

2023

REPORT

**On the developments in the fully
funded pension insurance**



Agency for Supervision of
Fully Funded Pension Insurance



Agency for Supervision of Fully Funded Pension Insurance

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Contents

Abbreviations	3
Foreword	4
Important 2023 dates	6
MAPAS, mission and vision	7
1. Brief overview of the global conditions and trends in the pension field with an emphasis on fully funded pension insurance	8
2. Structure of the fully funded pension insurance in the Republic of North Macedonia	13
2.1. Description of the pension system	14
2.2. The role of fully funded pension insurance in the pension system	15
2.3. Institutions in a fully funded pension insurance	16
3. Amendments to the laws and bylaws, which regulate the fully funded pension insurance	19
4. Data on financial operations of the pension companies	21
4.1. Revenues and expenditures of the pension companies for 2023	22
4.2. Financial result of the pension companies	25
4.3 Capital, charter capital and own assets of pension companies	25
4.4 Indicators	26
5. Information on mandatory pension funds	28
5.1. Membership in mandatory pension funds	29
5.2. Data on membership in mandatory pension funds	30
5.3. Transfer of a member from one mandatory pension fund to another	34
5.4. Contributions in mandatory pension funds	35
5.4.1. Compensation for untimely transfer of contributions	36
5.4.2. Returned assets to the PDIF	37
5.5. Investment and portfolio structure of the mandatory pension funds	38
5.6 Net assets, accounting unit and rate of return of the mandatory pension funds	44
5.7. Fees in mandatory pension funds	50
5.8. Payment of pensions from mandatory fully funded pension insurance	52
6. Information on the voluntary pension funds	54
6.1. Purpose of voluntary fully funded pension insurance	55
6.2. Membership in the voluntary pension funds	56
6.3. Member account transfer in the same or another voluntary pension fund	59
6.4. Contributions in the voluntary pension funds	59
6.5. Investments and portfolio structure of the voluntary pension funds	60
6.6. Net assets, accounting unit and rate of return of the voluntary pension funds	66
6.7. Fees in voluntary pension funds	72
6.8. Payment of pension benefits from voluntary fully funded pension insurance	74
7. Marketing and agents of pension company	75

Abbreviations

GDP	<i>gross domestic product</i>
Second pillar	<i>Mandatory Fully Funded Pension Insurance</i>
VFP	<i>Voluntary Pension Funds Management Company VFP PENSION COMPANY AD Skopje</i>
VFPd	<i>VFP open voluntary pension fund - Skopje</i>
VPF	<i>voluntary pension funds</i>
SSO	<i>State Statistical Office</i>
EU	<i>European Union</i>
MPF	<i>mandatory pension funds</i>
IOPS	<i>International Organisation of Pension Supervisors</i>
KB First	<i>KB First company for mandatory and voluntary pension funds management AD Skopje</i>
KBPd	<i>KB First Open Voluntary Pension Fund - Skopje</i>
KBPz	<i>KB First Open Mandatory Pension Fund - Skopje</i>
MAPAS	<i>Agency for Supervision of Fully Funded Pension Insurance</i>
NBRNM	<i>National Bank of the Republic of North Macedonia</i>
OECD	<i>Organisation for Economic Co-operation and Development</i>
First pillar	<i>Mandatory pension and disability insurance based on generational solidarity</i>
SAVA	<i>Mandatory and Voluntary Pension Funds Management Company Sava Pension Company AD Skopje</i>
SAVAd	<i>Open Voluntary Pension Fund Sava penzija plus</i>
SAVAz	<i>Open Mandatory Pension Fund Sava penziski fond</i>
Third pillar	<i>Voluntary fully funded pension insurance</i>
TRIGLAV	<i>Mandatory and Voluntary Pension Funds Management Company TRIGLAV pension company AD Skopje</i>
TRIGLAVd	<i>Triglav Open Voluntary Pension Fund - Skopje</i>
TRIGLAVz	<i>Triglav Open Mandatory Pension Fund- Skopje</i>
PRO	<i>Public Revenue Office</i>
PDIFNM	<i>Pension and Disability Insurance Fund of North Macedonia</i>

Foreword



Dear reader,

As 2023 ended, we completed eighteen years of work on capital funded pension insurance with results that you can find in detail in the Report on the developments in the fully funded pension insurance in 2023, of the Agency for Supervision of Fully Funded Pension Insurance - MAPAS. The report contains a description of the characteristics of fully funded pension insurance, data on fully funded pension insurance, assessment of the execution of regulations in the field of fully funded pension insurance and other relevant data regarding this insurance until 2023.

