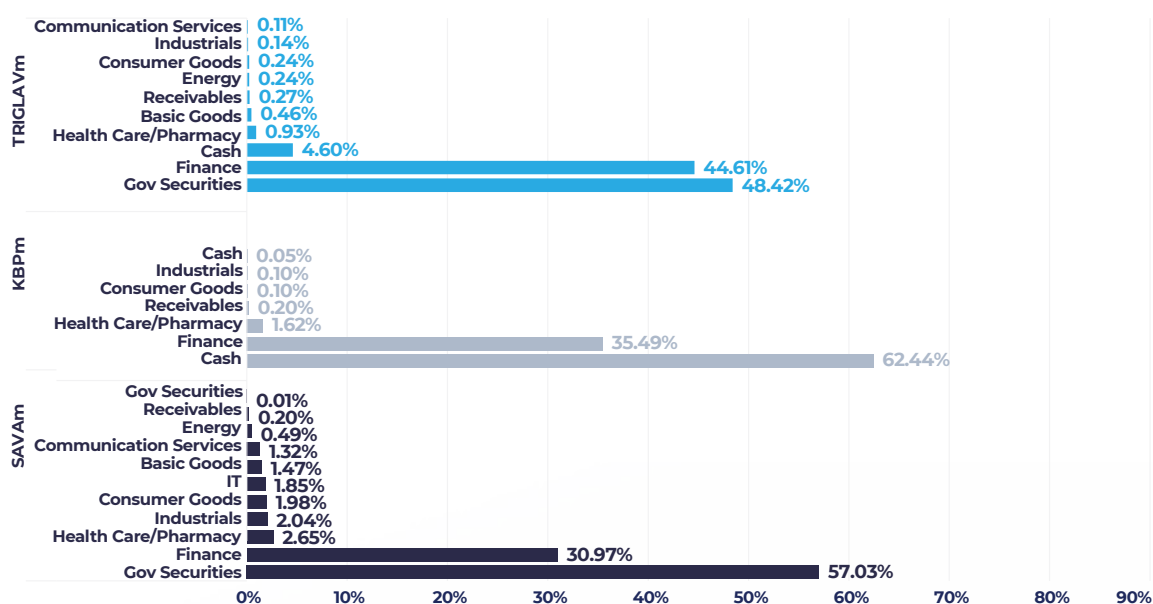
Half of the assets of the mandatory pension funds in 2020 belong to government securities, domestic government securities (57.03% with SAVAm, 62.44% with KBPm and 48.42% with TRIGLAVm). Observed by sectors, then about one third of the assets of SAVAm and KBPm are investments in instruments from issuers / joint stock companies in the financial sector, i.e. 30.97% with SAVAm and 35.49% with KBPm of the total assets of the fund. At TRIGLAVm, the share in instruments from issuers / joint stock companies in the financial sector is higher and amounts to 44.61%. Within this sector, SAVAm has the largest share of domestic bank deposits (46.5%) and shares in foreign and domestic investment funds (46.4%) and the share of financial services (5.4%) is lower. shares in domestic and foreign banks (1.5%) and bonds issued by domestic banks (0.2%). The share of foreign investment funds (83.6%) prevails in KBPm within the financial sector, followed by domestic bank deposits (16.4%). At TRIGLAVm, the share of foreign investment funds predominates within the financial sector (65.4%), followed by domestic bank deposits (34.6%). , consumer goods, industry, basic goods, information technology, communication services and energy, but with a much smaller share (from 0.10% to 2.65%). The investment structure of the mandatory pension funds by sectors is shown in Chart 5.16.

<sup>10</sup> The movements are shown through the change of the indices / units in relation to the initial index equal to 100, on 31.12.2019

<sup>11</sup> Source: Macedonian Stock Exchange AD Skopje - Annual statistical bulletin 2020

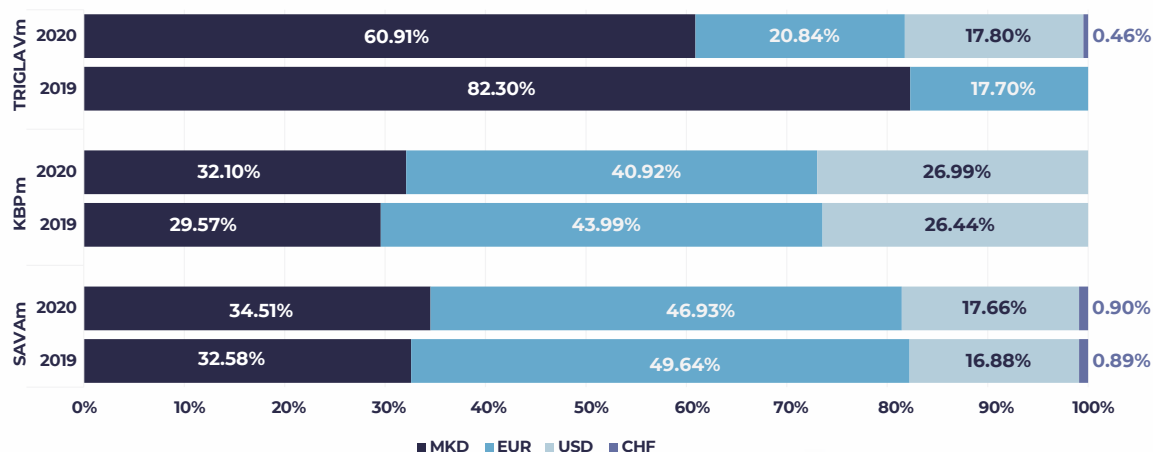


**Chart 5.16. Structure of investments of MPF by sectors**



According to the currency structure of the assets of the mandatory pension funds, which is shown in Chart 5.17, it can be noticed that in 2020 both SAVAm (46.93%) and KBPm (40.92%), most of the assets are invested in EUR, whereby the two pension funds can see a decrease in the share of instruments, in EUR, compared to the previous year. 10% in KBPm, whereby in both pension funds an increase can be noticed compared to the previous year. Then, there is a slight increase in the share of instruments, in US dollars, compared to 2019 with SAVAm (17.66%) and KBPm (26.99%). A very small part of SAVAm assets are invested in Swiss francs (0.90%). The currency structure of TRIGLAVm differs from the currency structure of SAVAm and KBPm. However, the currency structure of TRIGLAVm in the second year of its operation differs significantly from the currency structure in 2019. However, the weight of assets invested in instruments in MKD (60.91%), then 20.84% of assets are invested in instruments in EUR, and the remaining 17.80% in instruments in US dollars and 0.46% in Swiss francs.

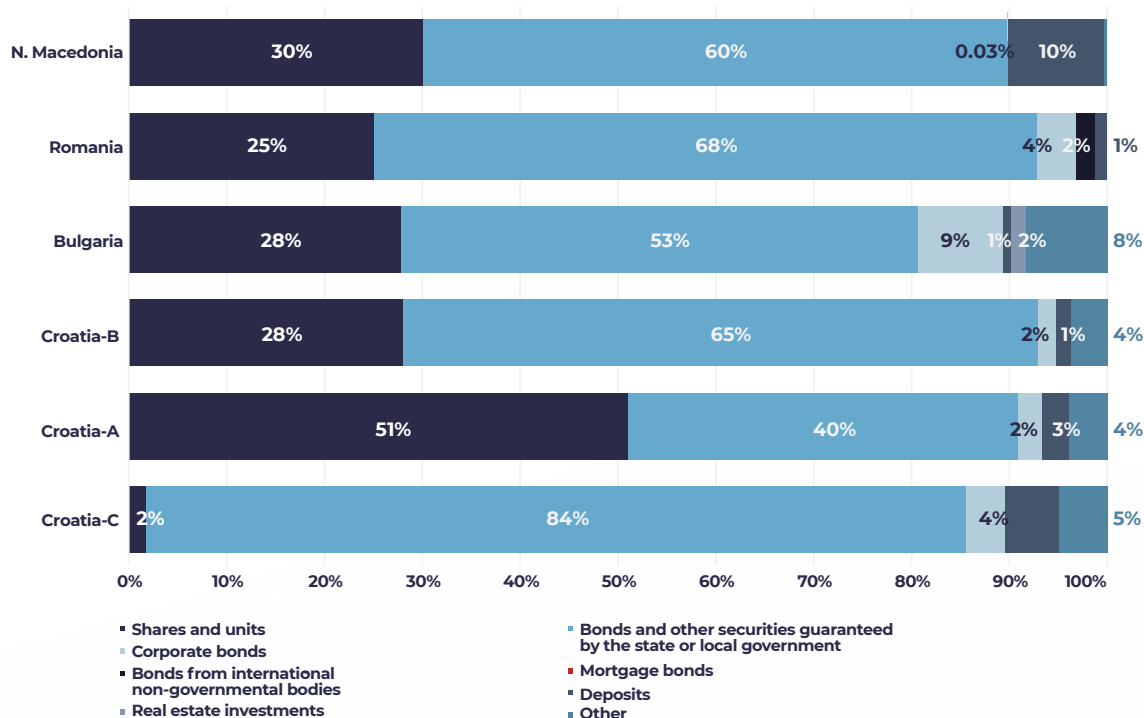
**Chart 5.17. Currency structure of MPF assets, 2019-2020**



If we compare the countries in the region that have similar pension systems with the Macedonian one, we can see similarities, but also significant differences in the investment portfolios of the mandatory pension funds. Chart 5.18 shows portfolios of pension funds (corresponding to the mandatory pension funds in Northern Macedonia) in several countries and in the RNM, on 31.12.2019<sup>12</sup>.

<sup>12</sup> Sources: [www.hanfa.hr](http://www.hanfa.hr); [www.fsc.bg](http://www.fsc.bg); [www.asfromania.ro](http://www.asfromania.ro) and personal calculations.

Chart 5.18. Pension portfolios in several countries and in the RNM



If the portfolios of the mandatory pension funds are reviewed by types of instruments, it can be noticed that in all countries, more than 50% of the assets of the pension funds are invested in bonds and other securities guaranteed by the state or local government (68 % in Romania, 65% in Croatia B<sup>13</sup>, 60% in North Macedonia and 53% in Bulgaria). The rest of the funds are invested in different ways. Shares and shares are mostly invested in North Macedonia (30%), followed by Croatia B (28%), Bulgaria (28%) and Romania (25%). Pension funds in Macedonia have the most investments in deposits (10%), followed by Romania, Croatia B and Bulgaria (1%) only a small part of the funds of pension funds are invested in deposits. Pension funds also invested in corporate bonds, 9% in Bulgaria, 4% in Romania, 2% in Croatia. Compared to pension funds in other countries, the share of investments in corporate bonds in North Macedonia is significantly lower, 0.03%. Only pension funds in Bulgaria have investments in real estate (2%) (in other countries, this instrument is usually not allowed). Regarding the exposure of the portfolios of the mandatory pension funds in instruments issued by foreign<sup>14</sup> issuers, it can be noted that the largest exposure abroad have the pension funds in North Macedonia (27%), followed by Croatia C (19%) and Romania (12%).

## 5.6 Net assets, accounting unit and rate of return on mandatory pension funds

Contributions paid into mandatory pension funds, reduced by the contribution fee, are invested immediately. The total realized return is attributed to the funds in the mandatory pension fund, ie to the individual accounts of the members. Once a month, the companies also charge a fee for asset management, which is calculated daily as a percentage of the net assets of the mandatory pension fund. Additionally, in each transaction, the funds of the mandatory pension fund are charged the transaction fees from the mandatory pension fund itself. The value of the assets of the mandatory pension fund is assessed daily. It is determined on the basis of the market value of each individual asset or on the basis of the amortized value of the asset, if the instrument is held to maturity, or in the available-for-sale portfolio, or if its market value cannot be estimated.

<sup>13</sup> In Croatia there are multi-funds i.e. 3 categories of pension funds: A (with highest risk), B (current portfolios at the moment of introduction of multi funds) and C ( with lowest risk).

<sup>14</sup> The data on foreign investments for Bulgaria as of 31.12.2020 was not available in the downloaded data.

The changes in the assets of the mandatory pension funds from the beginning to the end of the year occur due to:

- inflow of contributions,
- inflow of fees for untimely transfer of contributions in case of untimely transfer of contributions,
- outflow due to fees and transaction fees,
- inflow due to transfer from the other mandatory pension fund (for persons who were previously temporarily allocated to another fund, and then signed an agreement with the current fund and for persons who were members of another fund, and then transferred to the current fund),
- outflow due to transfer to the other mandatory pension fund (for persons who were temporarily allocated to the respective fund, but then signed an agreement with the other fund and persons who were members of the respective fund, and then transferred to the other fund),
- outflow for persons who terminated the membership agreements, due to excess of paid contribution, outflow due to exercising the right to disability or family pension and outflow for persons whose membership in the mandatory pension fund was terminated who during the insurance completed insurance service with increased duration that allows lowering the age limit for exercising the right to old age pension for at least one year
- outflow due to inheritance payment,
- outflow due to one-time payments to persons who did not exercise the right to an old-age pension,
- outflow due to payment of old age pension - programmed withdrawals,
- (un)realized gains or losses on investments.

Starting from the value of net assets at the end of the previous year, and taking into account all the above changes, we come to the value of net assets at the end of the year, which is shown in Table 5.10.

**Table 5.10. Changes in MPF assets (in millions of MKD)**

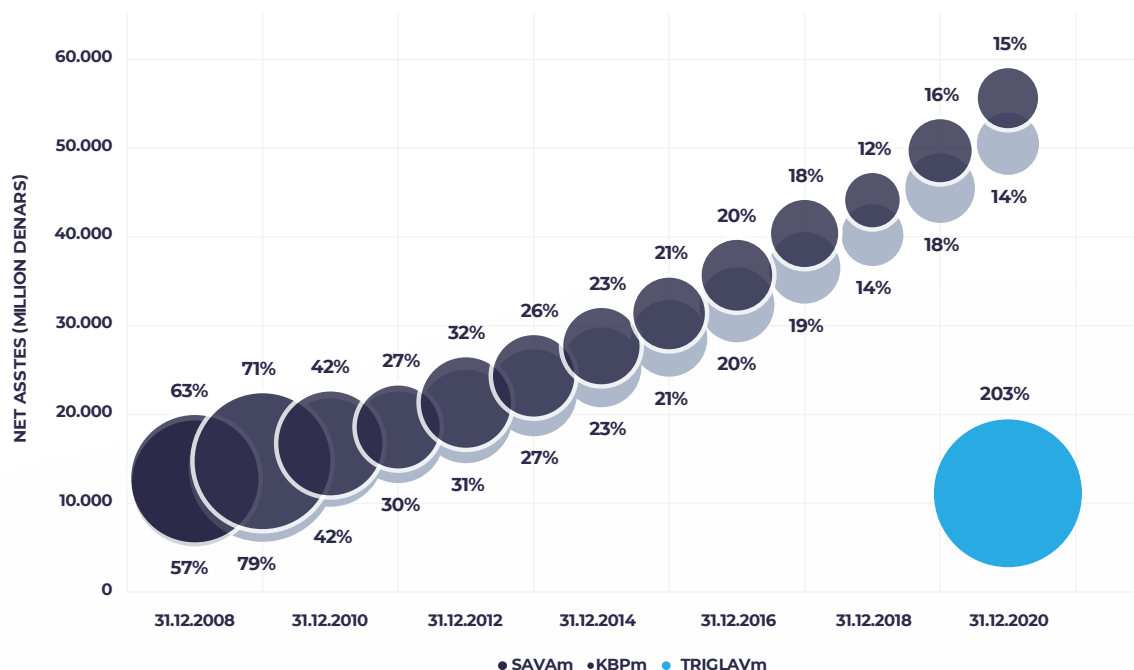
	SAVAm	KBpm	TRIGLAVm
<b>Net assets on 31.12.2019</b>	35,512.31	39,715.32	369.17
<b>Contributions</b>	4,328.48	4,709.52	210.86
<b>Contribution fees</b>	86.58	94.21	4.22
<b>Contributions reduced for contribution fees</b>	4,241.89	4,615.31	206.64
<b>Compensation for untimely transfer of contributions</b>	2.09	1.67	0.13
<b>Compensation of funds</b>	134.53	150.52	2.62
<b>Expenditures for intermediary commissions</b>	1.77	0.12	0.15
<b>Transfer from the other fund</b>	47.27	42.27	538.42
<b>Transfer to the other fund</b>	290.09	336.55	1.28
<b>Transfer from the fund on the basis of termination of contract, return contribution, retirement and termination of membership</b>	258.09	272.96	8.66
<b>Inheritance payment</b>	4.35	9.34	0.00
<b>Payment of old age pension - programmed withdrawals</b>	0.19	0.94	0.00
<b>One-time payment</b>	0.07	0.15	0.00
<b>Gross return on investment</b>	1,386.44	2,034.48	16.05
<b>Net return on investment</b>	1,250.14	1,883.84	13.28
<b>Net assets on 31.12.2020</b>	40,500.92	45,638.47	1,117.71

The total net assets of the mandatory pension funds, as of December 31, 2020, amounted to about Denar 87.26 billion or about EUR 1.42 billion, which is about 13.14% of the GDP of RNM<sup>15</sup>.

<sup>15</sup> Source for GDB: SSO – Announcement – gross-domestic product, fourth trimester from 2020 – evaluated data.

Chart 5.19 shows the values of net assets at the end of each year (2008-2020), and their increase in percentages, compared to the net assets in the previous year for SAVAm and KBPm and the value of net assets of TRIGLAVm at the end of 2020 and their increase in percentages compared to 2019. Thereby, it can be noticed that the net assets of both SAVAm and KBPm are growing at a similar pace. The largest increase in both SAVAm and KBPm is observed in 2009 compared to 2008. TRIGLAVm shows a large increase in net assets in the second year of operation of the fund compared to the first year.

**Chart 5.19. Increase in the net assets of MPF in percent compared to the previous year**



The movement of the value of the net assets and the cumulative contributions as well as the increase of the paid contributions and the increase of the net assets of SAVAm and KBPm, from the beginning of the system operation (i.e. from the date of the first payment, on 1/1/2006) until 31.12.2020, are shown in Chart 5.20 and Chart 5.21. The growth of the net assets of the mandatory pension funds is implied by the growth of the paid contributions and the investment results. For 2020, most of the growth of net assets is due to paid contributions. However, compared to the first years of operation of the funds, the share of paid contributions in the total growth of funds is gradually decreasing. It can also be noted that, during the first years, the share of cumulative contributions in the total net assets is significantly large then gradually decreases, and in the last five years, it averages 80%.

**Chart 5.20. Increase in net assets compared to the increase in paid contributions to SAVAm**

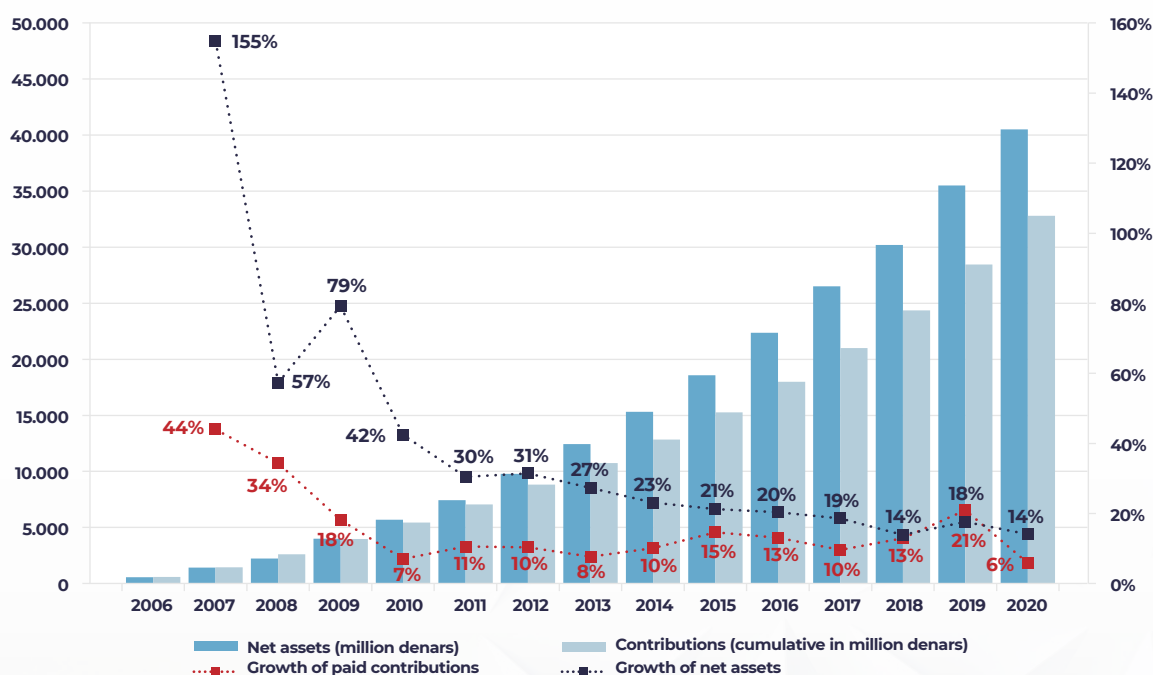


Chart 5.21. Increase in net assets compared to the increase in paid contributions at KBPm