After the shifted parameters of the fully funded pension insurance in 2022, due to the global financial and economic uncertainty, in 2023 there is a return of the amounts of the parameters of the mandatory and voluntary pension funds in the expected tendency of movement.

During 2023, the total assets of the mandatory pension funds recorded a growth of 19.08% and reached 135.21 billion denars, while the total assets of the voluntary pension funds recorded a lower growth compared to the total assets of the mandatory pension funds, i.e. they grew by 17.46% and reached 3.59 billion denars. With that, the share of total assets of pension funds in the second and third pillars in the gross domestic product grew and exceeded 16.51% for 2023 (16.08% - mandatory pension funds and 0.43% - voluntary pension funds). In 2023, the coverage of the population in the second pillar continued to increase with a similar trend as the previous year (4% compared to 2022) and reached a share of 75% in the total active population. Although there was a growth of about 7% compared to last year, the participation of the population in the third pillar is still very small, i.e. about 4.0% of the total active population in RNM are members with a voluntary individual account or are participants in a pension scheme with a professional account in a voluntary pension fund.

During 2023, contributions in the amount of about 13.41 billion denars were transferred to the mandatory pension funds, which represents about 1.59% of GDP, while a total of about 431.91 million denars were paid into the voluntary pension funds, which represents about 0.05% of GDP.

Although the structure of investments of pension funds in 2023 does not differ much compared to 2022, a slight increase in the share of investments abroad is observed, which is mostly due to the increase in the investment fund shares. The investment portfolio of the mandatory pension funds in 2023 consists of domestic investments that include government securities (63.97%), deposits (2.70%), shares (1.97%), investment fund shares (0.19%) and corporate bonds (0.02%), as well as investments abroad which include investments in foreign government bonds (0.64%), short-term securities (0.21%), corporate bonds (0.18%), units of investment funds (25.93%) and shares (3.40%). In the structure of the investment portfolio of the voluntary pension funds, a small increase in the share of domestic government securities and a small increase in the share of investments abroad is observed, mostly due to the increase in the share of investment fund shares. The investment portfolio in 2023 consists of domestic investments that include government securities (55.48%), deposits (5.51%), shares (6.18%), corporate bonds (0.58%) and a very small part in investment fund shares (0.60%), as well as investments abroad, which include investments in foreign government bonds (0.94%), short-term securities (0.23%), corporate bonds (0.19%), investment fund shares (23.61%) and shares (4.88%).

Although in 2023 there is a small increase in the rate of return in nominal amount in the seven-year period 2017 - 2023 of both mandatory and voluntary pension funds, however, the change related to the increase of the cost of living, reduced to an annual level, still significantly affects rate of return amounts in real terms in 2023. At the level of the mandatory fully funded pension insurance, in the seven-year period 2017-2023, an average rate of return reduced to an annual level of 4.63% in nominal amount was achieved, which means 0.05% in real amount, calculated through the change of the weighted amount of the accounting units of mandatory pension funds. At the level of voluntary fully funded pension insurance, during the seven-year period, from 2017 to 2023, an average annual return of 4.89% in nominal amount and 0.30% in real amount was achieved, calculated through the change the weighted average of the accounting units of voluntary pension funds.

Then, in 2023, we note the third change of property custodian, i.e. VFP PENZISKO DRUSHTVO AD Skopje concluded an agreement for keeping the property of the voluntary pension fund, which it manages, with a new property custodian - Komercijalna banka AD Skopje.

We want to emphasize that pension savings is a long-term investment, and MAPAS contributes and will continue to contribute towards continuous strengthening of individual savings by ensuring the management of risks that threaten the assets of both pensions and pension benefits of pension fund members, as well as the reputation of the system, while reducing them to the lowest possible level.

We are aware of the intensive development and application of technology that is rapidly transforming the way the financial sector operates, including the fully funded pension insurance, and we will focus on encouraging and supporting efforts to use technology to improve the quality and delivery of pension companies' services, as well as towards their own digital transformation to simplify and improve the regulatory and supervisory function.

As a regulatory and supervisory institution, we are guided by our mission daily and, as in the past years, we will invest our resources in the direction of upgrading and improving fully funded pension insurance and we will act within the established framework of pension supervisors that are recognized, indicated and confirmed by the International Organization of Pension Supervisors (IOPS).

*Chairman of the Council of Experts,
Maksud Ali*

Important dates in 2023

1.1.2023

All pension companies have reduced the amount of the contribution fee they collect from the contributions made to the mandatory pension funds from 2.0% to 1.9%.

1.1.2023

KB First reduced the amount of the contribution fee that it collects from paid contributions to the voluntary pension fund from 2.90% to 2.50%.

1.1.2023

MAPAS reduced the amount of compensation it collects from pension companies calculated as a percentage of the paid contributions in the mandatory and voluntary pension funds from 0.8% to 0.7%.

8.11.2023

Komercijalna banka AD Skopje is the new custodian of VFPv.

MAPAS, mission and vision

The Agency for Supervision of Fully Funded Pension Insurance - MAPAS is a regulatory and supervisory institution established in order to care about the interests of the members and retired members of the 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, set out by the Law on Mandatory Fully Funded Pension Insurance and the Statute. The Agency is accountable for its operation 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 an activity - management of pension funds and issuing, withdrawing and revoking approvals for managing mandatory and voluntary pension funds. It supervises the operation 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 the Republic of North Macedonia, in cooperation with the Ministry of Labor and Social Policy, and develops public awareness of the goals and principles of pension companies and mandatory and voluntary pension funds, on the benefits of the membership in a mandatory and/or voluntary pension fund, including the goals, principles and benefits of participating in an occupational pension scheme, the rights of members of mandatory and voluntary pension funds and other issues related to 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 it initiates the adoption of laws and other acts related to pension companies and the pension funds they manage. Moreover, MAPAS cooperates with relevant institutions in the Republic of North Macedonia and abroad in order to ensure effective control of fully funded pension insurance in the Republic of North Macedonia.

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

*Maksud Ali- Chairman
Mentor Jakupi – professionally engaged member
Darko Sazdov– professionally engaged member
Borche Bozhinovski - external member
Marina Makenadzieva - external member.*

The mission of MAPAS is to protect the interests of the current and retired members of the pension funds and to stimulate the development of the fully funded pension insurance towards safer retirement days.

The vision of MAPAS is to be recognized as independent, expert and transparent institution, which protects and promotes the fully funded pension insurance.



1

Brief overview of the global conditions and trends in the pension industry with an emphasis on the fully funded pension insurance

Brief overview of the global conditions and trends in the pension industry with an emphasis on the fully funded pension insurance

The simultaneous decline in bond and stock prices in 2022 caused nominal losses on pension fund investments in 2022. High inflation rates have exacerbated this dynamic, with negative real return rates recorded in most countries. However, the large profits achieved in the previous years have mitigated the impact of these negative return rates in 2022 on the long-term investment results of pension funds. Pension funds in 21 countries, out of 55 surveyed countries, achieved an average annual return rate above inflation in the last 5 years, in 33 out of 44 surveyed countries in the last 10 years, in 24 out of 34 surveyed countries in the last 15 years, and in 15 out of 19 surveyed countries in the last 20 years.

The positive impact of higher amounts of contribution was insufficient to offset the impact of negative investment results in many OECD countries, which led to a reduction in the value of pension assets by 14% compared to 2021. This decline is the highest since the global financial crisis in 2008, when assets were reduced by 18%. However, in several non-OECD countries, higher contribution amounts relative to pension payout amounts have compensated for investment losses, as in many of these countries the pension payout phase has not yet started or has only recently started and the number of people withdrawing funds is small.

In 2023, the importance of digitization in supervision was discussed and IOPS summarized and shared the experiences related to the development and use of innovative technologies by pension supervisors (SupTech) in order to strengthen supervisory practices and processes. Supervisors emphasize that innovative technology, so far, is used mainly for data collection and data management (transformation, visualization and validation), and storage. Supervisors agree that expanding the use of data, technology and digitization of supervisory tasks and processes is a top priority. Also, IOPS members discussed and determined the need to revise the IOPS Principles for Private Pension Supervision related to digital supervision, risk-based supervision, pension supervision resilience and pension systems to external shocks (e.g. risks from pandemic and disaster), cyber risks and the changing dynamics of an aging society as well as supervision related to the integration of ESG factors in investments and risk management of pension funds.