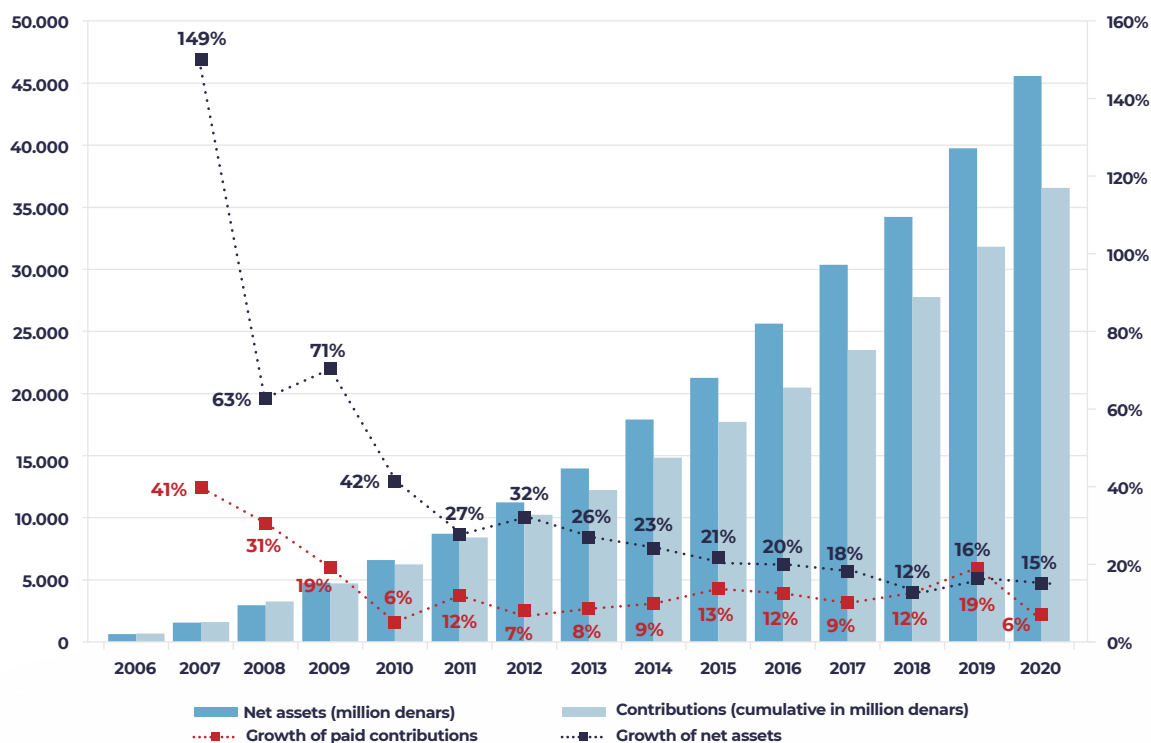
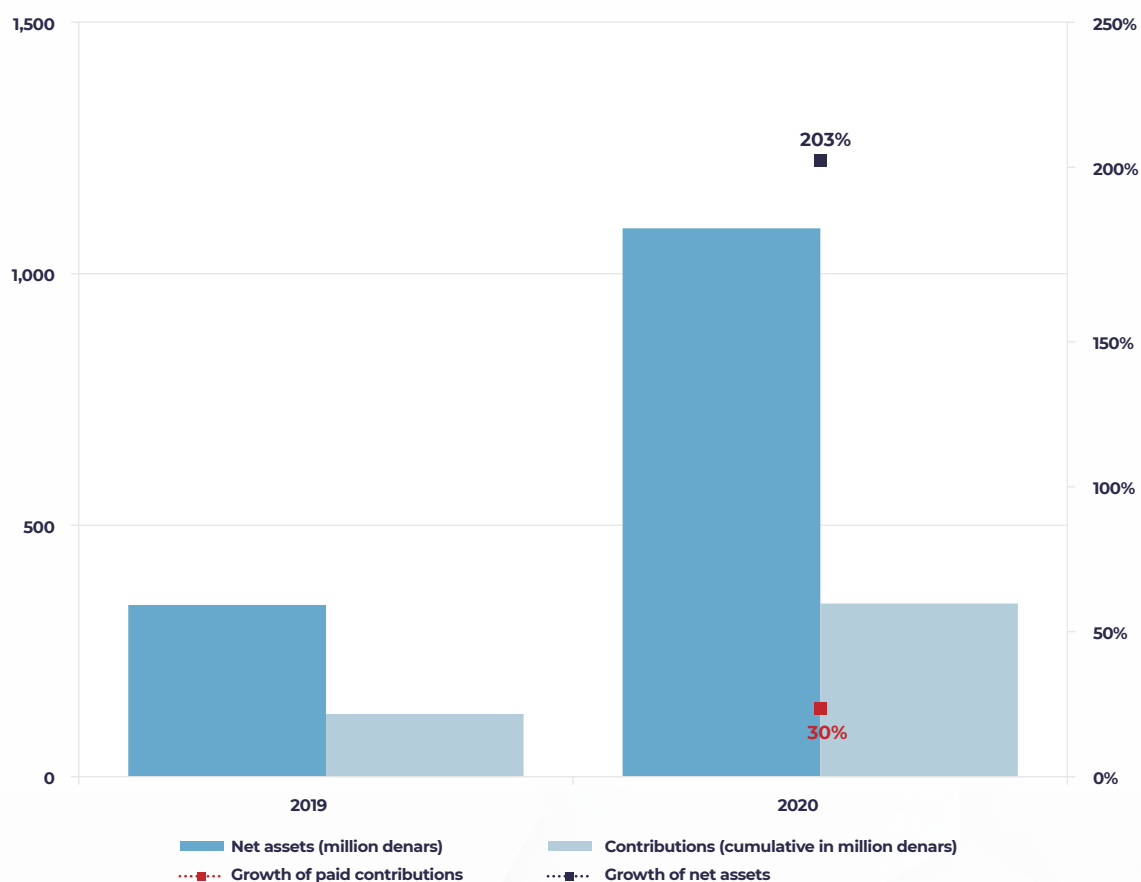


Chart 5.22. Increase in net assets compared to the increase in paid contributions at TRIGLAVm



With SAVAm and KBPm, net assets and cumulative contributions have been growing continuously since the beginning of the system. The largest increase in net assets (about 150%) as well as in paid contributions (about 40%) of SAVAm and KBPm was registered in 2007. This is probably due to the largest percentage increase in membership, i.e. the contributions compared to the previous year, as well as the rather high growth of the unit. This is followed by a decline in the growth of both net assets and paid contributions. Over the years there has been a gradual stabilization, so that the growth of net assets in the last five years, on average, is about 16%, while the growth of contributions paid in the same period, on average, is about 12%. In 2020, there are smaller parameters compared to 2020, i.e. an increase of net assets of 14% with SAVAm and 15% with KBPm, while the increase of paid contributions is around 6% with both SAVAm and KBPm.

The movement of the value of the net assets and the cumulative contributions as well as the increase of the paid contributions and the increase of the net assets of TRIGLAVm, for the first two years of operation of TRIGLAV, 2019 and 2020, are shown in Chart 5.22. TRIGLAVm also shows an increase in net assets and cumulative contributions in 2020 compared to 2019. The growth of TRIGLAV's net assets in addition to being implied by the growth of contributions paid and investment results is largely due to the funds transferred to TRIGLAVm by SAVAm and KBPm based on the concluded agreements for transfer of members who have passed from SAVAm and KBPm in TRIGLAVm.

Accounting units are used to record the assets of the mandatory pension funds. One accounting unit is a proportional part of the total net assets of the mandatory 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 of all individual accounts and sub-accounts. The initial value of the accounting unit of the pension fund is 100 MKD. Pension funds, including Macedonian ones, are subject to cyclical phenomena and movements, which means an increase or decrease in the values of their accounting units, depending on the investment of funds and the movement of the value of the instruments in which the funds of the pension funds are invested, as well as from the collection of fees and commissions.

The movement of the value of the accounting units of the mandatory pension funds, from the beginning of the functioning of the system until 31.12.2020, is given in Table 5.11., Chart 5.23 and Chart 5.24. Thereby, since the beginning of the operation of SAVAm and KBPm, there is a growing trend of the accounting units. On April 1, 2019, the third mandatory pension fund, TRIGLAVm, started operating. In 2020, the accounting units of the three mandatory pension funds recorded larger-than-usual oscillations caused by unfavorable financial market conditions in the face of the Corona virus pandemic. However, during 2020, the accounting units of the three mandatory pension funds, although slow, increased. Thereby, the accounting units of SAVAm and KBPm had a similar trend, so that, at the end of the year, the value of the accounting unit of SAVAm increased by 3.15%, compared to 2019, and the value of KBPm increased by about 4.28%. The accounting unit of TRIGLAVm also recorded an increase in 2020 compared to 2019 of approximately 0.09%, which is expected to be more modest in relation to the growth of the accounting units of SAVAm and KBPm operating for fifteen years. However, pension funds by their nature work in the long run, so their performance should be evaluated in the long run.

Table 5.11. Value of the accounting unit from the beginning of the system

Date	Value of accounting unit (in MKD)		
	SAVAm	KBPm	TRIGLAVm
31.12.2006	105.929336	106.265900	
31.12.2007	115.511364	115.303221	
31.12.2008	100.155213	107.116421	
*31.12.2009	116.874672	120.667142	
31.12.2010	125.009646	129.590887	
31.12.2011	129.003093	130.697013	
31.12.2012	139.225567	142.372582	
31.12.2013	151.117506	153.757419	
31.12.2014	160.733889	164.578077	
31.12.2015	170.193521	174.392410	
31.12.2016	179.771032	184.786292	
31.12.2017	189.686331	195.037486	
31.12.2018	193.113009	196.706281	
31.12.2019	213.757775	218.317207	101.578448
31.03.2020	203.707016	205.658419	96.870254
30.06.2020	212.474547	216.507724	99.551529
30.09.2020	214.306380	220.182008	100.290501
31.12.2020	220.489334	227.667060	101.665261

\* In the second half of 2009, both SAVA and KB First made decisions on reclassification of financial instruments held to maturity in the category of financial instruments available for sale and, in this procedure, the companies reassessed the value of financial instruments, applying at fair value and determined the value of the assets, the net assets, the value of the accounting units and the number of accounting units, which caused a relatively high correction of the value of the accounting units.



Chart 5.23. Value of the accounting unit of MPF from the beginning of the system

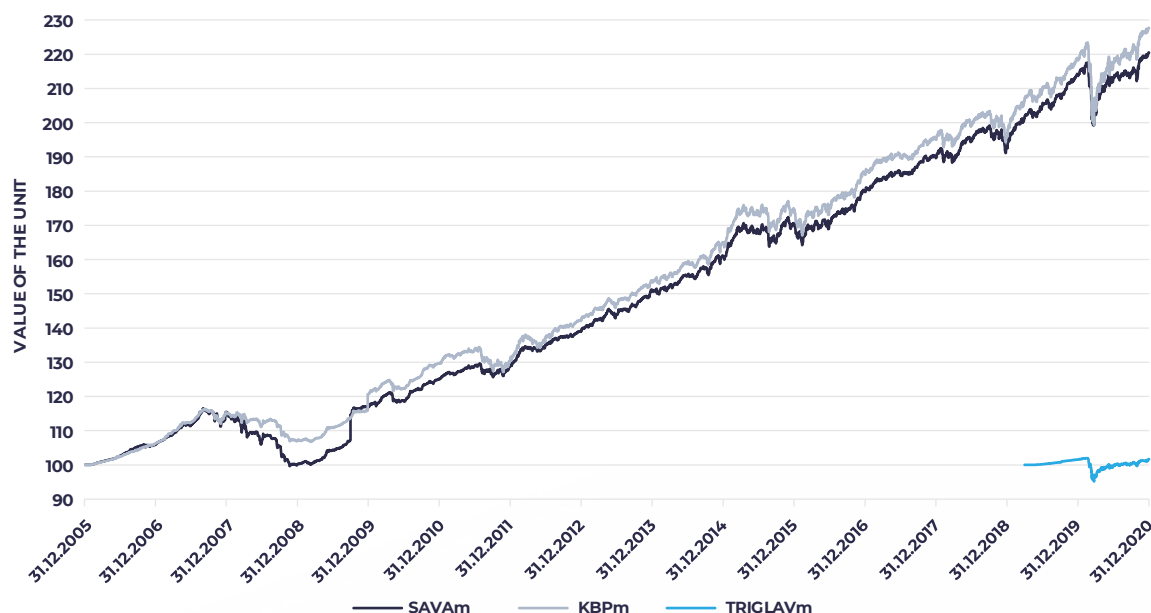
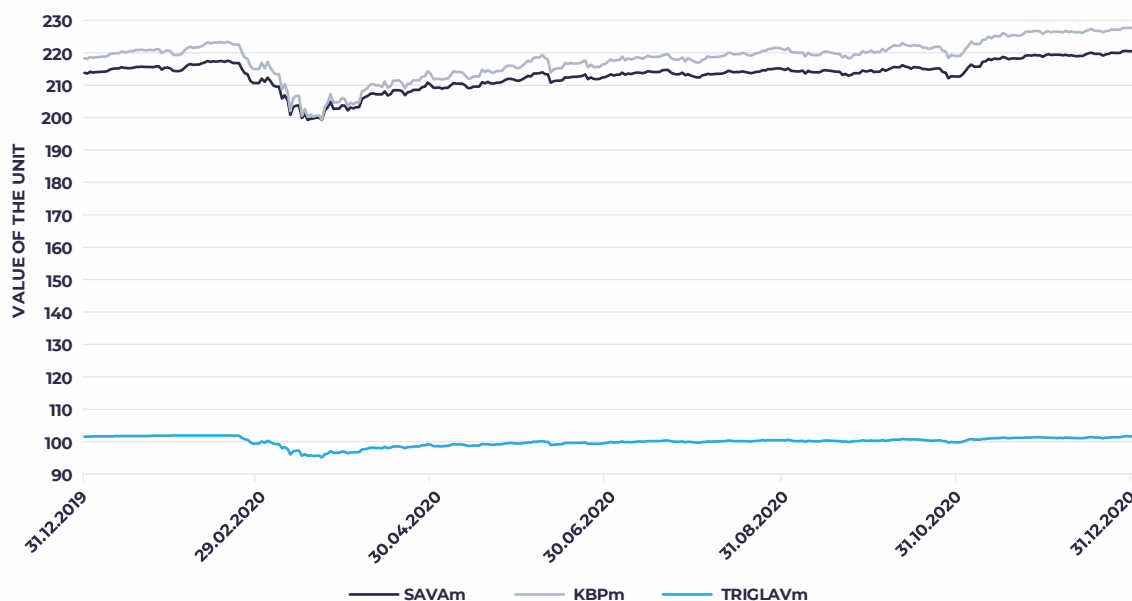


Chart 5.24. Value of the accounting unit of MPF in 2020



Usually, the pension fund return is calculated for the last few years, reduced to an annual level. Thus, in the Macedonian pension system, it is legally regulated to calculate the yield for a period of seven years (accounting period), reduced to an annual level, in nominal and real amount. If the fund exists for less than 84 months, but longer than 12 months, the yield is calculated at the end of June, i.e. December, for the period from June 1, i.e. December, after the establishment of the fund, until the end of June, ie December, when the calculation. In that case, the accounting period is 78, 72, 66, 60, 54, 48, 42, 36, 30, 24, 18 or 12 months.<sup>16</sup>

Yield in nominal amount<sup>17</sup> is a change (increase) in percentage of the value of the accounting unit at the last valuation date of the accounting period and the value of the accounting unit on the last day of the month preceding the first month in the accounting period, converted into an equivalent annual rate of return in nominal amount. The return in real amount, for

<sup>16</sup> TRIGLAVm is included in the comparative yield analyzes with the calculated yield for the respective periods, according to the regulation, because it exists longer than 12 months but shorter than 84 months.

<sup>17</sup> The formulas for calculating the return in nominal and real amount are prescribed in the Rulebook for assessment of the assets of the mandatory and voluntary pension funds.

each accounting period, converted into an equivalent annual rate of return in real amount, is calculated based on the annual rate of return in nominal amount and the change in the level of cost of living in the accounting period, reduced to annual level. The return on mandatory pension funds, by periods, reduced on an annual basis, is shown in Table 5.12.

**Table 5.12. Yield of MPF\***

Period <sup>18</sup>	SAVAm		KBPM		TRIGLAVm	
	Nominal value	Real value	Nominal value	Real value	Nominal value	Real value
01.01.2006 - 31.12.2008	0.05%		2.32%			
31.12.2006 – 31.12.2009	3.33%		4.32%			
31.12.2007 – 31.12.2010	2.67%		3.97%			
31.12.2008 - 31.12.2011	8.80%		6.86%			
31.12.2009 – 31.12.2012	6.00%		5.66%			
31.12.2006 – 31.12.2013	5.20%	2.16%	5.41%	2.37%		
31.12.2007 – 31.12.2014	4.83%	2.67%	5.21%	3.05%		
31.12.2008 - 31.12.2015	7.87%	6.45%	7.21%	5.80%		
31.12.2009 - 31.12.2016	6.34%	4.74%	6.27%	4.67%		
31.12.2010 - 31.12.2017	6.13%	4.63%	6.01%	4.51%		
31.12.2011–31.12.2018	5.93%	4.72%	6.01%	4.80%		
31.12.2012 –31.12.2019	6.31%	5.74%	6.29%	5.72%		
31.03.2013 – 31.03.2020	5.23%	4.68%	5.05%	4.51%	-	-
30.06.2013 – 30.06.2020	5.73%	5.20%	5.69%	5.16%	-	-
30.06.2019 – 30.06.2020	-	-	-	-	-0.64%	-2.27 %
30.09.2013 – 30.09.2020	5.60%	4.96%	5.66%	5.02%	-	-
30.06.2019 – 30.09.2020	-	-	-	-	0.08%	-1.29%
31.12.2013 – 31.12.2020	5.54%	4.84%	5.76%	5.06%	-	-
30.06.2019 – 31.12.2020	-	-	-	-	0.97%	-0.49%
<b>Start** -31.12.2020</b>	<b>5.41%</b>	<b>3.44%</b>	<b>5.63%</b>	<b>3.66%</b>	<b>0.95%</b>	<b>-0.40%</b>

\*\* Commencement of work of SAVAm and KBPM is 1.1.2006. Start of work TRIGLAVm is 1.4.2019.

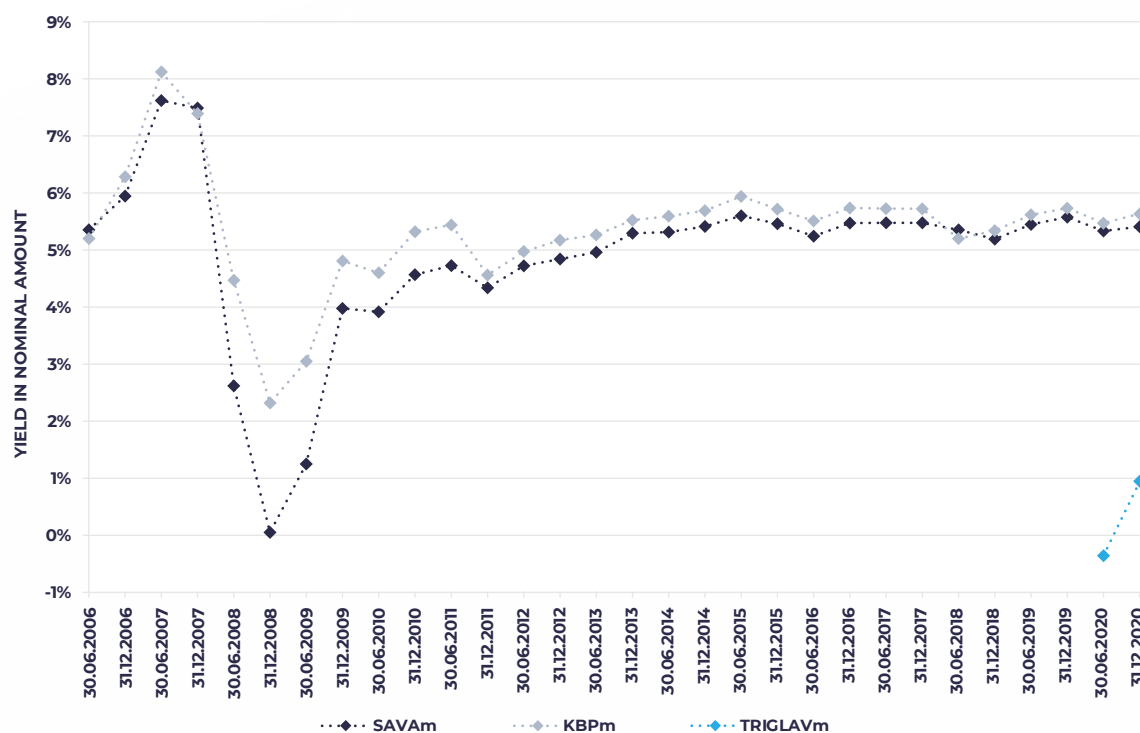
The return on the individual account is variable and depends on the return of the mandatory pension fund and the fees charged by the company. Yield, i.e. profit, is a parameter that can not be realistically predicted, because it depends on the conditions of the capital market and the overall economy.

Given the long-term nature of the pension insurance, it is important to calculate the yield of the mandatory pension funds from the beginning of the system, i.e. from the beginning of the operation of the mandatory pension fund reduced to an annual level, which for SAVAm is 5.41% in nominal or 3.44% in real amount, for KBPM 5.63% in nominal amount, ie 3.66% in real amount. Yield from the beginning of operation of TRIGLAVm reduced on an annual basis is 0.95% in nominal or -0.40% in real amount.

<sup>18</sup> Until the adoption of the amendments to the Law on Mandatory Fully Funded Pension Insurance from January 2013, the yield of the mandatory pension fund was calculated for a period of 3 years, only in nominal amount.

The movement of the yield in nominal amount, during the fifteen years of existence of the mandatory fully funded pension insurance, can be seen on Chart 5.25, where the returns are shown by periods (from the beginning of the system to the appropriate date), from the beginning of the system to 31.12.2020, by funds (for SAVAm and KBPm). The Chart also shows the yields by periods from the beginning of TRIGLAVm to the respective date. At the beginning of the existence of the system, there is an increase in yield, so that at the end of 2006 and 2007, there are high yields, while at the end of 2008, the lowest yields are observed, as a result of the negative developments of domestic and foreign financial markets. This is followed by a gradual recovery from the crisis and an increase in yields, by the end of 2009, as well as at the end of 2010. At the end of 2011, there was a slight decrease in yield, compared to the end of 2010. During the following years, there is an increase (with small deviations from the growth of yields until the end of 2015 and the first half of 2016 and yields in 2018). The lower amounts of yields in 2018 are mostly due to the impact of prices on world financial markets which recorded greater volatility during 2018 and a decrease at the end of 2018. During 2019, there is a gradual increase in yields. In 2020, lower yields are observed compared to 2019 in SAVAm and KBPm, mostly due to the unfavorable conditions on the financial markets in conditions of a coronavirus of the Corona virus. TRIGLAVm in the initial years of its operation and in exceptional circumstances due to the unfavorable conditions on the financial markets in the conditions of the Corona virus pandemic, recorded a yield in nominal amount less than zero, which was already offset in the next period.

**Chart 5.25. yield in MPF (in nominal amount)**

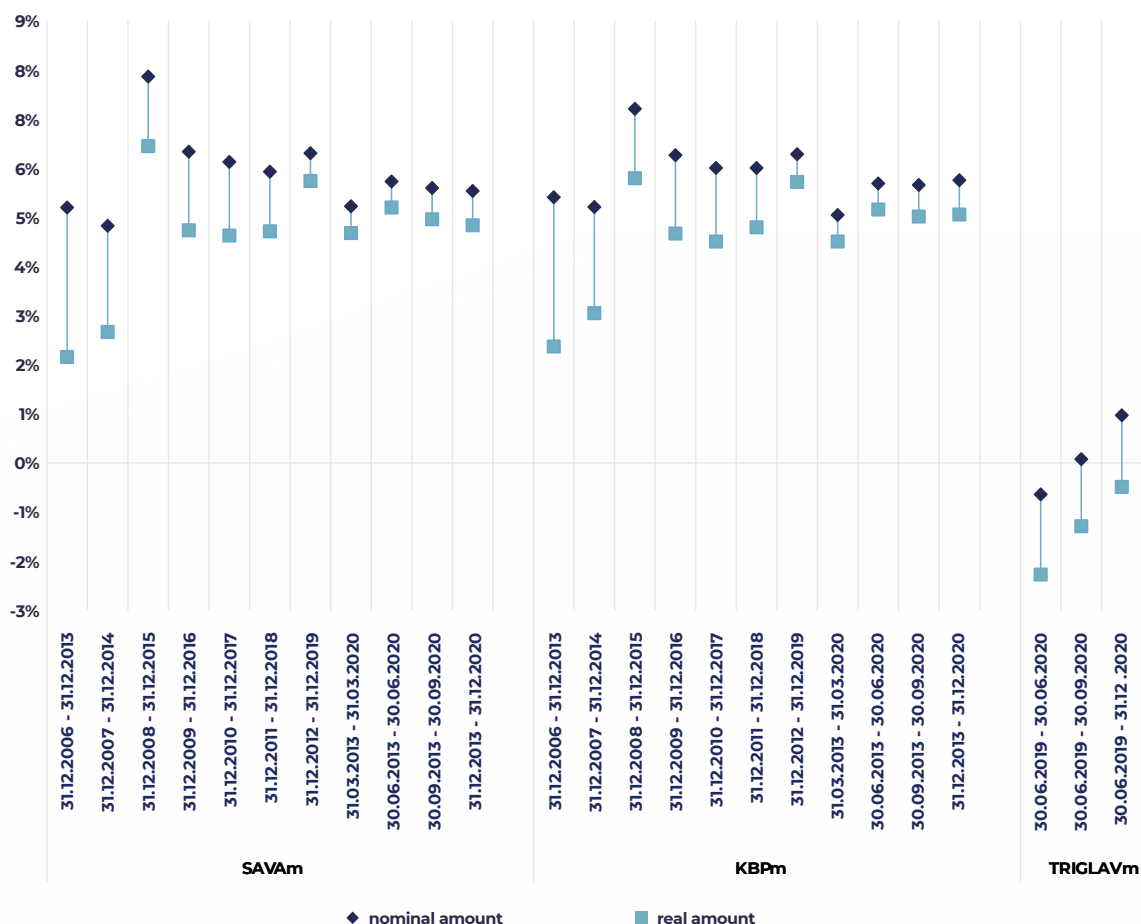


The movement of the return in nominal and real amount, in the period from 2013 to 2019 (annually) and in 2020 (quarterly), after seven-year periods, converted into an equivalent annual rate of yield, per mandatory pension fund, can be viewed on Chart 5.26. This Chart also shows the movement of the yield in nominal and real amount of TRIGLAVm, for the respective periods according to the regulation because it exists longer than 12 months but shorter than 84 months. In 2020, the yield in nominal amount and the yield in real amount show growth and with SAVAm (from 5.23% to 5.54% in nominal or from 4.68% to 4.84% in real amount) and in KBPm (from 5.05% to 5.76% in nominal or from 4.51% to 5.06% in real terms). However, the economic and health crisis still affected the yields calculated for a seven-year period in 2020. Thereby, the lowest amount of return in both nominal and real amount was recorded for the period 31.03.2013 - 31.03.2020 in the pension funds that have existed for more than seven years and it is lower by an average of 1 percentage point in relation to the return for the period 31.12.2012 - 31.12.2019. In the following quarters, i.e. at the end of 2020, the seven-year yield of the pension funds is higher (in SAVAm in the three quarters there is a slight decrease, in KBPm in the fourth quarter there is a slight increase compared to the third quarter) but they are still not at the level of the seven-year return achieved at the end of 2019. The return of the third mandatory pension fund that started operating in April 2019 increased in the third and fourth quarter of 2020 and

for the period 30.06.2019 - 31.12.2020 recorded a return in nominal amount over zero, but still a negative return in real terms. In the period under review (2013-2020), the change in the level of cost of living in the accounting periods, reduced to an annual level, decreased, which affects the gradual approximation of the returns in real amount to the returns in nominal amount.

The seven-year return on the level of mandatory fully funded pension insurance for the period 31.12.2013 - 31.12.2020, calculated through the change of the weighted average<sup>19</sup> of the accounting units of the mandatory pension funds, reduced on an annual basis is 5.55% in nominal or 4.85 % in real amount.

**Chart 5.26. Yield in nominal and real amount of MPF, 2013-2020**



## 5.7. Compensation for mandatory pension funds

To perform its functions for managing the assets of the mandatory pension fund, assessing the assets, membership, keeping individual accounts of the members and reporting to the members, as well as for paying the fees for MAPAS, the PDIFNM and the custodian and coverage at their own expense, the companies, in accordance with the Law, charge a fee of contributions, a fee of funds and a fee for transfer.

This way of financing the pension companies is common for the companies that operate in a pension system similar to the Macedonian one. The fee charged as a percentage of the contributions is paid once from the payment of the contribution, and then the same contribution is invested until the withdrawal of funds, while the fee collected from funds is collected at the end of each month, from the total funds manage. Compensations, based on contributions, have a weight "at the beginning", i.e. they are relatively high in the initial years. Asset-based benefits carry a "bottom-up" burden, as the accumulated assets are much higher the closer they are to retirement<sup>20</sup>. In the long run, the contribution fee will not have a significant impact on the amount of the member's pension, and the fee fee will become more significant over the years.

<sup>19</sup> The average value is calculated as a weighted average of the accounting units of the mandatory pension funds in relation to the net assets of the mandatory pension funds.

<sup>20</sup> Administrative Charges for Funded Pensions: An International Comparison and Assessment, Edward Whitehouse, June 2000.

The types and amount of fees charged by the companies that manage mandatory pension funds in 2020 are shown in Table 5.13.

**Table 5.13. Fees charged by companies managing mandatory pension funds in 2020**

Type of compensation	SAVA	KB First	TRIGLAV***
<b>Reimbursement of contributions</b>	2.00%*	2.00%*	2.00%
<b>Monthly fee from the value of the net assets of the mandatory pension fund</b>	0.030%**	0.030%**	0.030%
<b>Transfer fee</b>			
Number of days ****	Amount of transfer fee	Amount of transfer fee	Amount of transfer fee
number of days ≤ 720	15 EUR	15 EUR	15 EUR
number of days > 720	no transfer fee is charged	no transfer fee is charged	no transfer fee is charged

\* The amount is equal to the legally determined maximum for 2020 (previously it was 2.25% for all MPF).

\*\* The amount is equal to the legally determined maximum for 2019 (previously it was 0.035% for both SAVAm and KBPm).

\*\*\* The amount is equal to the legally determined maximum for 2019. From April 2019

\*\*\*\* The number of days is calculated from the date on which the member acquired the status of a member of the existing mandatory pension fund (or from the first of the month for which the member acquired the right to contribute to the existing mandatory pension fund, in case of First membership) to the date of transfer of the funds to the individual account of the member in the future mandatory pension fund.

Initially, the contribution fee was determined in a tender, and the initial fee, charged by SAVA and KB First, was 8.50%. Furthermore, with the development of the system and the reduction of the fees charged by the state institutions from the companies, as well as with the growth of the contributions and funds, which are the basis for calculating the fees, there was a continuous gradual reduction of this fee. The amount of contribution fees, which were collected from the beginning of the system, until 2020, is shown in Table 5.14.

**Table 5.14. Amount of the contributions from the contributions charged by the pension companies in the second pillar**

Pension company	Amount	Date of application
<b>SAVA</b>	9.90%	Tender
	8.50%	From the beginning of the system (2006)
	7.90%	From July 2007
	6.90%	From february 2008
	6.50%	From May 2009
	5.50%	From January 2010
	4.50%	From January 2011
	4.00%	From January 2012
	3.75%	From June 2013
	3.50%	From January 2014
	3.25%	From January 2015
	3.00%	From January 2016
	2.75%	From January 2017
	2.50%	From January 2018
	2.25%	From January 2019
	2.00%	From January 2020
<b>KB First</b>	9.90%	Tender
	8.50%	From the beginning of the system (2006)
	7.90%	From July 2007
	6.80%	From february 2008
	5.50%	From January 2010
	4.50%	From January 2011
	4.00%	From January 2012
	3.75%	From June 2013
	3.50%	From January 2014
	3,25%	From January 2015
	3.00%	From January 2016
	2.75%	From January 2017
	2.50%	From January 2018
	2.25%	From January 2019
	2.00%	From January 2020
<b>TRIGLAV</b>	2.25%	From April 2019
	2.00%	From January 2020

The compensation of funds was determined by law and, as of May 2013, was 0.05% per month of the value of the net assets of the mandatory pension fund, then as of December 2014, was 0.045%. As of January 2015, the fee was 0.04%, as of December 2016. As of January 2017, the fee was 0.035%. From January 2019 the compensation of funds is 0.030%

From 2013, the law determined the maximum amount of the contribution fee and the fee fee, which will be able to be collected by the pension companies, and their gradual further reduction was foreseen.

The collection of fees (in millions of MKD) by the companies, during 2020, is shown in Table 5.15.

**Table 5.15. Collection of fees by the companies, in 2020 (in millions of MKD)**

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
<b>SAVAm - total</b>	17.19	17.38	17.54	18.58	17.50	18.29	18.05	18.81	19.74	18.21	18.64	21.17	221.11
From contributions	6.43	6.48	7.11	7.94	6.58	7.16	6.77	7.42	8.22	6.56	6.78	9.14	86.58
From funds	10.77	10.90	10.43	10.64	10.92	11.13	11.29	11.40	11.51	11.64	11.86	12.04	134.53
<b>KBPm - total</b>	19.07	19.30	19.28	20.41	19.32	20.30	19.91	20.81	21.86	20.27	20.75	23.44	244.73
From contributions	7.01	7.07	7.72	8.62	7.19	7.89	7.30	8.03	8.95	7.17	7.38	9.88	94.21
From funds	12.06	12.23	11.56	11.79	12.13	12.41	12.61	12.78	12.91	13.10	13.37	13.57	150.52
<b>TRIGLAVm - total</b>	0.33	0.36	0.44	0.50	0.47	0.53	0.56	0.63	0.70	0.67	0.74	0.91	6.84
From contributions	0.21	0.23	0.28	0.33	0.29	0.33	0.33	0.38	0.44	0.38	0.43	0.58	4.22
From funds	0.12	0.13	0.15	0.18	0.19	0.20	0.22	0.24	0.26	0.29	0.31	0.33	2.62

Transaction fees, in connection with transactions for the acquisition or transfer of funds to a mandatory pension fund, are paid from the funds of the mandatory pension fund, to selected legal entities that provide services with securities, at home and abroad. Transaction fees are calculated as a percentage of the value of each concluded transaction.

During 2020, a total of MKD 1.77 million in transaction fees were collected from SAVAm, a total of MKD 0.12 million was collected from KBPm and a total of MKD 0.15 million in transaction fees were collected from TRIGLAVm.

## 5.8. Payment of pensions from mandatory fully funded pension insurance

The conditions for acquiring the right to a pension are the same for both the first and the second pillar: the age limit of 64 years for men, i.e. 62 years for women, with a minimum of 15 years of work experience.

From the first pillar, part of the old age, family and disability pension is paid, as well as the minimum pension. The pension from the first pillar is calculated as a defined pension according to a predetermined formula (a certain percentage, depending on the years of service, multiplied by the pension base, determined by valorized salaries for the entire working life).

From the second pillar, a part of the old age pension is paid, in a form chosen by the member:

- pension annuity with the entire amount of funds accumulated on the individual account of the member; the annuity is paid for the rest of its life by an insurance company authorized for that purpose, or
- programmed withdrawals, from the accumulated funds on the individual account of the member and are paid by a company that manages a mandatory pension fund, or
- combination of the abovementioned methods.

The provision of pension annuities and programmed withdrawals is regulated by the Law on Payment of Pensions and Pension Benefits from Fully Funded Pension Insurance.



If the insured person who has exercised the right to disability pension is a member of the second pillar, the total amount of funds on the account of that member is transferred to the PDIFNM and the full payment of the disability pension is paid by the PDIFNM. As an exception, if the accumulated funds on the member's account are more than the amount required for the payment of a disability pension, in accordance with the Law on Pension and Disability Insurance, then the member may choose to use a second pillar pension instead of that pension.

In case of death of a member of the mandatory pension fund from the second pillar, whose members are entitled to family pension, the total amount of funds on the account of that member is transferred to the PDIFNM and the full payment of the family pension is paid by the PDIFNM. As an exception, if the accumulated funds on the member's account are more than the amount required for payment of family pension, in accordance with the Law on Pension and Disability Insurance, then the beneficiary of family pension can choose to use a second pillar pension instead of that pension.

In 2020, 46 disability pensions and 162 family pensions were realized by members of the second pillar, i.e. family members of a deceased member, due to which their accumulated funds were transferred to the PDIFNM, where the disability or family pension is paid. In 2020, no member of the mandatory pension fund exercised the right to payment through programmed withdrawals. In 2020, a second pillar old-age pension was paid through programmed withdrawals, but only for 18 members who started withdrawing funds in previous years.

There are also cases in which funds are paid from the individual account of the member, without exercising the right to a pension, as follows:

- when the deceased member of the mandatory pension fund does not have family members who are entitled to family pension, then the funds on the account of that member become part of the testator's estate and they are treated in accordance with the Law on Inheritance;
- when a member of a mandatory pension fund will not acquire the right to an old-age pension according to the Law on Pension and Disability Insurance, because he has not completed a pension period of at least 15 years, he can receive a pension only from the second pillar, to 40% of the minimum amount of the pension, and if the calculated amount of the pension is less than 40% of the minimum amount of the pension, the mandatory pension fund will suddenly pay the accumulated funds to the member's account. Realization of pension only from the funds from the second pillar and payment of the total accumulated funds in these cases can be done after reaching 65 years of age.

During 2020, funds were paid as inheritance from the individual accounts of 79 deceased members. Also, one-time funds were paid to 4 people.

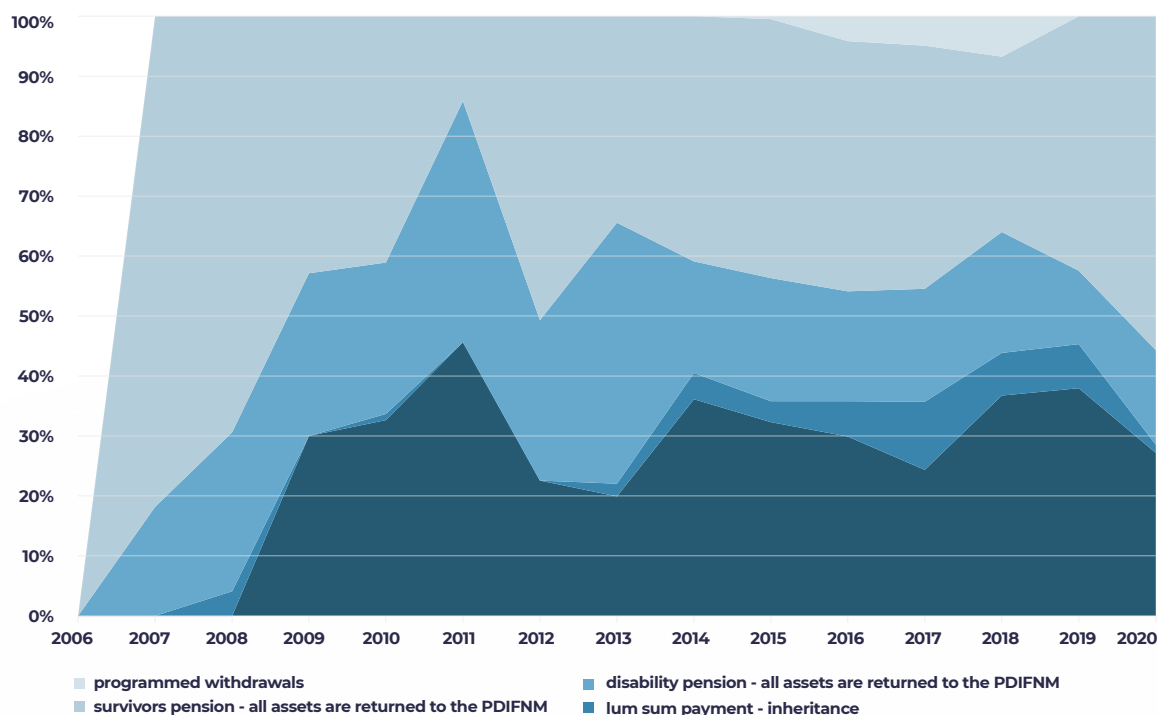
A more detailed overview of the realized pensions and payments for members of the second pillar in 2020, by mandatory pension funds is given in Table 5.16.

**Table 5.16. Realized pensions and payments for the members in the second pillar in 2020**

Type of pension and payment / Mandatory pension fund	SAVAm	KBPm	TRIGLAVm	Total
Disability pension	16	29	1	46
Family pension	71	90	1	162
Old-age pension - programmed withdrawals	0	0	0	0
One-time payment - member	2	2	0	4
One-time payment - inheritance	49	30	0	79
<b>Total</b>	<b>138</b>	<b>151</b>	<b>2</b>	<b>291</b>

Chart 5.27 shows the structure of realized pensions and payments from the second pillar, in the fourteen years of existence of the second pillar, including 2020, is shown. The number of payments is very small, because the members are young people. Most of the payments are in cases of death of a member, through realized family pension, or payment of inheritance, then payments based on realized disability pension, and the lowest is the number of one-time payments to members and payments to members through programmed withdrawals.

**Chart 5.27. Structure of realized pensions and payments from the second pillar from the beginning of the system**



# **6. Information on voluntary pension funds**

- 6.1. Purpose of voluntary fully funded pension insurance**
- 6.2. Membership in voluntary pension funds**
- 6.3. Transfer of a member from one account to another in the same or another voluntary pension fund**
- 6.4. Contributions to voluntary pension funds**
- 6.5. Investment and portfolio structure of voluntary pension funds**
- 6.6. Net assets, accounting unit and rate of return of voluntary pension funds**
- 6.7. Allowances for voluntary pension funds**
- 6.8. Payment of pension benefits from voluntary fully funded pension insurance**

## 6. Information on voluntary pension funds

### 6.1. Purpose of voluntary fully funded pension insurance

The primary goal of voluntary fully funded pension insurance is to provide higher income after retirement, for insured persons who are already insured in the single-pillar and/or two-pillar pension system, providing a pension to persons not covered by compulsory pension insurance for themselves or others and providing preconditions for the establishment of occupational pension schemes in the process of harmonizing the social security system in the RNM with EU systems. The basic principles of voluntary fully funded pension insurance are: providing additional funds in case of old age, membership on a voluntary basis, capital financing on the principle of defined contributions, investing funds on the basis of security, risk diversification and maintaining adequate liquidity and transparency.

Voluntary pension insurance covers a large group of people from the RNM population, as well as non-RNM citizens. This provides additional savings for old age, which increases material security in old age. Furthermore, in accordance with the common practice in many European countries, where there are occupational pension schemes, through which employers, or citizens' associations, organize and finance additional pension insurance for their employees, i.e. members, this is also possible in the RNM. As European social security systems are under increasing pressure, occupational pensions will, in the future, increasingly play a role in supplementing income after retirement. Therefore, occupational pensions, in addition to social security, should be developed in order to provide safe, permanent and effective social insurance, which should guarantee a decent standard of living in old age. In the third pillar, an employer, or an association of citizens (insurer), can organize and finance an occupational pension scheme and make a contribution to a voluntary pension fund for its employees and members. Multiple employers, or multiple civic associations, can co-organize and fund occupational pension schemes. The insurer signs an agreement with the company he has chosen to manage the voluntary pension fund, which will include the occupational pension scheme.

Voluntary pension insurance is expected to have an additional significant impact on the economy as a whole, by increasing the savings of the population, increasing the power of investment and encouraging the development and deepening of the capital market, by investing the funds of voluntary pension funds, increasing the demand for new instruments and through new financial services, etc.

Voluntary fully funded pension insurance became operational in the second half of 2009, with existing companies being granted licenses to manage voluntary pension funds. Open Voluntary Pension Fund "NLB Penzija Plus" - Skopje started operating on July 15, 2009, while KB First Open Voluntary Pension Fund - Skopje, on December 21, 2009. In June 2018, MAPAS gave approval for changing the name of the pension fund Open Voluntary Pension Fund - "NLB Penzija plus" Skopje into Open Voluntary Pension Fund Sava Penzija plus. Triglav Open Mandatory Pension Fund - Skopje started operating on March 1, 2021<sup>21</sup>.