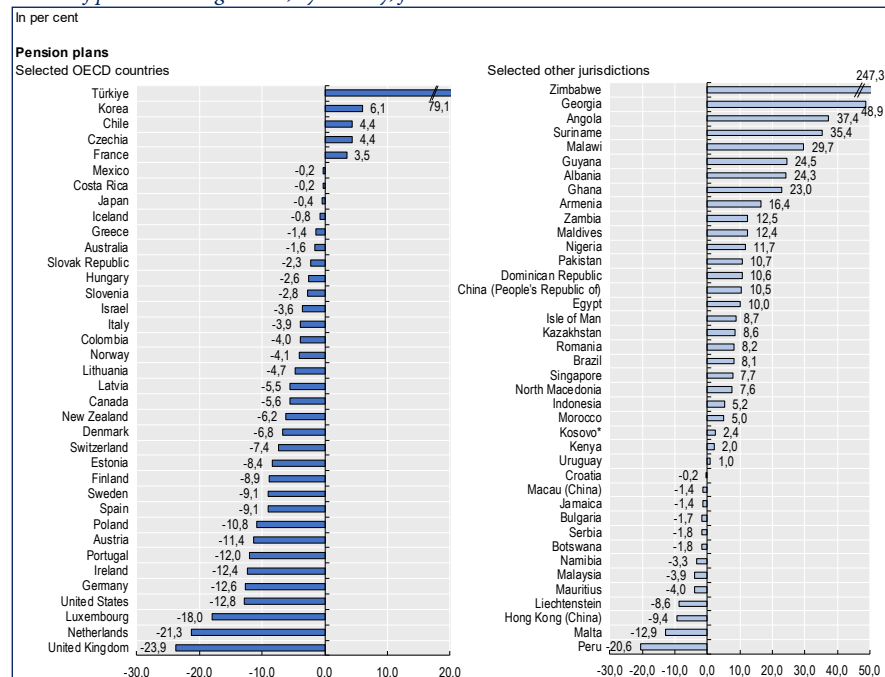
The pension systems¹ in the world are characterized by different structures as a result of the different socio-economic and demographic conditions in the countries, the influence of the culture of the people and their habits and perceptions of pension savings. In recent decades, the risks of an aging population and the changing nature of the labor market have prompted a wide range of pension system reforms in order to mitigate them, however with the same ultimate goal – provision of a sustainable pension system and adequate income for the insureds after their retirement.

The simultaneous decline in the prices of bonds and shares in 2022, the two main instruments in pension fund portfolios, caused nominal losses on pension fund investments in 2022. High inflation rates have exacerbated this dynamic, with negative real rates of return recorded in most countries. However, the large gains achieved in previous years mitigated the impact of these negative rates of return on the long-term investment results of pension funds. The positive impact of higher contribution rates was insufficient to offset the impact of negative investment performance in many OECD countries, which led to a reduction in the value of pension assets. Thus, the value of pension savings assets, on a world level, deviated from the long-term upward trend in recent decades and decreased by 14% compared to 2021 and at the end of 2022 amounted to about USD 53.1 billion (USD 51.3 billion in OECD countries and USD 1.8 billion in selected non-OECD countries). This decline is the biggest since the global financial crisis in 2008, when assets fell by 18%. However, in several non-OECD countries, higher contribution amounts relative to pension payout amounts have compensated for investment losses, as in many of these countries the pension payout phase has not yet started or has only recently started and the number of people withdrawing funds is small.

Since the magnitude of the value of the assets of the 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), the overall decline of pension savings assets is mostly due to the decrease in the value of assets in the largest pension markets (Graph 1.1.). In absolute terms, the largest amounts of pension assets are recorded in the United States (\$35 billion), followed by Canada, the United Kingdom, Australia, the Netherlands, Switzerland and Japan, where the value of pension assets ranged from \$1 to \$4 billion.

¹Used sources: OECD reports, IOPS, and own analyses and considerations.

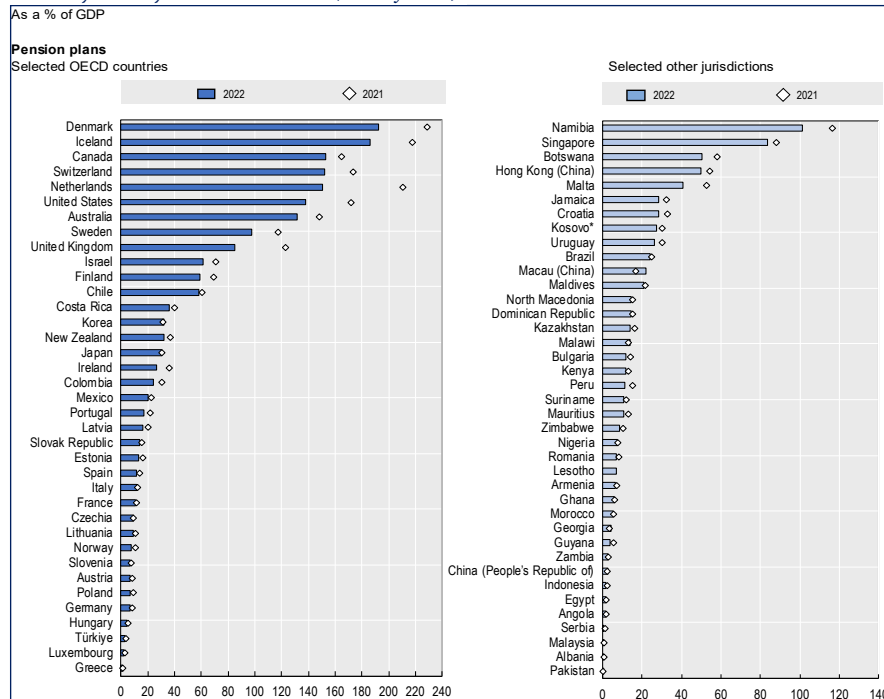
Graph 1.1. Nominal growth rate of pension savings assets, by country, for 2022.