<sup>21</sup> The analyses in the Report do not include Triglav open mandatory pension fund – Skopje because the Report refers to 2020

## 6.2. Membership in voluntary pension funds

A person can become a member of a voluntary pension fund in three ways:

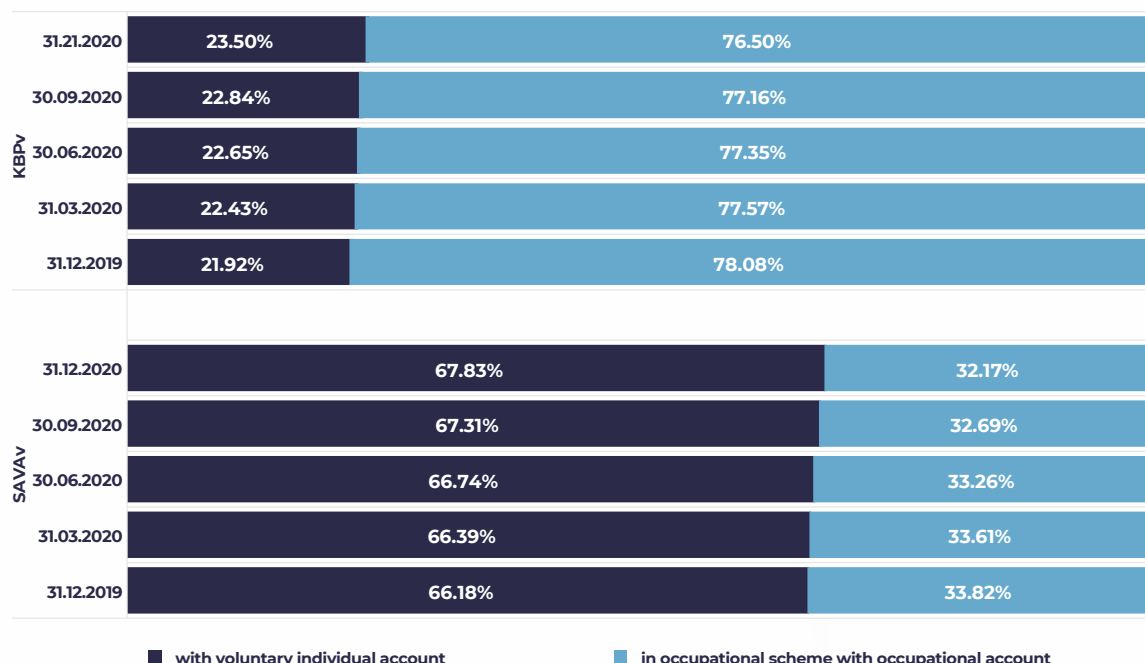
- 1) by signing an agreement for membership in a voluntary pension fund between the person and the company and by opening a voluntary individual account;
- 2) by signing an agreement for membership in a voluntary pension fund between the person, the natural person who pays in the name and for the account of the person (payer) and the company and by opening a voluntary individual account;
- 3) by participating in an occupational pension scheme, organized by their employer or by an association in which they are a member, and by opening a professional account.

A person can have only one voluntary individual account and one professional account. These accounts can be in the same or in a different voluntary pension fund.

The growth of membership in voluntary pension funds in 2020 compared to 2019 maintains the same modest trend as last year. In the voluntary fully funded pension insurance, as of 31.12.2020, there are a total of 26,016 members, which means 835 members more compared to 31.12.2019, ie there is an increase in membership of about 3.3%. Out of the total number of members in the third pillar, 11,018 or about 42% are members with a voluntary individual account, while 14,998 or about 58% are participants in a pension scheme with a professional account. Regarding the distribution of members by the voluntary pension funds, as of 31.12.2020, there is no significant change compared to the situation last year, ie about 43% of the members are in SAVAv, while about 57% are in KBPv.

Chart 6.1, which shows the structure of members by voluntary pension funds and by type of membership, in 2020, on a quarterly basis, a significant difference can be noticed in terms of the type of membership in the two voluntary pension funds. Namely, SAVAv has a larger number of members with voluntary individual accounts (68%), while KBPv has more members in pension schemes with professional accounts (77%). with KBPv there is no significant change compared to the situation last year.

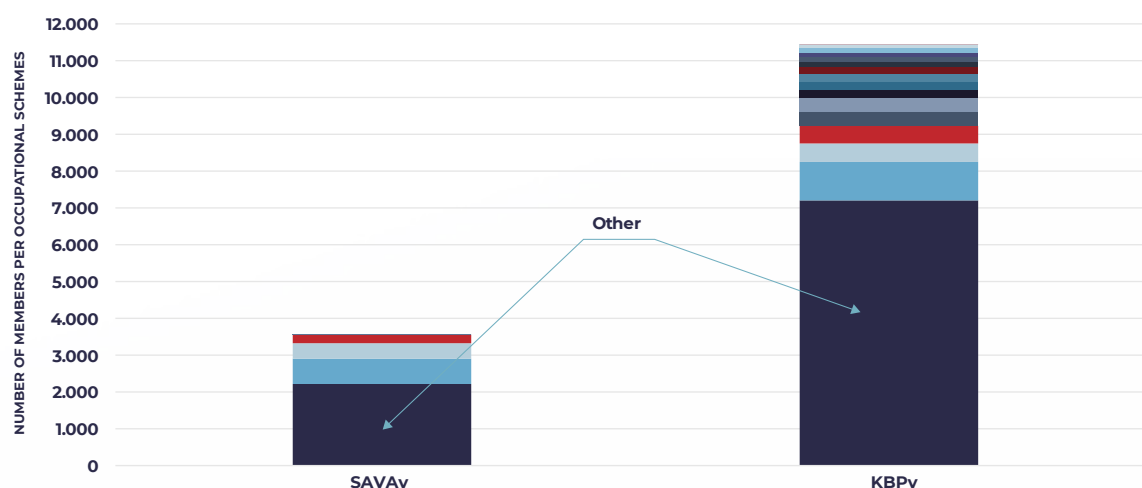
**Chart 6.1. Structure of members by VPF and by type of membership**



From the experience so far, most often, members who have individual accounts pay their own funds, and in a small number of cases there are members for whom a contributor pays a contribution (out of a total of 11,018 members who have individual accounts, only 559 members or 5% have a payer). Voluntary fully funded pension insurance also allows non-RNM citizens to become members. In the current existence of the third pillar there are very few members who are foreign nationals (0.02% of the total number of members).

Regarding the participation of the members in the occupational pension schemes, in SAVAv, 3,560 members are participants in 1,202 occupational pension schemes, and in KBPv, 11,438 members are participants in 2,893 occupational pension schemes. There are occupational pension schemes with several dozen members and occupational pension schemes with only 1 to 2 members. Out of the total number of schemes, 14 occupational pension schemes have over 100 members; three schemes have over 500 members, one of which has over 1,000 members. The distribution of members in occupational pension schemes by funds is given in Chart 6.2, which shows only the schemes that have more than 100 members, while the other schemes are included in the item “others”.

**Chart6.2. Distribution of third pillar members in occupational pension schemes**



The structure of the members in the third pillar, by age, gender and type of membership, is shown in Chart6.3.

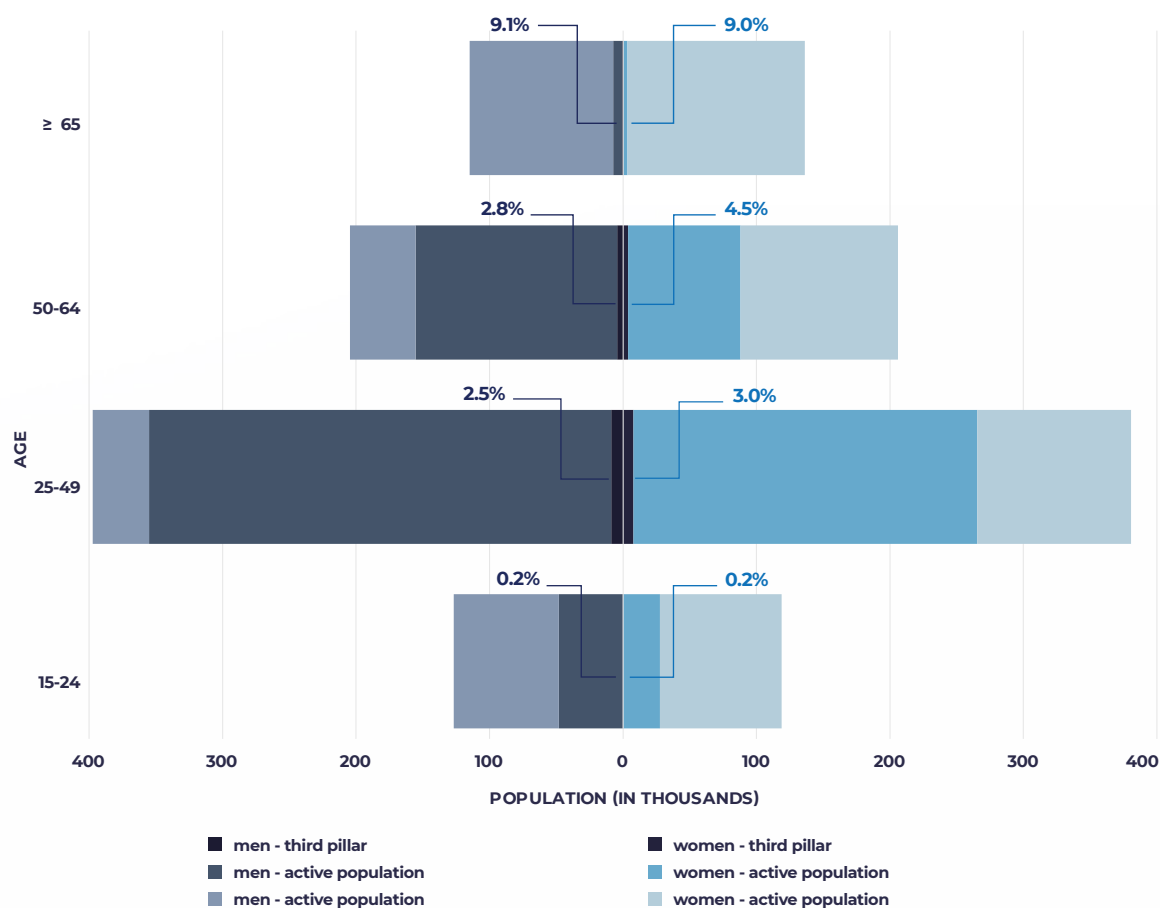
**Chart 6.3. Structure of members in the third pillar by age, gender and by type of membership**



This graph shows that in the third pillar compared to the second pillar, there are older members. Just over 60% of members with a voluntary individual account are up to 45 years old, while just over 60% of members with a professional account are up to 50 years old. Members with a professional account are older than members with an individual account. The average age of members with an individual account is 44 years for men and 43 years for women, and the average age of members with a professional account is 48 years for men and 47 years for women, while the average age of all members is 46 years.

The share of the total number of members of the third pillar in the total working age population and in the total active population is modest. As of the end of 2020, only about 1.5% of the total working age population in the RNM is members of the third pillar, i.e. about 2.7% of the total active population in the RNM are members of the third pillar. The structure of the members in the third pillar, in the total working population and active population in the RNM, by age groups and by gender, as of 31.12.2020, is shown in Chart 6.4.

**Chart 6.4. Structure of members in the third pillar in the total working age population and active population, by age groups and gender**



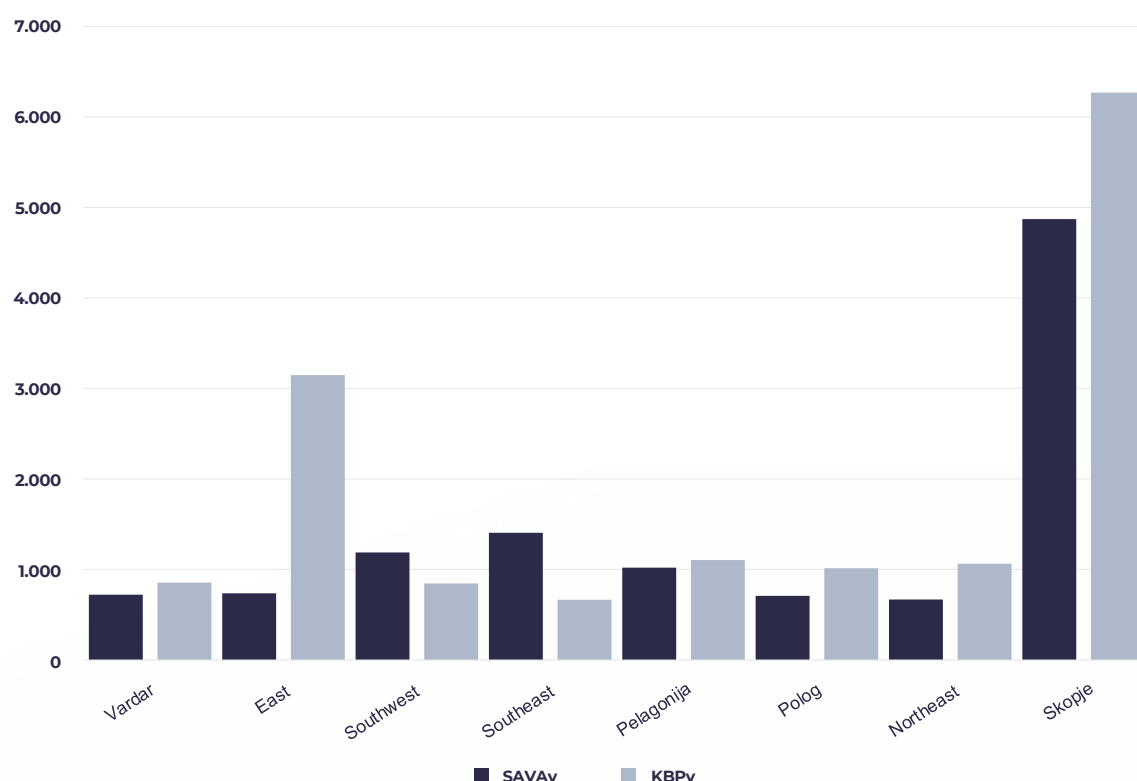
From this graph it can be seen that by age groups the largest share in voluntary fully funded pension insurance is among the active population over the age of 65 (about 9% of both men and women) is included in voluntary fully funded pension insurance. This result shows that there is significant potential for the development of the third pillar.

The structure of the members of the voluntary pension funds by statistical regions<sup>22</sup> in the RNM is given in Chart 6.5

<sup>22</sup> Statistical regions are defined according to the State Statistical Office - territorial units. The nomenclature of territorial units is based on the territorial organization of local self-government in the RNM and is harmonized with the EU classification.



**Chart 6.5. Structure of members in the third pillar, by statistical regions**



Most members in the two voluntary pension funds are from the Skopje region, 6,327 members in KBPv and 4,842 members in SAVAv. The fewest members of SAVAv are from the Northeast region (598 members), while the fewest members of the KBPv are from the Southeast region (591).

### **6.3. Transfer of a member from one account to another in the same or another voluntary pension fund**

The persons have the right to choose a voluntary pension fund and the right to change the selected voluntary pension fund, at their own discretion, at any time. If the member is a member of the existing voluntary pension fund for less than 12 months, he/she should pay a transfer fee during the transfer. Otherwise, the passage is free. Upon transfer, the total funds from the member's account are also transferred. Also, in case of transfer of a participant in an occupational pension scheme from one insurer to another, he/she has the right to transfer the funds saved in the occupational scheme to a professional account or to a voluntary individual account, if the other insurer has not organized an occupational pension scheme or has not included her. The member, who is a participant in an occupational pension scheme, has the right to transfer the funds to a voluntary individual account, if they are not employed or are not a member of a citizens' association.

Table 6.1 provides data on the number of members who transferred from one to another voluntary pension funds for the amount of funds transferred from one voluntary pension fund during 2020. In 2020, 17 members switched from SAVAv to KBPv, while 14 members switched from KBPv to SAVAv (0.12% of the total number of members). During the transfer, about MKD 4.8 million were transferred from SAVAv to KBPv and about MKD 2.2 million were transferred from KBPv to SAVAv. Also, in 2020, there were transfers within the same pension fund from one professional scheme to another and from a professional to a voluntary individual account.

**Table 6.1. Transfers of members from one to another voluntary pension fund**

2020	Members who transferred FROM a voluntary pension fund	Funds transferred FROM a voluntary pension fund	Members who transferred IN a voluntary pension fund	Funds transferred IN a voluntary pension fund
SAVAv	17	4,823,019	14	2,175,824
KBPv	14	2,175,824	17	4,823,019

#### 6.4. Contributions to voluntary pension funds

The payment of a voluntary contribution can be made only for a person who meets the conditions for membership in a voluntary pension fund, in accordance with the Law on Voluntary Fully Funded Pension Insurance. The payment of a voluntary contribution, on behalf and on the account of a member who has a voluntary individual account, can be made by the member and/or the payer. The payment of voluntary contribution, in the name and for the account of a member who has a professional account, can be made only by the insurer. Payments are made from the transaction account of the member and/or the payer or insurer. The voluntary contribution is paid to a special cash account of the voluntary fund, which is kept with the custodian and is distributed to a voluntary individual account, or to a professional account of the member, depending on the manner of membership and after fulfilling the conditions for membership.

The member, the payer and the insurer have the right to freely determine the amount of the paid voluntary contribution and the dynamics of the payment, and the change of the payment amount, or the termination of the payment, does not affect the right to membership in the fund, i.e. does not mean termination of membership. The amounts of voluntary contributions are determined by the insurer, for all participants in the occupational pension scheme, which they organize, finance and determine as a percentage of the salary of the member, who is included in the occupational pension scheme.

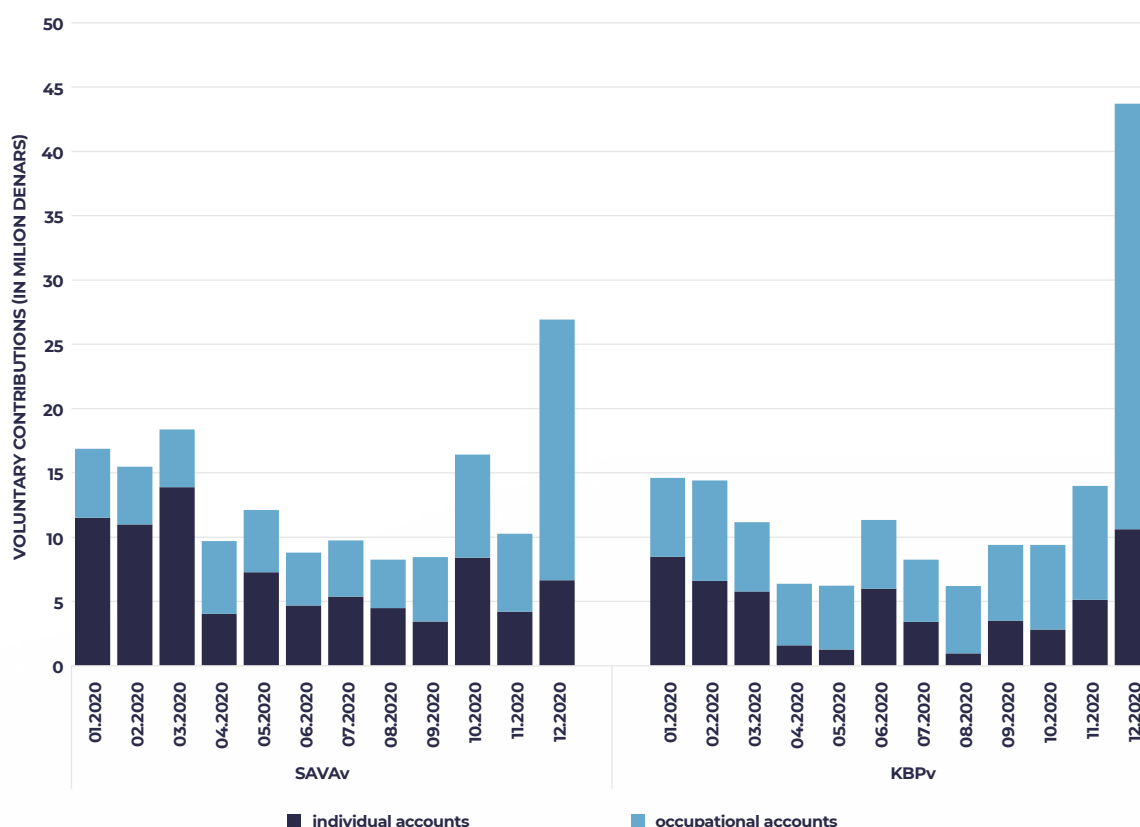
During 2020, a total of about 317 million MKD were paid into the voluntary pension funds, or by months, as shown in Table 6.2.

**Table 6.2. Third pillar contributions by months and fund (in million MKD)**

	Total 2019	Jan.	Feb.	Mar.	Apr.	May.	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total 2020
SAVAv	169,68	17,24	15,59	18,05	9,63	12,52	8,57	9,70	7,89	8,16	16,70	10,33	27,31	161,68
KBPv	134,14	14,52	14,30	11,41	6,66	6,47	11,60	7,90	6,45	9,26	9,28	13,77	43,45	155,07
<b>Total</b>	<b>303,83</b>	<b>31,76</b>	<b>29,89</b>	<b>29,46</b>	<b>16,28</b>	<b>18,98</b>	<b>20,17</b>	<b>17,60</b>	<b>14,34</b>	<b>17,42</b>	<b>25,98</b>	<b>24,10</b>	<b>70,76</b>	<b>316,76</b>

In 2020, the total paid voluntary contributions in the third pillar increased by 4% compared to 2019. Compared to the previous year, the amount of total paid voluntary contributions in SAVAv decreased by about 5%, while KBPv increased the amount of total paid voluntary contributions by about 16%. In 2019, in SAVAv, a larger amount of voluntary contributions was paid compared to KBPv. In 2020, the share of voluntary contributions in the two voluntary pension funds, paid to professional accounts is 55%, while the share of voluntary contributions paid to voluntary individual accounts is 45%. There is a significant difference in this distribution in terms of funds, i.e. in SAVAv, this distribution is almost equal while in KBPv 64% of the total voluntary contributions are paid to professional accounts. The distribution of payments by type of account to which they are paid and by fund, on a monthly basis, is given in Chart 6.6.

**Chart 6.6. Distribution of payments in the third pillar by type of account and by fund**



## 6.5. Investment and portfolio structure of voluntary pension funds

Proactive control and quantitative and qualitative restrictions on investments are also used in voluntary fully funded pension insurance, as in mandatory fully funded pension insurance. However, unlike mandatory fully funded pension insurance, there are more liberal conditions in voluntary funded pension insurance regarding investing.

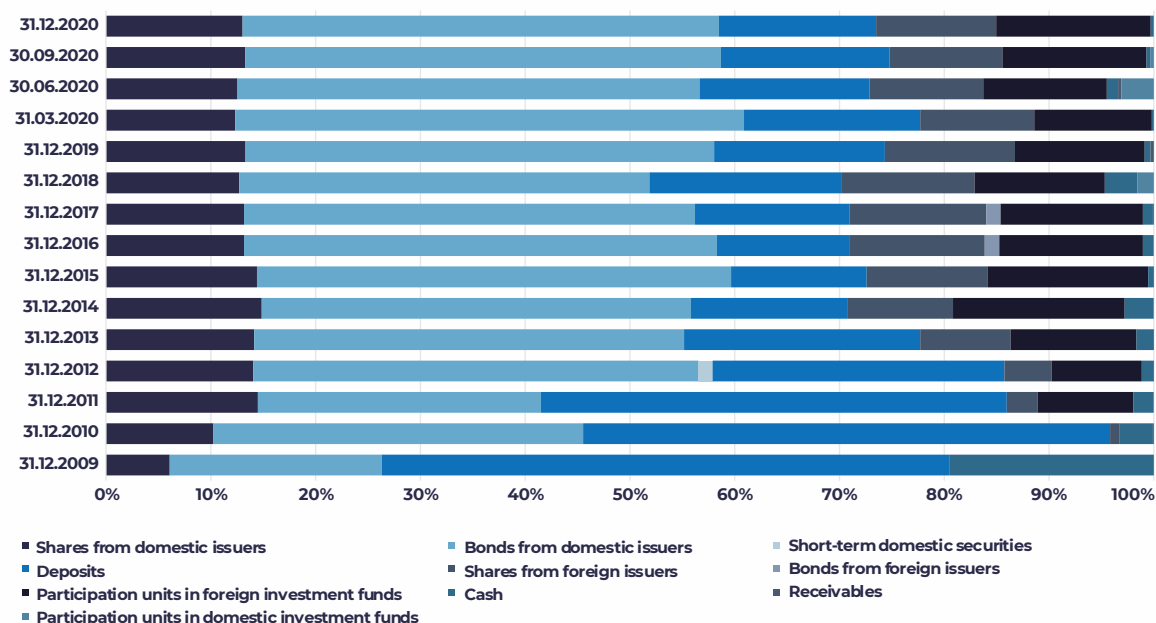
In addition to the instruments allowed in the mandatory pension funds, in the voluntary pension funds, for investments abroad, it is also allowed to invest in debt securities, issued by the European Central Bank, the European Investment Bank and the World Bank, as well as debt securities, issued by local self-government units. Because it is necessary to achieve appropriate diversification between different types of investments and voluntary pension funds, maximum restrictions are provided for investing in a certain company and in a certain economic group and maximum limits on the amounts that can be invested in certain types of instruments. In order to prevent investments in instruments that are not suitable for investing in voluntary pension funds; investments in stocks, bonds and other securities, which are not listed on the official market or which are not traded publicly, or cannot be legally available, instruments that can not be immediately assessed, multiple forms of assets that can not be immediately assessed and items of uncertain value are prohibited by law. Maximum investment restrictions are shown in Table 6.3.

**Table 6.3. Maximum investment restrictions**

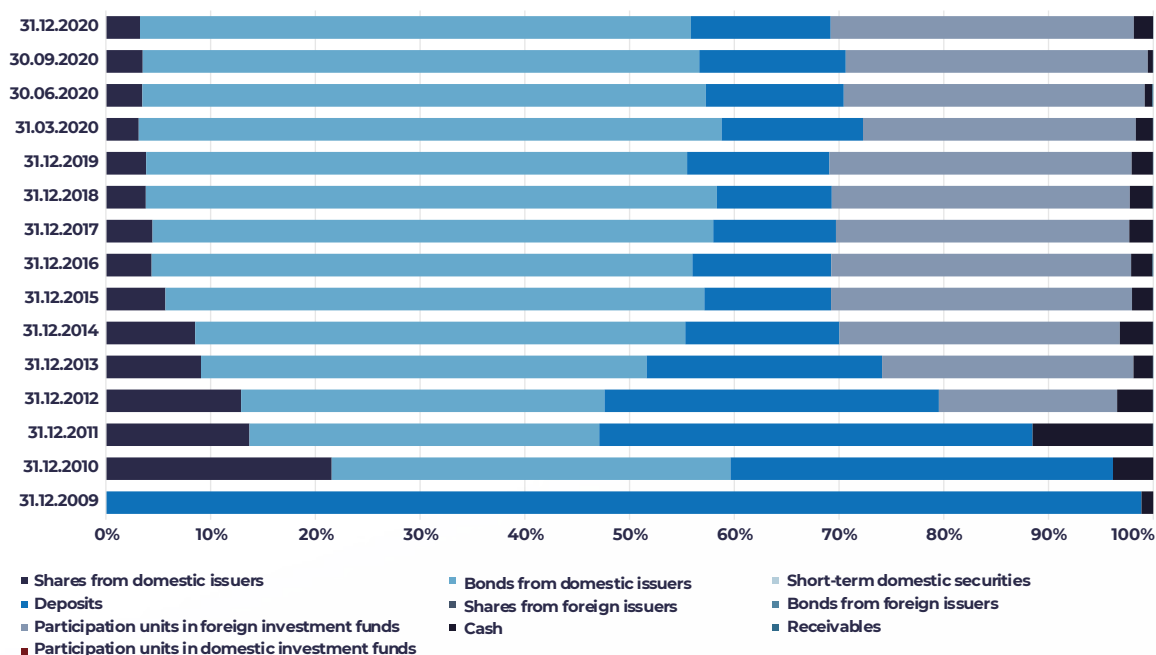
<b>Investments abroad (EU, OECD)</b>	50%
- bonds and other securities issued by foreign governments and central banks of foreign countries and debt securities issued by the European Central Bank, the European Investment Bank and the World Bank	50%
- debt securities issued by local self-government units, non-state foreign companies or banks, shares issued by foreign companies or banks and share documents, shares and other securities issued by investment funds	30%
<b>Securities issued or guaranteed by the RNM on the domestic market or the NBRNM</b>	80%
<b>Bank deposits, certificates of deposit, commercial bills, bonds and securities based on mortgages issued by domestic banks</b>	60%
<b>Bonds issued by local self-government units and non-bank domestic joint stock companies and commercial bills by non-bank domestic joint stock companies</b>	40%
-bonds issued by the units of local self-government	10%
<b>Shares issued by domestic joint stock companies</b>	30%
<b>Documents for share and shares of Macedonian investment funds</b>	5%

The structure of the investments of the voluntary pension funds, from the beginning of the work of the voluntary pension funds, is shown in Chart 6.7 and Chart 6.8.

**Chart 6.7. Investments structure of SAVAv**

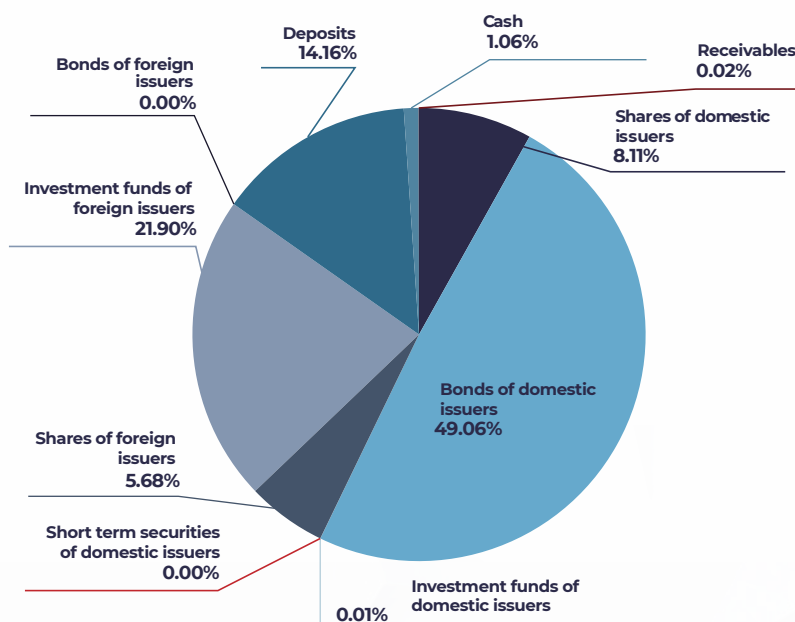


**Chart 6.8. Investments structure of KBPv**



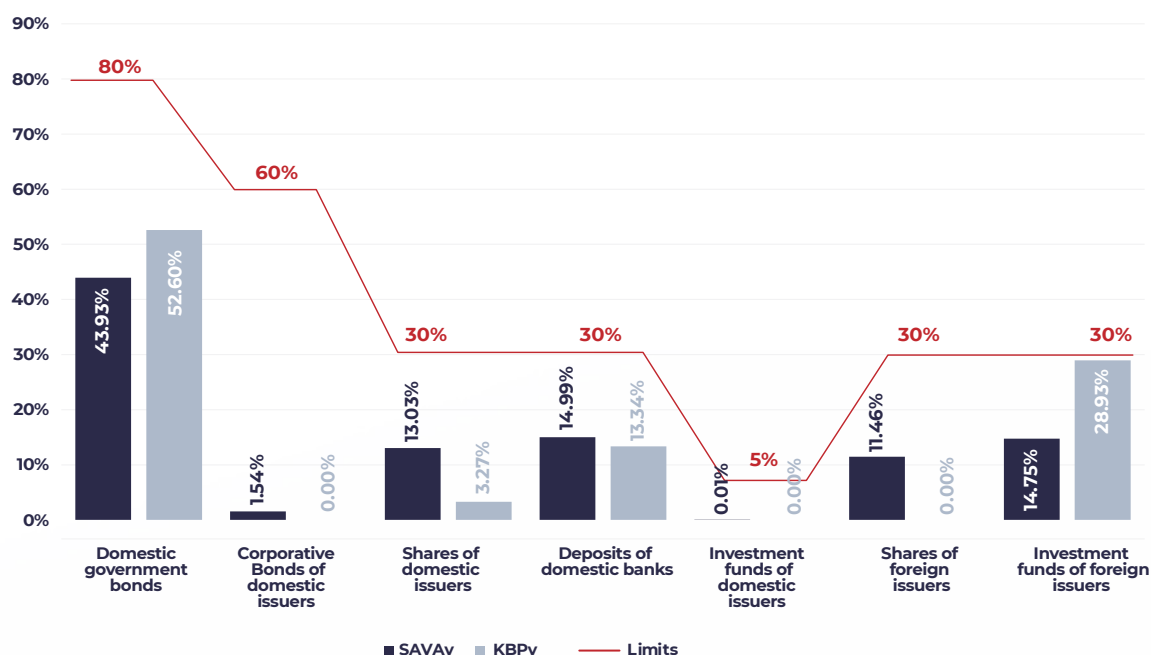
The structure of investments of voluntary pension funds, as of 31.12.2020, does not differ much compared to the structure of investments of voluntary pension funds, as of 31.12.2019 and it is shown in Chart 6.9. In 2020, the share of bonds from domestic issuers, which include domestic government bonds (43.93%) and corporate bond (perpetual bond issued by a bank - 1.54%), compared to the previous year, increased slightly and amounted to 49.06%. The share of deposits in domestic banks remains almost at the same level, compared to the previous year and is 14.16%. Also, the share of shares from domestic issuers remains almost at the same level, compared to the previous year and is 8.11%. A very small part of the investments of the voluntary pension funds belong to investments in shares of domestic investment funds (0.01%). The share of investments abroad is 27.58% (21.90% in shares of investment funds and 5.68% in shares). The remaining part of the assets of the voluntary pension funds consists of cash 1.06% and receivables 0.02%.

**Chart 6.9. Structure of investments in the third pillar as of 31.12.2020**



During 2020, both voluntary pension funds complied with the maximum investment restrictions. On Chart 6.10. shows the percentage share in the portfolio by asset classes with SAVAv and KBPv and the legal restrictions as of 31.12.2020.

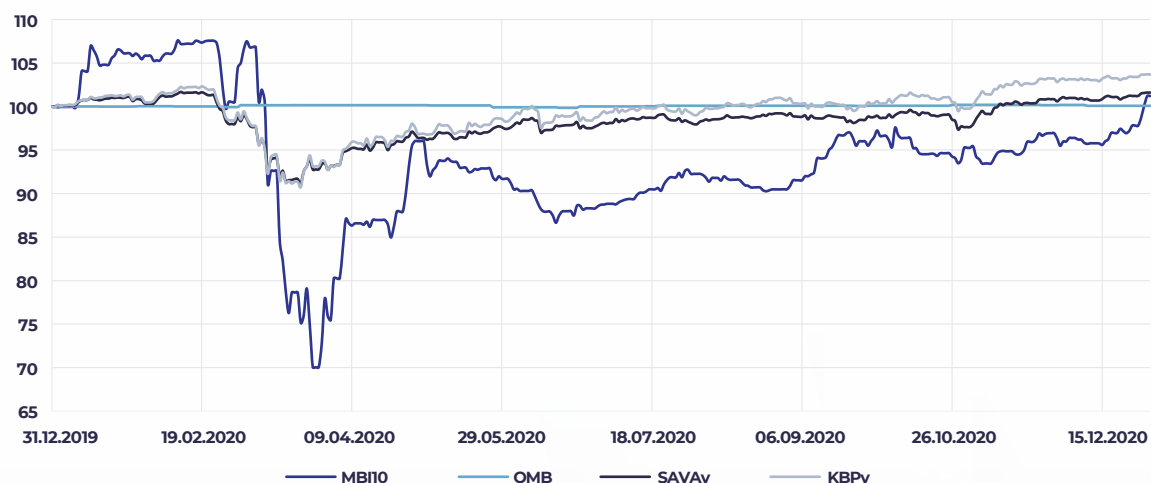
**Chart 6.10. Asset classes in the VPF portfolio compared to legal restrictions**



Voluntary pension funds have higher exposure to assets in shares of domestic issuers (8.11%) compared to mandatory pension funds. Thereby, the exposure of shares in domestic issuers is higher at SAVAv (13.03%) compared to KBPm (3.27%).

In comparison, the movement<sup>23</sup> of the value of MBI10, OMB and the value of the accounting unit of the voluntary pension funds, during 2020, is shown in Chart 6.11. The value of the accounting unit of SAVAv increased by 1.60%, and the value of the accounting unit of KBPv increase of 3.68%. MBI10, during 2020 compared to 2019, increased by about 1.20%<sup>24</sup>. During 2020, OMB increased by 0.08%<sup>23</sup>.

**Chart 6.11. Comparative movement of the value of MBI10, OMB and the value of the accounting unit of VPF, 2020**

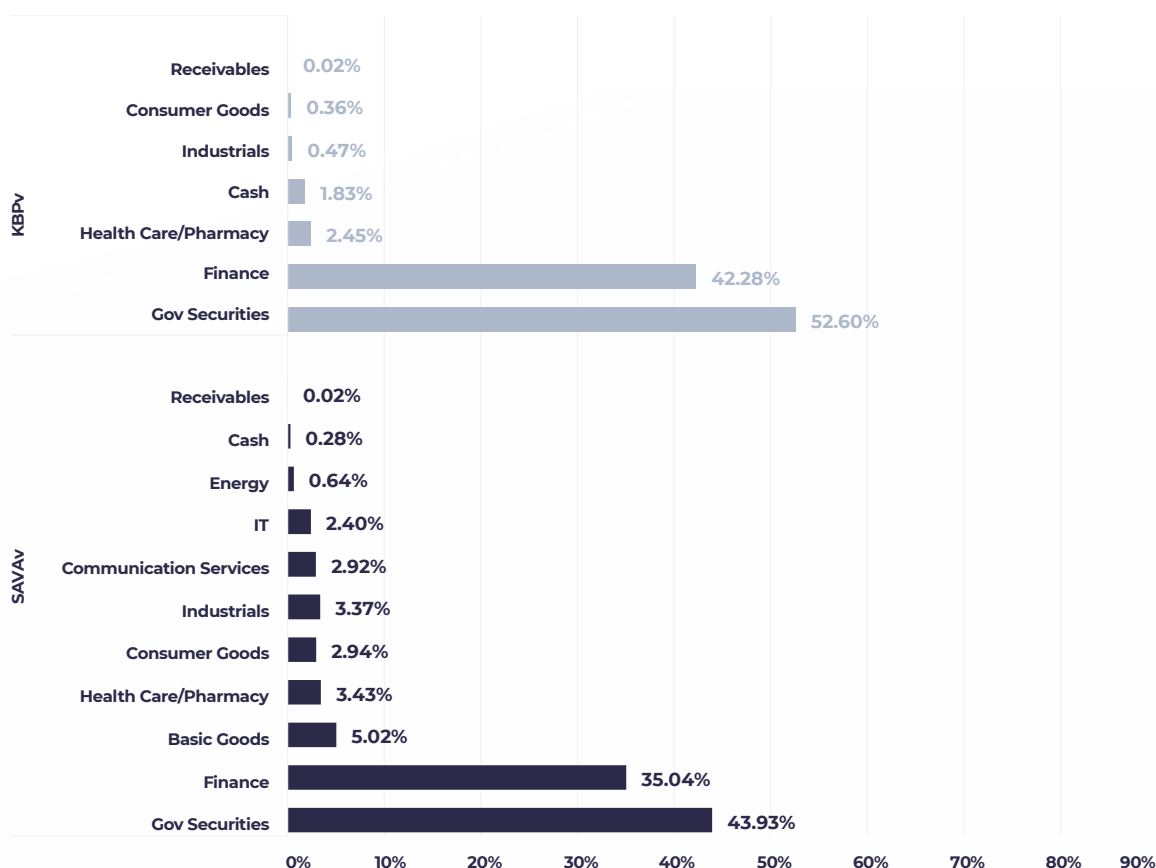


<sup>23</sup> The movements are shown through the change of the indices / units in relation to the initial index equal to 100, on 31.12.2019

<sup>24</sup> Source: Macedonian Stock Exchange AD Skopje - Annual statistical bulletin 2020.

In the case of voluntary pension funds, most of the funds in 2020 were invested in domestic government securities (43,93,46% with SAVAv and 52.60% with KBPv). This is immediately followed by investments in instruments by issuers/joint stock companies in the financial sector (35.04% with SAVAv and 42.28% with KBPv). Within this sector, SAVAv has the largest share of domestic bank deposits (42.8%) and shares in foreign and domestic investment funds (42.1%) and the share of financial services (5.3%), bonds issued by domestic banks (4.4%) and shares in domestic and foreign banks (5.4%) is lower. The share of foreign investment funds (68.4%) predominates in KBPv within the financial sector, and the rest belongs to domestic bank deposits (31.6%). In addition to the above sectors, voluntary pension funds invest in other sectors: basic goods, pharmacy, consumer goods, industry, information technology, communication services and energy, but with a much smaller share (from 0.36% to 5.02%). The investment structure of voluntary pension funds, by sectors, is shown in Chart 6.12.

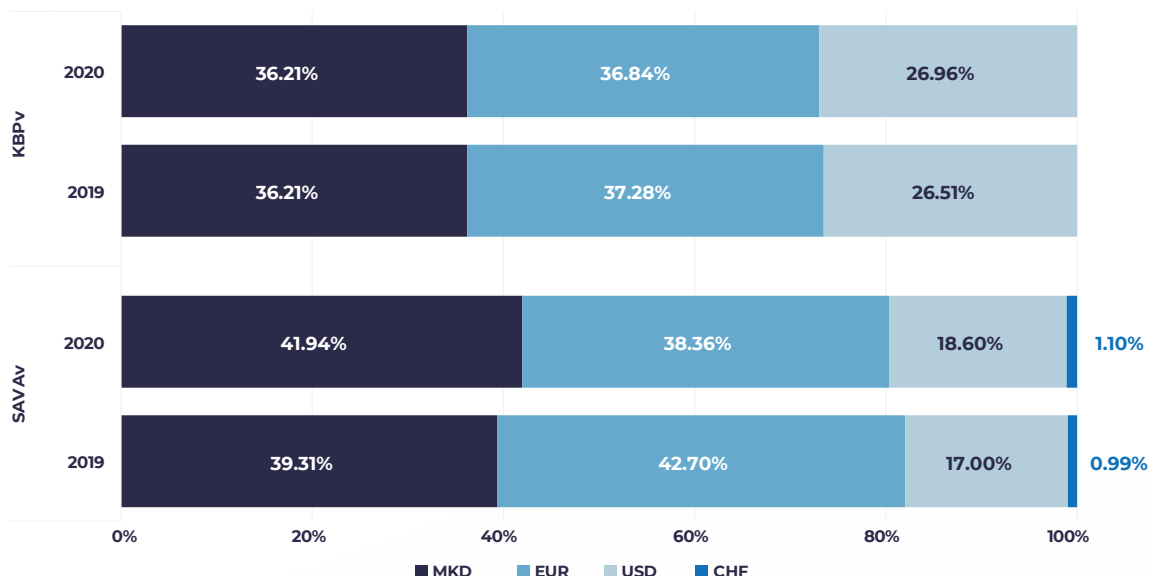
**Chart 6.12. Structure of VPF investments by sectors**



Regarding the currency structure of the assets of the voluntary pension funds, shown on Chart 6.13, we can see that most of the assets of SAVAv are invested in instruments in domestic currency (41.94%), while the share in instruments in EUR is 38.36%. In 2020, compared to last year, SAVAv has seen an increase in the share of instruments in MKD and a decrease in the share in instruments in EUR. The share in instruments in domestic currency is 36.21%. In 2020, compared to last year, at KBPv the share in instruments in EUR and MKD is approximately at the same level. The share of investments in US dollars (18.60% at SAVAv and 26.96% at KBPv) remains at approximately the same level compared to the previous year. The currency structure at SAVAv includes a portion of instruments invested in Swiss francs 1.10%

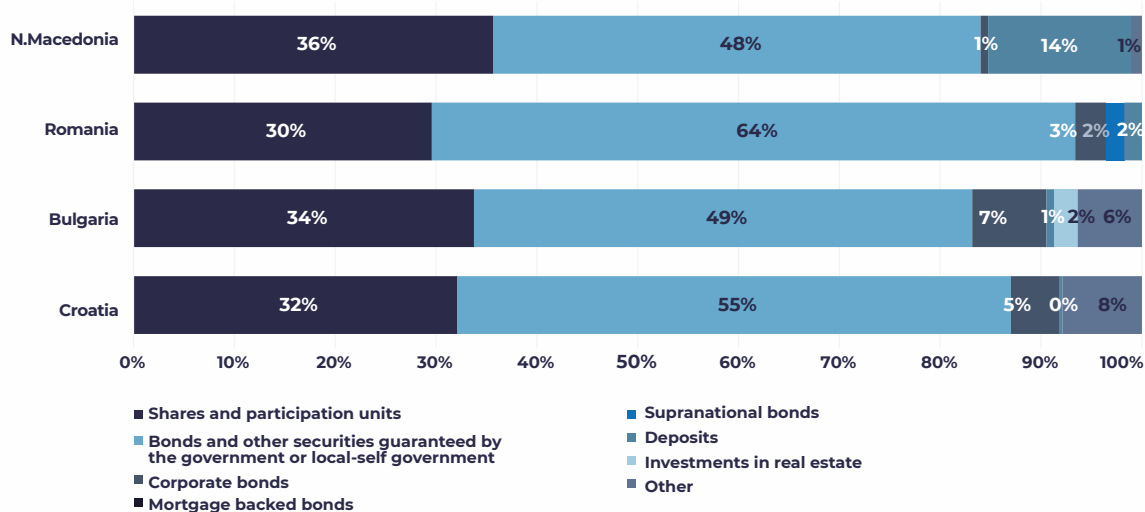


**Chart 6.13. Currency structure of VPF assets 2019-2020**



If a comparison is made with the countries that have similar pension systems with the Macedonian one, one can see similarities, but also differences in the investment portfolios of the voluntary pension funds. Chart 6.14 shows a comparison of the investments, as of 31.12.2020, of the voluntary pension funds in RNM, with the investments of the voluntary pension funds in some of the countries in the region that have implemented voluntary fully funded pension insurance<sup>25</sup>.

**Chart 6.14. Portfolios of voluntary pension funds in several countries and in RNM**



If the portfolios of voluntary pension funds are reviewed by instruments, it can be noticed that pension funds in almost all countries have the highest exposure to bonds and other securities guaranteed by the state or local government (in Romania 64%, Croatia 55%, in Bulgaria 49%, and with the lowest percentage in North Macedonia 48%). Exposure to bank deposits is highest in North Macedonia at 14%. Unlike North Macedonia, in other countries the exposure to deposits is significantly lower: Romania (2%), Bulgaria (1%) and Croatia (0.3%). In terms of equity investments, the largest percentage of equity and equity funds are invested in pension funds in North Macedonia (36%), followed by Bulgaria (34%), Croatia (32%) and Romania (30%). Pension funds also invested in corporate bonds, 7% in pension funds in Bulgaria, 5% in Croatia and 3% in Romania. Compared to the pension funds in other countries, the share of investments in corporate bonds in the pension funds in North Macedonia is significantly lower, 1%. Only in

<sup>25</sup> Sources: [www.hanfa.hr](http://www.hanfa.hr); [www.fsc.bg](http://www.fsc.bg); [www.asfromania.ro](http://www.asfromania.ro) and personal calculations.

Bulgaria did the pension funds invest in real estate (2%), and in other countries, most often, this instrument is not allowed. In terms of investment abroad<sup>26</sup>, pension funds in North Macedonia have the highest exposure to foreign investment with 28%, followed by pension funds in Croatia with 19% and Romania with 12%

## 6.6. Net assets, accounting unit and rate of return of voluntary pension funds

The method of calculation of the net assets, the accounting unit and the return of the voluntary pension funds is the same as for the mandatory pension funds.

The changes in the assets of the voluntary pension funds, from the beginning to the end of the year, occur due to:

- inflow of contributions,
- outflow due to fees and transaction fees,
- inflow due to personal income tax refund,
- inflow due to transfer from the other voluntary pension fund (for persons who were members of another fund and then transferred to the current fund),
- outflow due to transfer to the other voluntary pension fund (persons who were members of the respective fund, and then transferred to the other fund),
- outflow due to inheritance payment,
- outflow due to payment of pension benefits (single and multiple payments),
- no (realized) gains/losses from investments.

Starting from the value of net assets at the end of the previous year and taking into account all the above changes, we come to the value of net assets at the end of the year (shown in Table 6.4.).

**Table 6.4. Changes in the assets of the voluntary pension funds (in millions of MKD)**

	SAVAv	KBPv
<b>Net assets on 31.12.2019</b>	998.78	990.04
<b>Contributions</b>	161.68	155.07
<b>Contribution fees</b>	4.16	4.22
<b>Contributions reduced for contribution fees</b>	157.52	150.85
<b>Payment of individual account from personal tax refund</b>	0.17	0.12
<b>Compensation of funds</b>	12.47	9.32
<b>Expenditures for intermediary commissions</b>	0.19	0.03
<b>Transfer from the other fund</b>	2.18	4.82
<b>Transfer to the other fund</b>	4.82	2.18
<b>Inheritance payment</b>	3.28	0.27
<b>Payment of pension compensation - one-time payment / multiple payment</b>	31.64	28.90
<b>Gross return on investment</b>	31.38	49.36
<b>Net return on investment</b>	18.72	40.02
<b>Net assets on 31.12.2020</b>	1,137.61	1,154.52

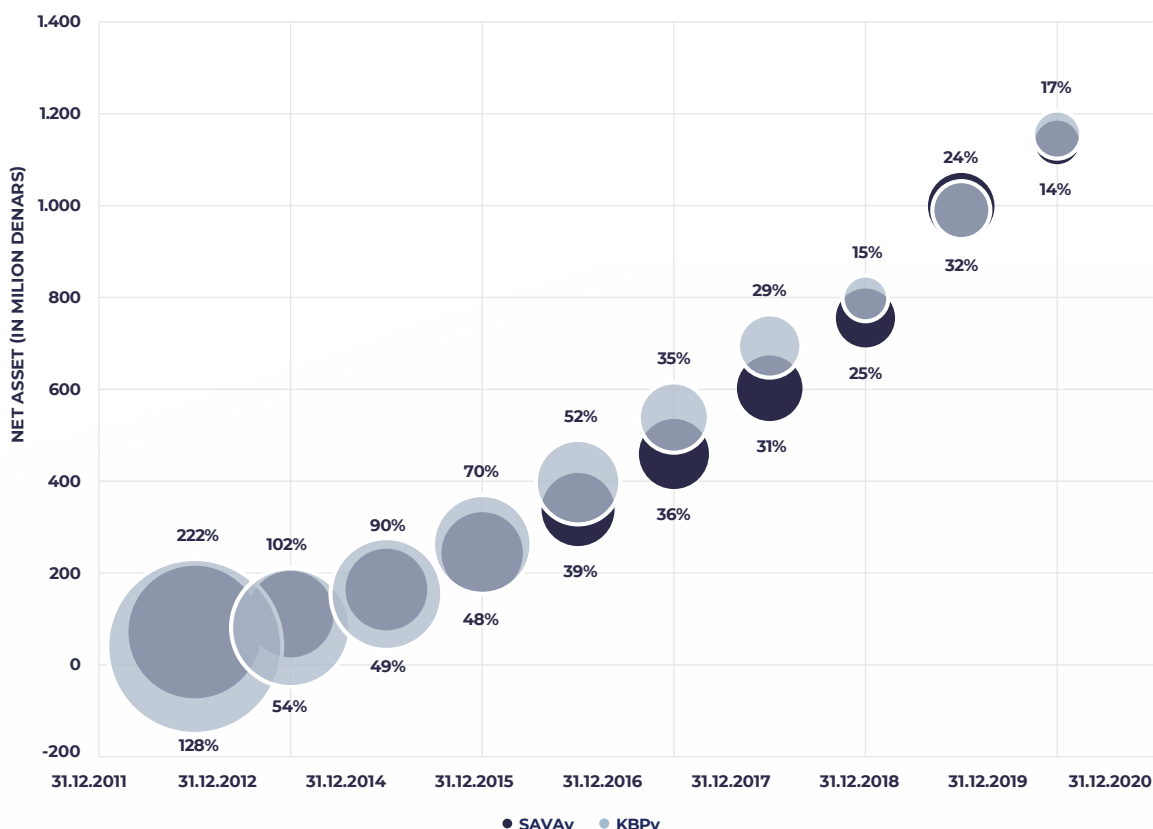
The total net assets in the voluntary pension funds, as of 31.12.2020, amounted to about 2.29 billion MKD or about 37 million EUR, which is about 0.35% of GDP<sup>27</sup>.

<sup>26</sup> The data on foreign investments for Bulgaria as of 31.12.2020 is not available in the downloaded data.

<sup>27</sup> Source for GDB: State Statistical Office - Announcement - Gross Domestic Product, for 2020

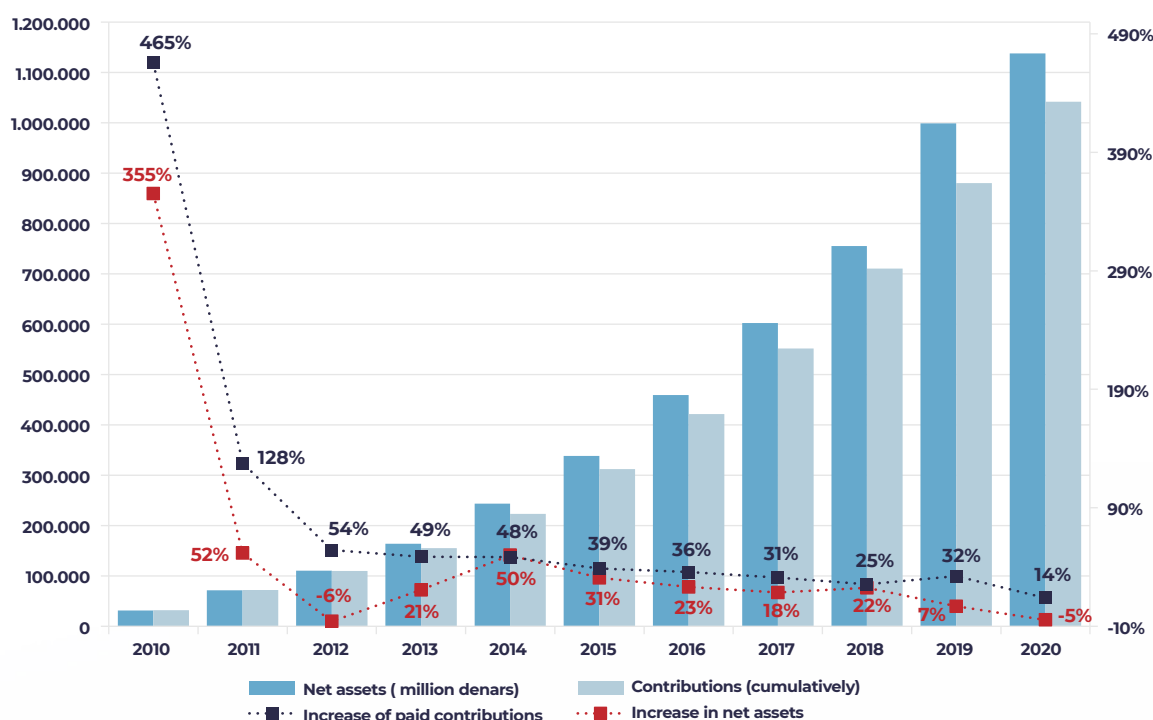
Chart 6.15 shows the values of net assets at the end of all years and their increase in percentage compared to net assets in the previous year. It can be noticed that the net assets of the two voluntary pension funds are growing at a similar pace. The largest increase is observed in 2011 compared to 2010. In 2020, compared to 2019, there is a slowdown in the growth of net assets of both SAVAv and KBPv.

**Chart 6.15 Increase in the net assets of SAVAv and KBPv in percent compared to the previous year**

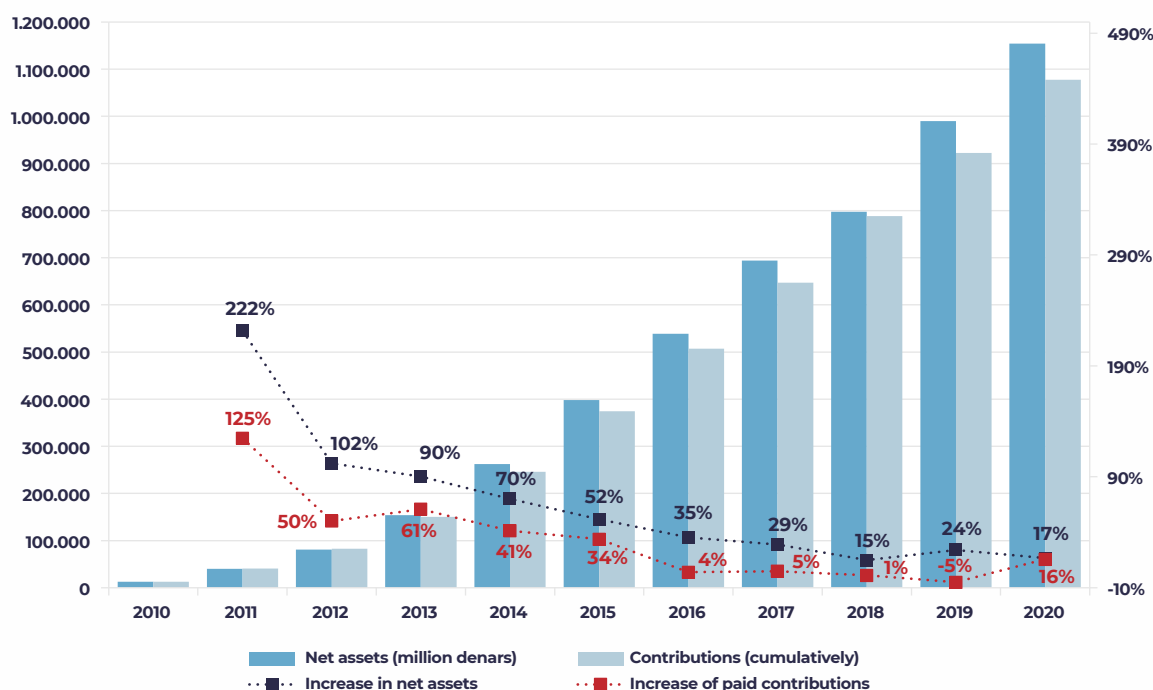


The movement of the value of net assets and cumulative contributions, as well as the increase of paid contributions and the increase of net assets in SAVAv and KBPv, are shown in Chart 6.16. and Chart 6.17. The growth of the net assets of the voluntary pension funds is implied by the growth of the paid contributions and the investment results. The share of cumulative contributions in the total net assets during the first years is significantly large, and then decreases.

**Chart 6.16. Increase in net assets compared to increase in paid contributions to SAVAv**



**Chart 6.17 Increase in net assets compared to increase in paid contributions to KBPV**



At SAVAv, in the initial period (2009-2011) there was a large increase in net assets and contributions paid. In 2012, compared to 2011, the increase in net assets was 54%, while the paid contributions dropped by 6%. In the next six years, the growth of SAVAv's net assets will gradually decrease from 49% to 25% in 2018 compared to 2017. In 2019, there is an increase of 32%. In 2020, the growth of SAVAv net assets slows down again and amounts to 14%. While in the paid contributions in 2014, there is a bigger increase, in the amount of 50%, and in the following years, the increase of the paid contributions is gradually reduced until 2017. In 2018, compared to 2017, the increase of paid contributions increased again and amounted to 22%, while in 2019 the increase decreased to 7%. In 2020, there is a decrease in paid contributions by 5% compared to 2019.

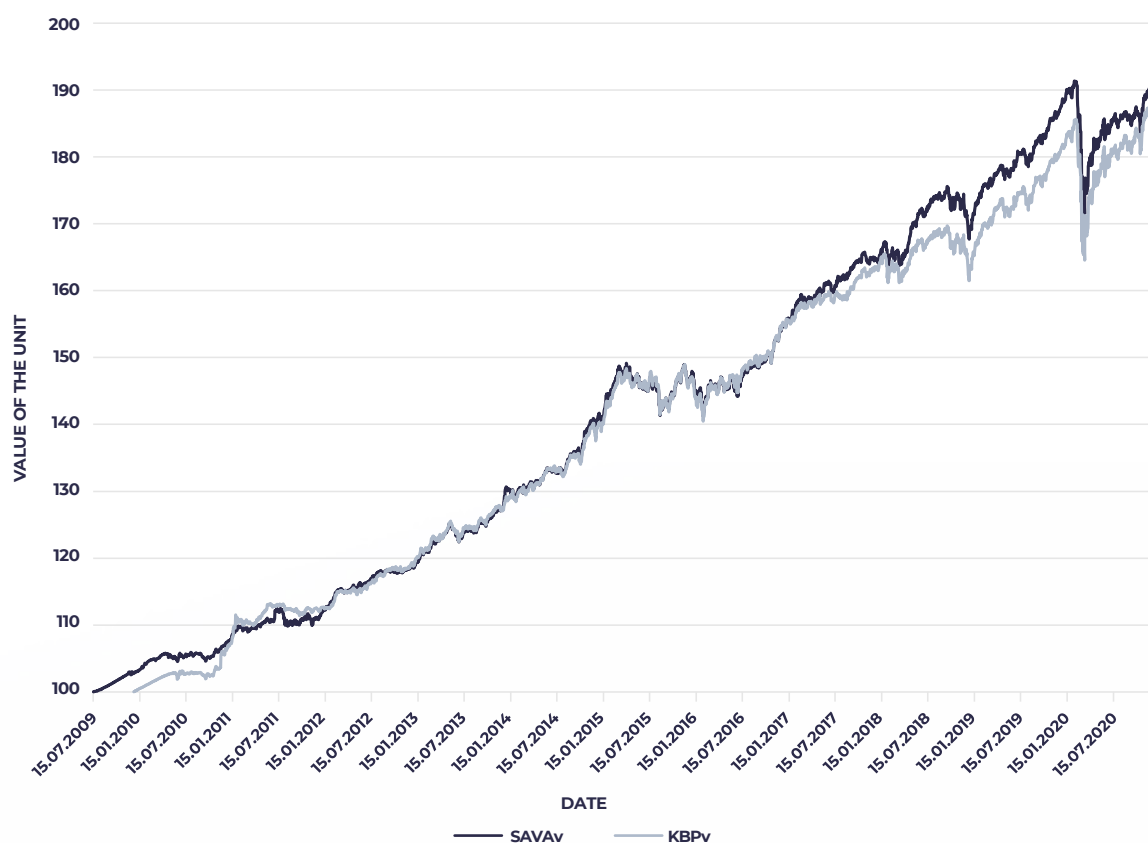
Also in KBPv, in the initial period (2010 - 2012) there is a large increase in net assets and paid contributions. In 2013, compared to 2012, the increase in net assets was 90%, while the increase in paid contributions was around 61%. In the following years, the growth of net assets and paid contributions to KBPv began to decline gradually. In 2018 compared to 2017, at KBPv, the net assets increased by 15%, and the paid contributions by 1%. In 2019 compared to 2018, at KBPv, the increase of net assets increased and amounted to 25%, but the amount of paid contributions decreased by 5%. In 2020, there is again a reduced growth of net assets, i.e. net assets increased by 17% compared to 2019. The amount of contributions paid in 2020 compared to 2019 increased by 16%.

The movement of the value of the accounting units of the voluntary pension funds, from the beginning of the operation of the voluntary pension funds, until 31.12.2020 is given in Table 6.5, Chart 6.18 and Chart 6.19. The growing trend of accounting units is noticeable. In 2020, the accounting units of both voluntary pension funds registered larger oscillations than usual caused by the unfavorable conditions in the financial markets in the conditions of the Corona virus pandemic. However, during 2020, the accounting units of both voluntary pension funds have similar trend, although slower, compared to the previous year (1.60% of SAVAv and 3.68% of KBPv).

**Table 6.5. Value of the accounting unit from the beginning of the existence of VPF**

Date	Value of the accounting unit	
	SAVAv	KBPv
15.09.2009	100.000000	0.000000
21.12.2009	102.815757	100.000000
31.12.2009	103.061825	100.204385
31.12.2010	107.592926	106.891617
31.12.2011	111.854726	112.639593
31.12.2012	118.742851	119.129537
31.12.2013	130.511147	129.015451
31.12.2014	140.946772	139.908803
31.12.2015	147.535595	146.709341
31.12.2016	154.578083	154.465341
31.12.2017	164.155073	162.989756
31.12.2018	169.649887	163.696595
31.12.2019	188.197689	181.404697
31.03.2020	175.991205	169.941204
30.06.2020	184.139839	179.223252
30.09.2020	185.949598	182.091176
31.12.2020	191.209810	188.085163

**Chart 6.18. Value of the accounting unit from the beginning of the existence of VPF**



**Chart 6.19. Value of the accounting unit of VPF in 2020**



The yield on voluntary pension funds by periods, reduced on an annual basis, is shown in Table 6.6.

**Table 6.6. Yield of VPF**

Period <sup>28</sup>	SAVAv		KBPv	
	Nominal value	Real value	Nominal value	Real value
31.12.2009 - 31.12.2010	4,40%		6,67%	
31.12.2009 - 31.12.2011	4,18%		6,02%	
31.12.2009 - 31.12.2012	4,83%		5,93%	
31.12.2009 - 31.12.2013	6,08%	3,00%	6,52%	3,42%
31.12.2009 - 31.12.2014	6,46%	4,09%	6,90%	4,52%
31.12.2009 - 31.12.2015	6,16%	4,25%	6,56%	4,64%
31.12.2009 - 31.12.2016	5,96%	4,36%	6,37%	4,77%
31.12.2010 - 31.12.2017	6,22%	4,72%	6,21%	4,71%
31.12.2011 - 31.12.2018	6,13%	4,91%	5,48%	4,27%
31.12.2012 - 31.12.2019	6,80%	6,22%	6,19%	5,62%
31.03.2013 - 31.03.2020	5,30%	4,75%	4,76%	4,21%
30.06.2013 - 30.06.2020	5,91%	5,37%	5,47%	4,93%
30.09.2013 - 30.09.2020	5,82%	5,18%	5,47%	4,83%
31.12.2013 - 31.12.2020	5,60%	4,90%	5,53%	4,82%
<b>Start - 31.12.2020</b>	<b>5,82%</b>	<b>4,27%</b>	<b>5,89%</b>	<b>4,31%</b>

\* The start is on 15.7.2009 for SAVAv and 21.12.2009 for KBPv.

The yield on the voluntary individual and/or professional account is variable and depends on the return of the voluntary pension fund and the fees charged by the company. Yield, i.e. profit, is a parameter that can not be realistically predicted, because it depends on the conditions of the capital market and the overall economy.

The return on voluntary pension funds is calculated in the same way and according to the same formula as the return on mandatory pension funds.

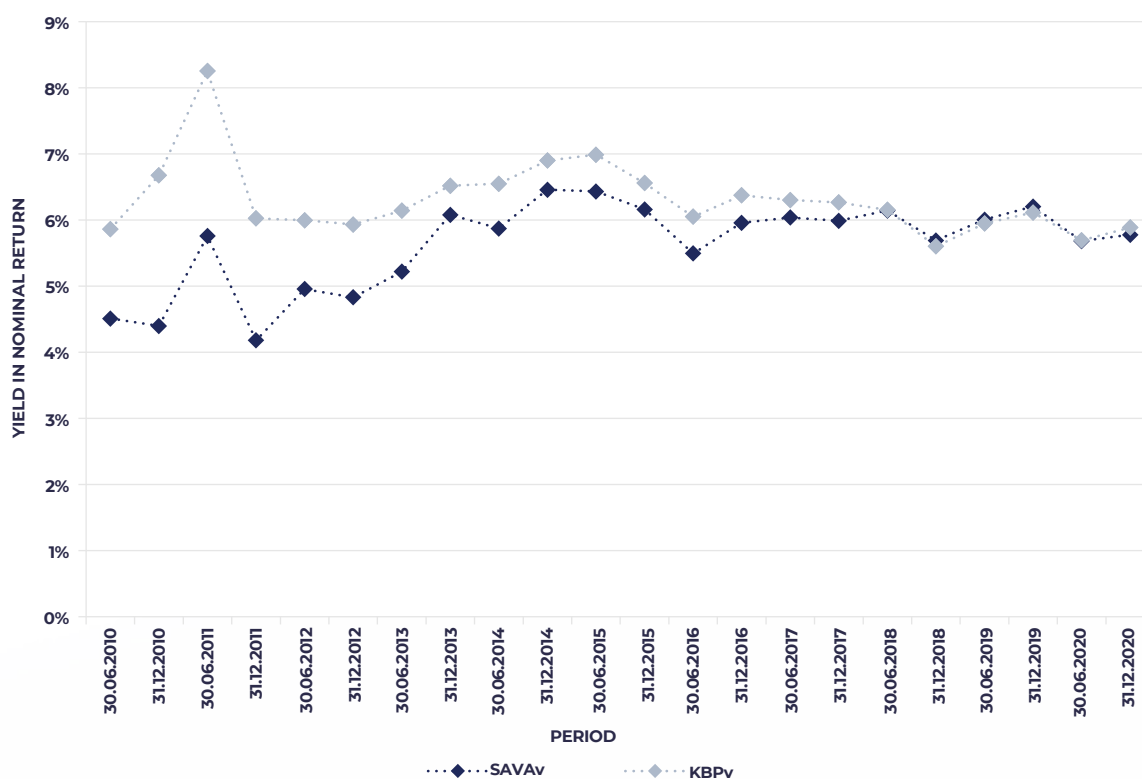
Given the long-term nature of pension insurance, it is good to calculate the yield of voluntary pension funds from the beginning of their existence, reduced to an annual level, which for SAVAv is 5.82% in nominal amount or 4.27% in real amount and for KBPv 5.89% in nominal amount, i.e. 4.31% in real amount.

The movement of the return in nominal amount, by periods, can be seen on Chart 6.20, where the returns by periods are presented, from 31.12.2009 to 31.12.2020, by funds. At the beginning, there was an increase in yield, so that at the end of the first half of 2011, there were high returns in both voluntary pension funds, while at the end of 2011, there was a decrease in yields. Then, in the following years, there is a gradual increase in the yield until the middle of 2015, after which there is a decrease in the yield, until the middle of 2016, and then there is an increase in the yield again, until the end of 2016. In 2019, there is an increase in yield compared to the yield at the end of 2018. In 2020, there are lower yields compared to 2019 at SAVAv and KBPv, mostly due to the unfavorable conditions in the financial markets in conditions of the Corona virus pandemic.

<sup>28</sup> Until the adoption of the amendments to the Law on Voluntary Fully Funded Pension Insurance, from January 2013, the yield of a voluntary pension fund was calculated for a period of 3 years, only in nominal value.



Chart 6.20. Yield of VPF (in nominal amount)

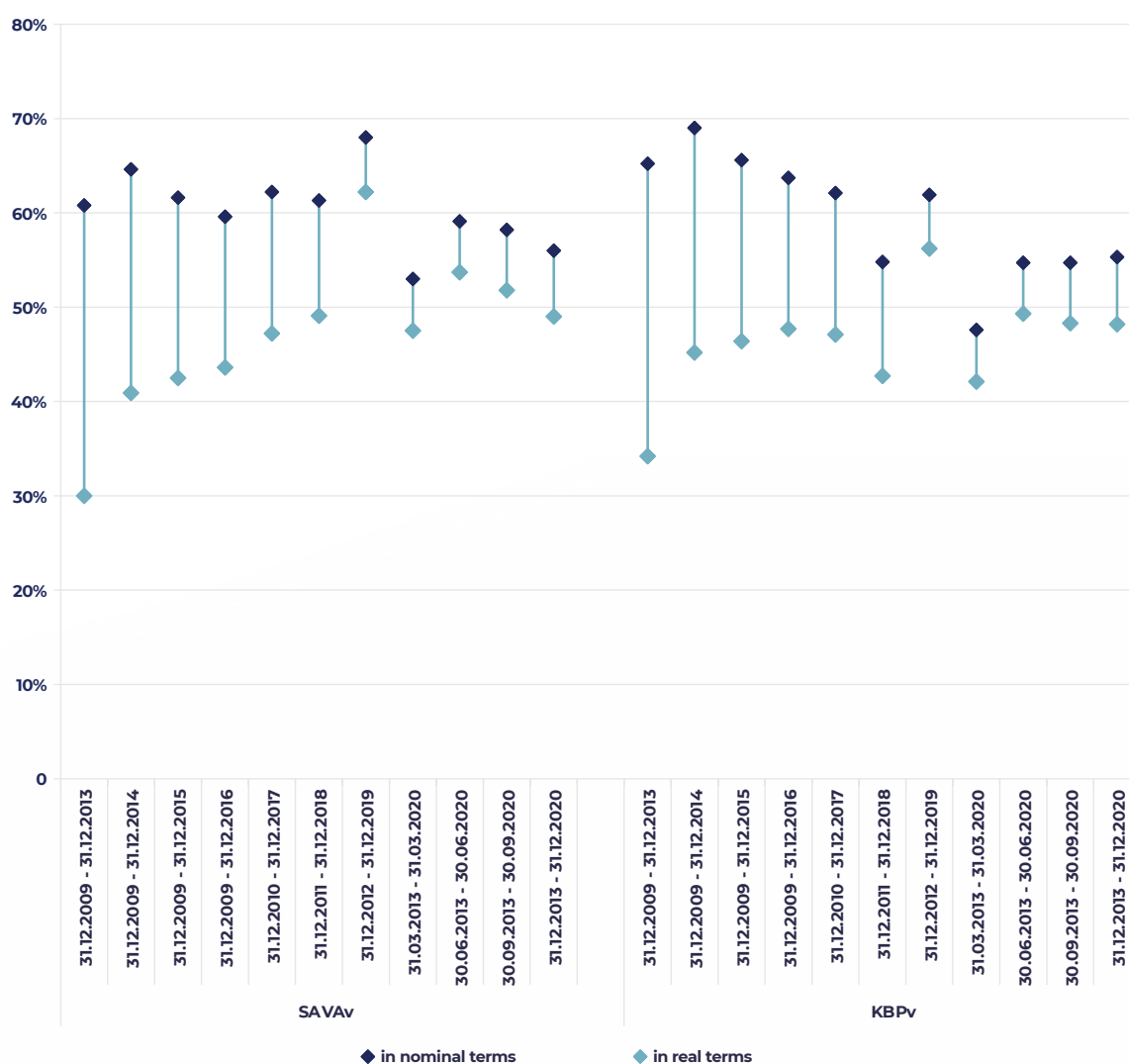


The movement of the income in nominal and real amount, in the period from 2013 to 2019 (annually) and in 2020 (quarterly), according to appropriate legally defined periods, converted into an equivalent annual rate of return, per voluntary pension fund, can be seen on Chart 6.21. In 2020, the yield in nominal amount and the yield in real amount increased in SAVAv (from 5.30% to 5.60% in nominal or from 4.75% to 4.90% in real amount) and in KBPv (from 4.76% to 5.53% in nominal or from 4.21% to 4.82% in real amount). However, the economic and health crisis still affected the yields calculated for a seven-year period in 2020. Thereby, the lowest amount of return in both nominal and real amount was recorded for the period 31.03.2013 - 31.03.2020 in all pension funds that have existed for more than seven years and it is lower by an average of 1.5 percentage points compared to the yield for the period 31.12.2012 - 31.12.2019. In the following quarters, i.e. at the end of 2020, the seven-year yield of the pension funds is higher (in SAVAv in the three quarters there is a slight decrease, in KBPv in the fourth quarter there is a slight increase compared to the third quarter) but it is still not at the level of the seven-year yield achieved at the end of 2019. In the period under review (2013-2020) the change in the level of cost of living in the accounting periods, reduced to an annual level, decreased which affects the gradual approximation of yields in real terms to yields nominal amount.

The seven-year yield on the level of voluntary fully funded pension insurance for the period 31.12.2013 - 31.12.2020, calculated through the change of the weighted average<sup>29</sup> of the accounting units of the voluntary pension funds, reduced on an annual level is 5.56% in nominal or 4.86 % in real amount.

<sup>29</sup> The average value is calculated as a weighted average of the accounting units of voluntary pension funds in respect of the net-assets of the mandatory pension funds

**Chart 6.21 Yield in nominal and real amount of VPF, 2013-2020**



## 6.7. Allowances for voluntary pension funds

To perform its functions of managing the assets of the voluntary pension fund, assessing the assets, membership, keeping voluntary individual and professional accounts of the members and informing the members, as well as paying the fees for MAPAS and the custodian, the companies, in accordance with the Law on Voluntary Fully Funded Pension Insurance, charge a fee for contributions, a fee for funds and a fee for transfer.

The contribution fee is charged as a percentage of each paid contribution to a voluntary pension fund, before its conversion into accounting units. This compensation is charged by the company at the same percentage, from all members of the voluntary pension fund, except in the case of members who are participants in an occupational pension scheme or in the case of a multi-year membership. The monthly fee is a percentage of the value of the net assets of the Voluntary Pension Fund, which is calculated on each date of assessment of the assets of the Voluntary Pension Fund (according to the current legislation, the date of assessment is every day) and is charged once per month. The transfer fee is charged in case of transfer of a member from one voluntary pension fund to another voluntary pension fund, provided that the transfer member has been a member of the existing voluntary pension fund for less than one year.

The law determines the maximum amounts, and the companies are free to determine the amounts of certain types of fees within the legal maximum.

The fees charged by the companies managing the voluntary pension funds in the RNM, for 2020, are shown in Table 6.7.

**Table 6.7. Fees charged by companies managing voluntary pension funds in 2020**

Type of allowance	SAVA	KB First
Contribution fee*	2.90% <sup>30</sup>	2.90% <sup>31</sup>
Monthly fee from the value of the net assets of the voluntary pension fund	0.100% <sup>32</sup>	0.075% <sup>33</sup>
Transfer fee		
Number of days**	Amount of transfer fee	Amount of transfer fee
No. of days ≤ 360	10 EUR	10 EUR
No. of days > 360	no transfer fee is charged	no transfer fee is charged

\*For members who are participants in an occupational pension scheme, the company may set a lower amount of this benefit.

\*\*The number of days is determined based on the number of days from the date when the member acquired the status of a member of the existing voluntary pension fund to the date of signing the membership agreement with the future voluntary pension fund.

The amount of contribution fees, which were collected from the beginning of the operation of the third pillar, until 2020, is shown in Table 6.8.

**Table 6.8. Amount of contributions charged by the pension companies in the third pillar**

Pension company	Amount	Date of application
SAVA	5.25%	From the beginning of the fund (15 July 2009)
	3.80%	As of 1 March 2011
	2.90%	As of 1 January 2017
KB First	5.50%	From the beginning of the fund (As of 21 December 2009)
	4.00%	As of 24 April 2010
	2.90%	As of 1 June 2013

Since the beginning of the operation of the voluntary pension funds, the pension companies have reduced the contribution fee twice. The compensation of funds from the beginning of the operation of the third pillar was 0.15% per month of the value of the net assets of the voluntary pension fund. Also, in 2011, both companies reduced the fee and it now stands at 0.100% at SAVA and 0.075% at KB First.

The collection of benefits (in thousands of MKD), by the companies that manage the voluntary pension funds, during 2020, by months and by type of compensation, is given in Table 6.9.

<sup>30</sup> As of January 1, 2017 (previously it was 3.80%)

<sup>31</sup> As of June 1, 2013 (previously it was 4.00%).

<sup>32</sup> As of March 1, 2011 (previously it was 0.15%).

<sup>33</sup> As of January 1, 2011 (previously it was 0.15%).

**Table 6.9. Fees charged by the companies in 2020 (in thousands of MKD)**

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug	Sept.	Oct.	Nov.	Dec.	Total
<b>SAVA - total</b>	1,471	1,446	1,469	1,220	1,339	1,254	1,297	1,258	1,259	1,496	1,348	1,779	16,636
From contributions	458	420	493	233	327	222	252	204	203	429	258	664	4,164
From assets	1,013	1,026	976	987	1,012	1,032	1,045	1,054	1,056	1,067	1,090	1,114	12,472
<b>KB First - Total</b>	1,152	1,157	1,044	917	928	1,089	996	961	1,049	1,056	1,194	1,990	13,534
From contributions	401	393	321	181	175	321	218	175	257	254	375	1,149	4,217
From assets	752	765	723	735	753	768	779	787	792	802	820	841	9,317

Transaction fees, related to transactions for the acquisition or transfer of funds of the Voluntary Pension Fund, are paid from the funds of the Voluntary Pension Fund, and are collected by selected legal entities that provide services with securities, at home and abroad. Transaction fees are calculated as a percentage of the value of each concluded transaction.

During 2020, a total of MKD 185,000 transaction fees were collected from SAVAv, while a total of MKD 27,000 transaction fees were collected from KBPv.

## **6.8. Payment of pension benefits from voluntary fully funded pension insurance**

The conditions for acquiring the right to a pension benefit and the manner of payment of the pension benefit from the third pillar are more liberal compared to the second pillar, but it should be borne in mind that they are savings for the period after retirement. Namely, the funds can be withdrawn at the earliest ten years before the age for acquiring the right to old age pension, in accordance with the Law on Pension and Disability Insurance, which at the moment would mean the earliest at the age of 54 for men and 52 for women. Also, the funds can be withdrawn in case the member is diagnosed with general incapacity for work, by the Commission for assessment of working ability at the PDIFNM, regardless of age. In case of death of a member of a voluntary pension fund, the funds from the account of the member become part of the probate and are treated in accordance with the Law on Inheritance.

The funds from the third pillar are used at the choice of the member in the following types of pension benefits:

- Single or multiple payments of funds;
- Pension annuity paid by an insurance company authorized for that purpose;
- Programmed withdrawals paid by the company managing a voluntary pension fund, or
- Combination of the above options.

The provision of pensions and pension benefits, which are paid from the second and third pillars, is regulated by the Law on Payment of Pensions and Pension Benefits from Fully Funded Pension Insurance.

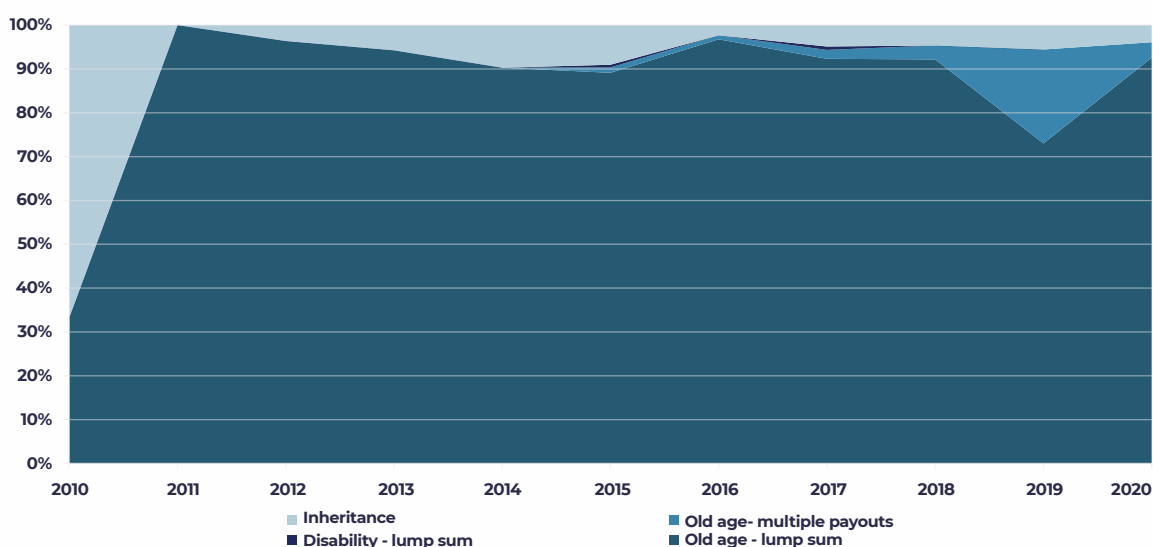
In 2020, 282 pension benefits and payments from the third pillar were realized. Most of the realized pension benefits were in cases of fulfilled age criteria, mostly as single payments, and a small part as multiple payments. A small part of the payments in the third pillar were in case of death of a member, with inheritance payment. A detailed overview of the realized pension benefits and payments for members of the third pillar, by voluntary pension funds and type of account, for 2020, are given in Table 6.10.

**Table 6.10 Realized pension benefits and payments to members of the third pillar**

Type of pension benefit and payment/Voluntary pension fund	SAVAv		KBPv		Total
	Ind. account	Prof. account	Ind. account	Prof. account	
Single payment	60	32	31	138	261
Multiple payment	2	2	0	6	10
Inheritance	6	1	2	2	11
<b>Total</b>	<b>68</b>	<b>35</b>	<b>33</b>	<b>146</b>	<b>282</b>

Chart 6.23 shows the structure of realized pension benefits and payments to members of the third pillar from the beginning of the operation of the third pillar, by years, up to 2020 is shown. The number of payments is small because the system is still young and the members are relatively young. Most of the payments are one-time payments in case of fulfillment of age criteria, followed by payments in cases of death of a member as inheritance payment. There are also a small number of single payments based on disability as well as multiple payments based on age criteria.

**Chart 6.22 Structure of realized pensions and payments from the third pillar from the beginning of the work**



# **7 ● Effects of the global crisis caused by the Corona virus pandemic on fully funded pension insurance in the Republic of North Macedonia**

## 7. Effects of the global crisis caused by the Corona virus pandemic on fully funded pension insurance in the Republic of North Macedonia

The Corona virus pandemic dominated the everyday life in 2020 and in the first half of 2021 still generates an uncertain environment. The sharp deterioration of the global epidemiological situation caused by the spread of the Corona virus followed by the introduction of measures to preserve public health in the form of partial or complete restriction of movement caused major economic effects. The global health and economic crisis had a pronounced impact on foreign and domestic financial markets and Macedonian pension funds did not remain immune to current global trends.

Global financial markets were very volatile in 2020. Overall, global stock prices fell sharply in the first quarter of 2020. MSCI indices show that stock prices fell from mid-February to the end of March 2020 in the seven countries with the largest pension markets (Australia, Canada, Japan, the Netherlands, Switzerland, the United Kingdom and the United States). The world MSCI index in the second half of March 2020 decreased by about 30% compared to the end of 2019. Since then, stock markets have regained their value, and by the end of September 2020 the global MSCI index was already at the same level as at the end of 2019. These changes are probably largely related to the effects of anti-virus measures and policy measures to support the economy. At the end of October 2020, financial markets, especially in Europe, reacted again and stock prices fell slightly. MSCI indices of European countries fell by an average of 8% compared to the best results in October 2020.

**Chart 7.1 Movements of the MSCI indices<sup>34</sup> in the seven largest pension markets and the world, 2020-March 2021 (base 100 at the end of 2019)**



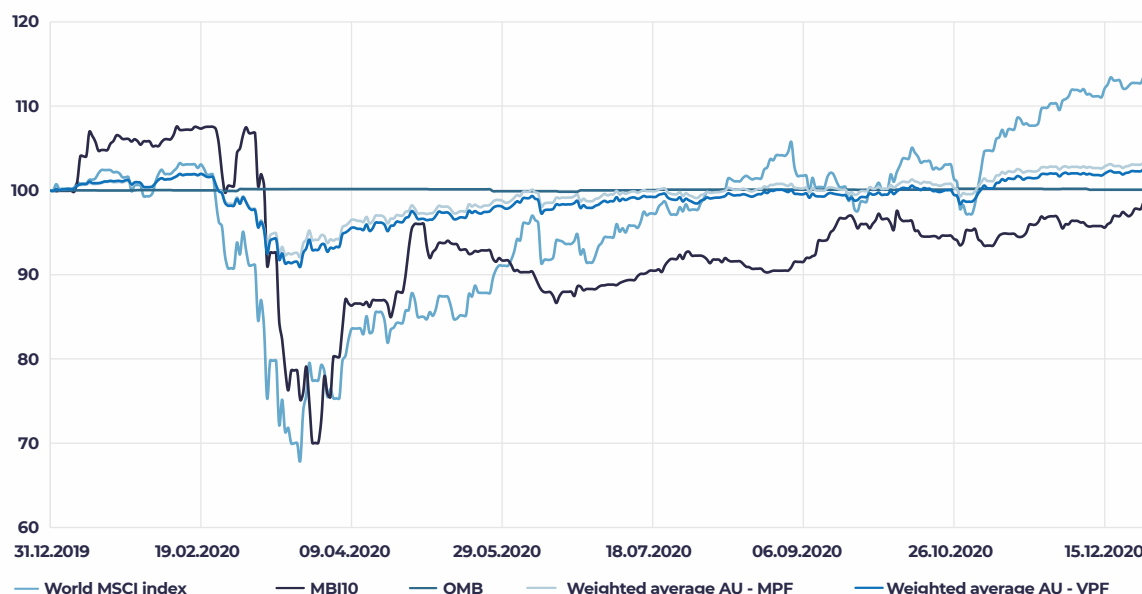
<sup>34</sup> Source: Refinitive and own calculations



The influence of world stock exchanges on the prices of the securities in which the assets of the pension funds are invested is inevitable. Chart 7.2 shows the comparative movements<sup>35</sup> of MBI 10, OMB, the World MSCI Index and the weighted average of the accounting unit of the mandatory and voluntary pension funds in 2020. Initially, the effect is seen on the amounts of the accounting unit. In this period, the average value<sup>36</sup> of the accounting unit registered larger oscillations than usual and in the second half of March 2020 recorded the largest decline compared to December 2019 and an average of about 8% in mandatory pension funds, i.e. an average of 9% in voluntary pension funds. These effects are short-term, and pension funds are long-term investors, so their performance is assessed in the long run. During the second and third quarter, the values of the accounting units are gradually growing and at the end of September 2020, the average value of the accounting unit of the mandatory pension funds has already exceeded the amount on 31.12.2019. The average value of the accounting units of the voluntary pension funds exceeded the amount from 31.12.2019 in the first third in October 2020.

At the end of October 2020, the average value of the accounting unit decreased again compared to September 2020 by 1% in both mandatory pension funds and voluntary pension funds. However, as of December 31, 2020, the good investment results of the pension funds offset the results of such market shifts in a downward line. During the fourth quarter of 2020 (31.12.2020 compared to 30.09.2020) the accounting unit increased by 2.89% at SAVAm, 3.40% at KBPm and 1.37% at TRIGLAVm. In total, at the end of 2020, the accounting units of SAVAm (by 3.15%), KBPm (by 4.28%) and TRIGLAV (by 0.09%) have already exceeded the amounts of the accounting units from 31.12.2019. Regarding the voluntary pension funds, both pension funds exceeded the value of the unit from 31.12.2019 (SAVAv by 1.60% and KBPv by 3.68%). The average value of accounting unit increased by 3.30% on the mandatory pension funds i.e. 2.61% on the voluntary pension funds.

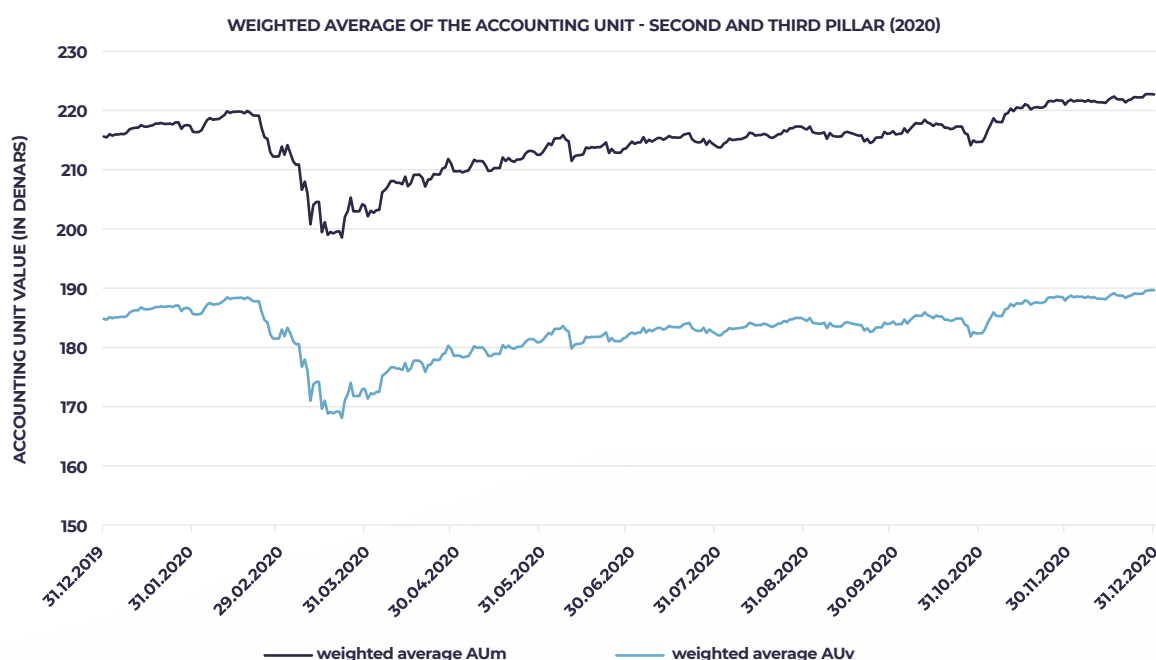
**Chart 7.2. Movements of MBI 10, OMB, World MSCI Index and the weighted average of the accounting units of MPF and VPF, 2020 (base 100 at the end of 2019)**



<sup>35</sup> The movements are shown through the change of the indices in relation to the initial index = 100, on 31.12.2019

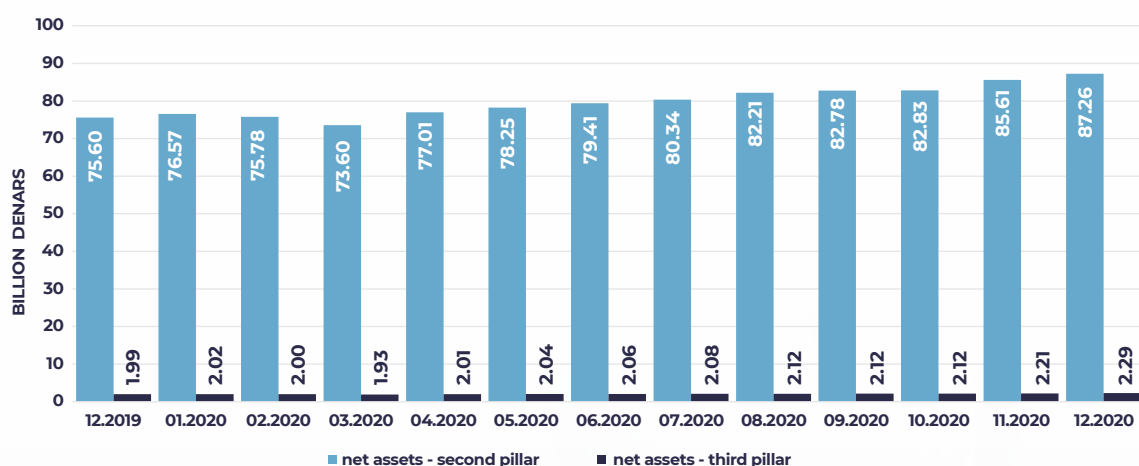
<sup>36</sup> The average value of the accounting unit is calculated as a weighted average in respect of the net-assets of the pension funds

**Chart 7.3. Movements of the weighted average of the accounting units of MPF and VPF, 2020**



The negative developments in the world financial markets in 2020 had their impact, which caused a decrease in the value of the assets of the pension funds. In the first quarter of 2020, i.e. in March 2020, compared to December 2019, there was a significant downward deviation from the growth trend of the net assets of the pension funds, by an average of 2.64% of the mandatory and an average of 3.08 % of voluntary pension funds. In April, there is already an increase in net assets of both mandatory and voluntary pension funds, and in the following months, although lower, the growth is maintained, with October 2020 the lowest monthly growth. As of December 2020, the net assets of the mandatory pension funds amount to 87.26 billion, which means an increase of 15.42% compared to December 2019. While, as of December 2020, the net assets of voluntary pension funds amount to 2.29 billion MKD, which means an increase of 15.25% compared to December 2019. For comparison, according to the preliminary data of the OECD, the assets of the pension funds in the OECD member countries, in 2020 compared to 2019, increased by 9% in the OECD member countries, i.e. increased by just over 1% compared to the end of 2019 in non-OECD countries.

**Chart 7.4. Movement of the total net assets of MPF and VPF, by months, 2020**



Pension funds are long-term investors, so it is more important to value them in the long run. According to the regulations, the yield of the pension funds is calculated for a period of seven years in nominal and real value. However, the economic and health crisis also affected the yields calculated for a seven-year period in 2020. Thereby, the lowest amount of return in both nominal and real amount of the weighted average of the accounting units was registered for the period 31.03.2013 - 31.03.2020 in both the mandatory and the voluntary pension funds. In the following quarters and at the end of 2020, higher amounts of the seven-year yield are recorded, but it is still not at the level of the seven-year yield achieved at the end of 2019. The return in nominal amount calculated through the weighted average of the accounting unit of the mandatory pension funds for the period 2014-2020 is lower by 0.7 percentage points compared to the return for the period 2013-2019 and by 0.9 percentage points in the voluntary pension funds. Macedonian pension funds are still in the accumulation phase, so good investment results are expected to offset the results of such market shocks.

**Chart 7.5 Yield of the weighted average of the accounting units of MPF and VPF, by periods, 2020**



## Individual influence on the members of the pension funds

The impact of such financial crises individually for the members of the pension funds with defined contributions depends on the allocation of the funds of the pension fund and the age of the member, because the investment risk is borne by the member individually. The amount of the pension that the member will receive from the second and third pillar will depend on the profit that the mandatory or voluntary pension fund will realize during all the years of the member's contribution and the realized income in the whole period, and not only in a few years of the operation. It is logical and expected that in the period when the members invest in the selected pension funds, there are periods of poorer results, even financial crises in the entire capital market, at home or abroad, but what is most important is the profit from the periods of good work to cover the loss when the capital markets operate worse, i.e. on average per year, if we take into account the entire life of the insured (30-40 years) the fund to provide a reasonable profit that will provide a reasonable level of pension from the second or pension benefit from the third pillar. Therefore, the unfavorable movements of the funds of the pension funds in 2020 will not have much impact on the assets of the younger members who can expect to cover the losses in the following years. On the other hand, for older members, who are close to retirement, large losses on pension funds would mean permanent loss of income if they were to use the money saved for annuities or scheduled withdrawals.

However, the average age of the members of the mandatory pension funds is 36 years and over 95% of the members of the mandatory pension funds are under 50 years old, while the average age of the members of the voluntary pension funds is 46 years and over 91% of the members of the voluntary pension funds are under 50 years of age. The number of people who in 2020 withdrew funds from the mandatory and voluntary pension funds is very small. These short-term adverse effects on pension funds are expected to be offset by the years members retire.

The health and economic crisis briefly shifted the upward trends in the parameters of mandatory and voluntary fully funded pension insurance, but pension funds in a relatively short time returned and exceeded the reduced value of assets due to unfavorable movements in the capital markets.

MAPAS, as a regulator and supervisor, regularly monitors the situation and risks in the fully funded pension insurance and, if assessed it can take additional activities and measures, within the framework of the activities of the pension supervisors recognized, indicated and confirmed by the International Pension Organization of Supervisors (IOPS).

# 8. Marketing and agents of pension companies

## 8. Marketing and agents of pension companies

In order to protect the interests of the current and future members of the retired members of the fully funded pension insurance and to provide fair and objective information to the public, marketing is carried out in a regulated environment, regulated by law and bylaws.

Marketing activities are all activities aimed at advertising the pension companies and the mandatory and voluntary pension funds and informing and concluding agreements for membership in the mandatory and voluntary pension funds and for the payment of funds from the mandatory and voluntary pension funds. These activities include: advertising the operations of the pension companies and the pension funds they manage, informing about the characteristics of the mandatory and voluntary fully funded pension insurance, informing about the fees and transaction fees, informing about the yields of the mandatory and voluntary pension funds, information on investment portfolios of mandatory and voluntary pension funds, information on individual accounts, voluntary individual accounts and professional accounts, membership and transfer of members from one mandatory pension fund to another, membership and transfer of members from one voluntary pension fund, concluding agreements for programmed withdrawals, agreements for one-time payment and agreements for multiple payments and other activities for the purpose of advertising and providing information related to the operation of pension companies and pension funds. The pension company can perform marketing activities of a pension fund, in its premises, in the premises of its business associates for marketing or outside them, directly or through an appropriate type of communication (telephone, fax, Internet). Marketing premises must meet certain legal requirements.

In order to enable MAPAS to exercise the control function over the marketing materials, the pension company is obliged to submit to MAPAS, in a photocopy or on an appropriate external medium, any published marketing material, within three days after its publication. When MAPAS considers that an advertisement or other written material, may cause misleading, it may with a decision prohibit further publication or distribution, and order the publication of an amendment to that material, within a period to be determined by it.

A person who does marketing, i.e. agent, can be a person employed in a pension company or another person who is contractually hired by a pension company. The agent may perform marketing activities for pension funds and / or conclude membership or payment agreements, only for pension funds managed by the pension company in which they are employed or contractually engaged. The agent is obligatorily present at the conclusion of the pension fund membership agreement, the transfer agreement, the programmed withdrawal agreement, the one-time payment agreement and the multiple-payment agreement and is obliged to sign such an agreement. The agent is obliged to make all contacts with the member, the retired member or the persons who have the right to become members and with the retired members of the pension fund, personally and must not conclude agreements through another person. Also, the agent has a significant role in choosing the type of pension payment from the fully funded pension insurance, by the member, and is obliged to personally present the projected offers for future pensions to the member who submitted a request for listing, with a detailed explanation. the characteristics and assumptions used for all types of pension payments.

The person can perform marketing activities only after his/her registration in the Register of Agents maintained by MAPAS. MAPAS prescribes the manner and procedure for taking the exam for agents and the manner and procedure for registering the person in the Register of Agents.

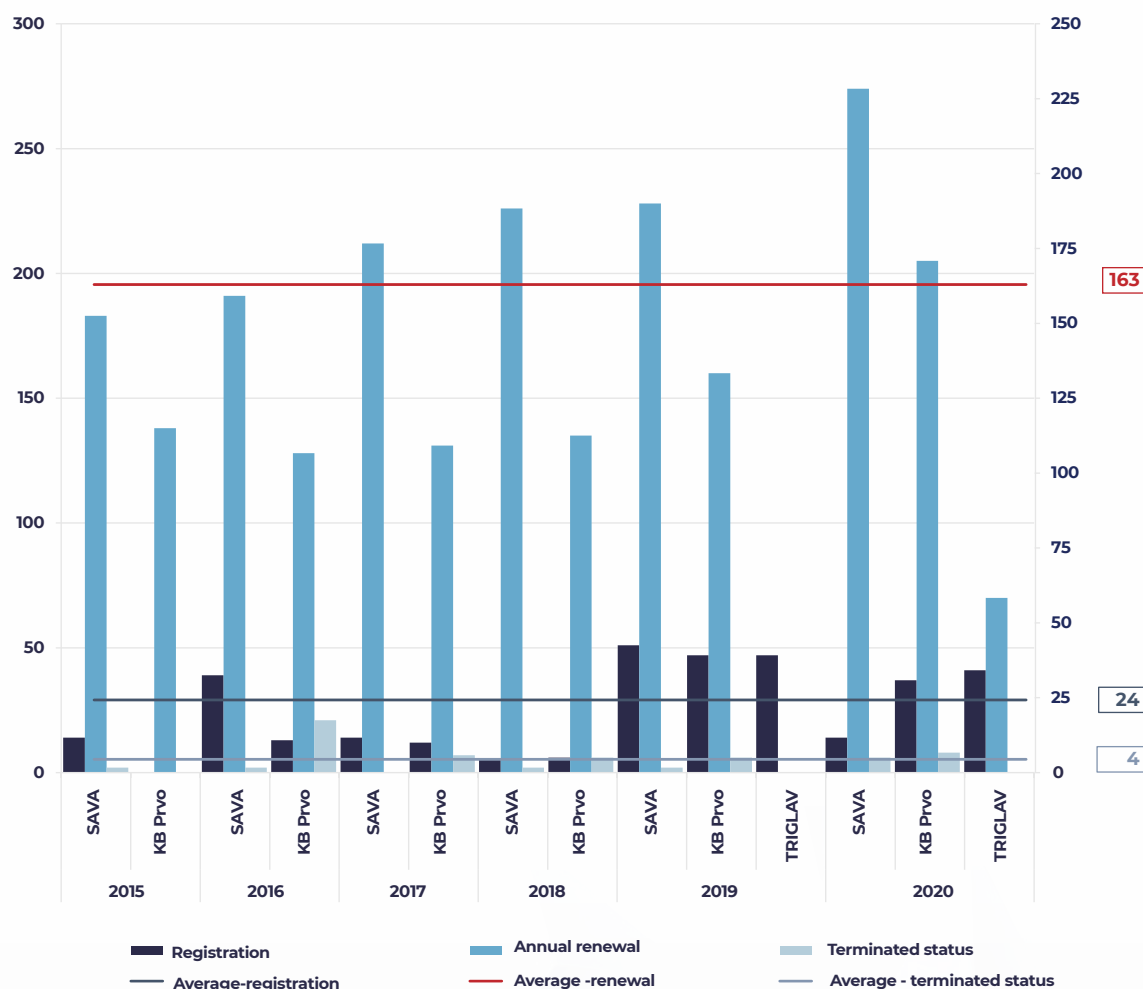
During 2020, an exam for agents was organized in two exam sessions. The test session scheduled for March 2020 was postponed and conducted in October 2020 due to the conditions caused by the Corona virus pandemic. Then in December 2020 another test session was conducted. In 2020, out of a total of 132 candidates present and registered for the exam, 69 or 52% of the present candidates passed. The number of candidates who took the exam in 2020 is significantly lower than the previous year, which is probably mostly due to the conditions caused by the pandemic of the Corona virus. In Table 8.1 detailed data is provided for the present candidates who took the exam for agents in 2020, by pension company.

**Table 8.1. Candidates attending who have taken the exam for pension company agents**

Pension comany	Attending	Passed	Passed (%)
<b>SAVA</b>	35	20	57%
<b>KB First</b>	46	18	39%
<b>TRIGLAV</b>	51	31	61%
<b>Total</b>	132	69	52%

During 2020, a total of 88 agents were registered, of which 14 agents of SAVA, 37 agents of KB First and 37 agents of TRIGLAV. Re-registration<sup>37</sup> was performed on 4 agents for TRIGLAV PENZISKO DRUSTVO AD Skopje. Also, annual renewal of the registration of agents was performed on a total of 549 agents, out of which 274 on SAVA, 205 agents on KBP, 70 agents on TRIGLAV. During 2020, a total of 14 agents lost their agent status, of which 6 were SAVA agents and 8 were KB First agents. An overview of the number and average values of registered, renewed and terminated status of agents from 2015 to 2020 per Pension Company is given in Table 8.1. It can be noticed that the number of registered agents at SAVA, KB First and TRIGLAV in 2020 is lower than in 2019, which again is probably mostly due to the conditions caused by the pandemic of the Corona virus.

**Chart 8.1 Number of registered<sup>38</sup>, renewed and terminated ststus of agents per year and pension companies**



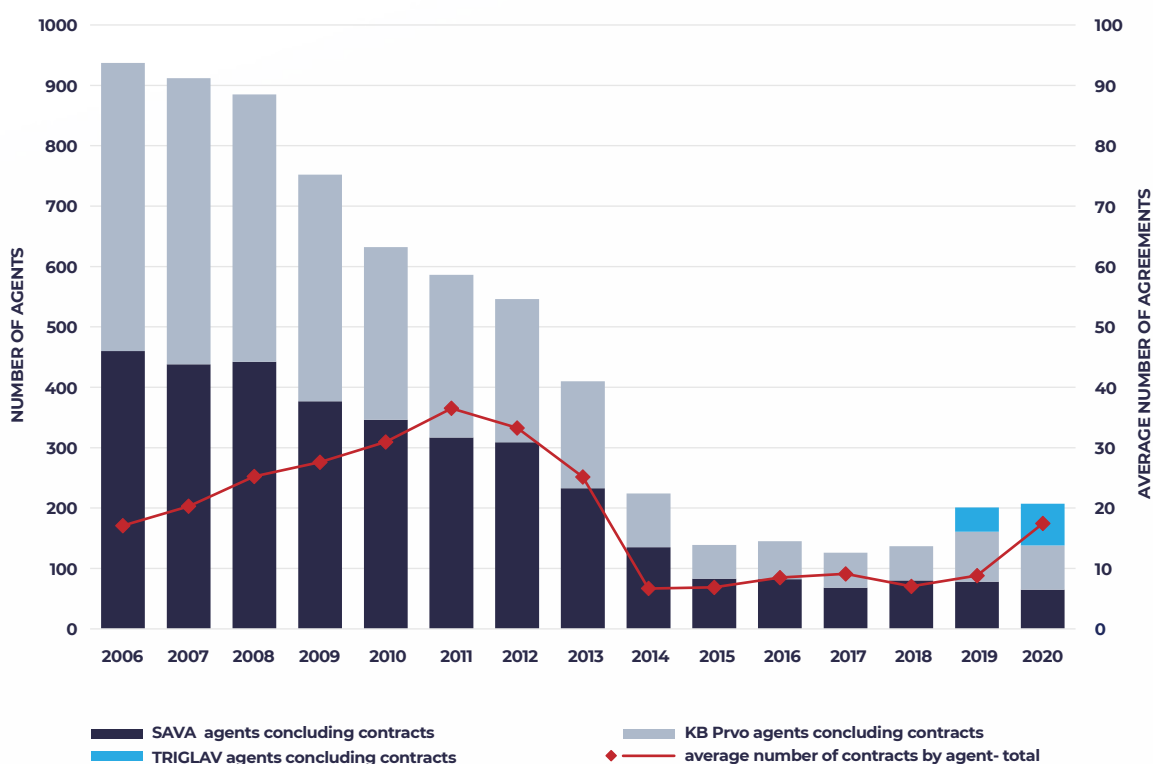
<sup>37</sup> Re-registration of an agent for one pension company is done for an agent who was previously an active agent of another pension company

<sup>38</sup> The number of re-registered agents is included in the number of registered agents



Regarding the number of agreements for membership in the mandatory pension funds which are concluded by the agents from the beginning of the system, Chart 8.2 shows that most agents, who on average concluded the most membership agreements and in 2005, as this was the beginning of the system, and until 31.12.2005, it was the deadline for voluntary members to choose whether to join the two-pillar system and sign a contract. In the following years, the number of agents concluding contracts is continuously decreasing from year to year, and at the same time the average number of concluded contracts per agent is increasing, until 2011. Then, until 2014, the average number of concluded contracts per agent decreases significantly. In the following years, the number of agents who signed contracts and the average number of contracts per agent remain at approximately the same level. In 2019, when the third pension company started operating, there is again an increase in the number of agents who signed contracts as well as a minimal increase in the average number of concluded contracts per agent compared to 2018. The increase in the average number of concluded contracts per agent continues in 2020 compared to 2019, mostly due to the increase in the average number of concluded contracts per agent at TRIGLAV. Regarding the number of agents who signed contracts, there is an increase only in TRIGLAV, while in SAVA and KBP first, there is a decrease.

**Chart 8.2 Number of agents who concluded agreements for membership in MPF and average number of agreements per agent**





# MAPAS

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