Source: OECD, Pension market in focus, 2023.

Comparing the size of the asset value of private pension funds in relation to the size of the economy, expressed through gross domestic product, gives a better picture of the relative importance of the private pension segment in the country. The share of pension funds in total GDP is lower in 2022 compared to last year in most of the selected countries (shown in Graph 1.2.). Although the GDP grew in nominal terms in 2022 in most OECD countries, the share of pension funds declined or saw reduced growth in most non-OECD countries. In contrast to 2021 (Denmark 229% of GDP, Iceland 219% and the Netherlands 213%) at the end of 2022 in no OECD member country did the amount of pension funds exceed the amount of GDP twice. However, in 2022 Denmark remains the leader with pension assets amounting to 192% of GDP.

Graph 1.2. Total pension assets, by country, in 2021 and 2022 (in % of GDP)



Source: OECD, Pension market in focus, 2023.

Another indicator of the importance of fully funded and private pensions in a country is the coverage rate. The coverage rate can be measured by the number of active members of pension plans (persons who have assets in pension plans and have not retired yet) in a proportion to the working age population (persons from 15 to 64 years of age). The access to a pension plan can be mandatory, voluntary or encouraged through automatic inclusion. The improved employment rate after the shock to the labor markets caused by the Corona virus pandemic contributed to the increase in participation in pension funds in 2022. The increased coverage rate is observed in all countries, especially in countries where participation in pension funds is mandatory with employment. The increase in the coverage rate was particularly significant in countries that recently introduced mandatory pension funds (e.g. Armenia, Dominican Republic and Georgia). On the other hand, the increased inflation and the growth of interest rates had a negative effect on the coverage rate because it affected the reduction of the number of people who joined the pension funds where participation is voluntary. Overall, the available data show that, in 2022, the coverage rate continued to rise according to the long-term trend of the past 10 to 20 years, influenced to some extent by the various measures that policy makers have implemented over the years to promote participation in pension funds and the diversification of pension financing sources. Some of these measures were introduced in 2022 or recently and had effects already visible by the end of 2022 (e.g. Slovakia). Slovakia saw the largest increase in the coverage rate in voluntary pension funds, which is likely due to the recent financial education initiatives put in place by the National Bank, together with the communication of pension companies about the positive investment result in 2021. However, there are still differences in coverage across countries, with the highest coverage observed in countries with mandatory pension funds and automatic inclusion. Lower coverage rates are observed in voluntary pension funds with some exceptions such as the Czech Republic (64%), Ireland (59%), Japan (53%), Poland (65% for open pension funds, previously mandatory) and Slovakia (48%). An additional impact of the relatively low coverage rates in pension funds is the high rates of informal work in some countries (e.g. in Africa, Asia or Latin America), then the lack of access to occupational pension funds because employers are not willing to provide the related administrative costs and of course the lack of awareness among the population.

The investment results of the pension assets, to a large extent, depend on the allocation of the assets and the level of risk. Greater portfolio exposure to riskier instruments implies potentially greater amounts of return and greater volatility of return. In most countries surveyed, in 2021, more than 70% of pension fund assets are invested in bonds and shares. That is why the development of bond and shares markets plays a major role in the investment performance of pension funds. Pension funds prefer bonds, especially government bonds, probably mostly because of the stability of income and the lower level of risk of these instruments compared to others, then because of the lack of other investment opportunities, the existence of guarantees or the recent introduction of pension funds or in turn, minimum restrictions on investments in bonds according to the regulation. On the other hand, other pension funds prefer shares because of potentially higher returns by assuming a higher level of risk. The simultaneous decline in bond and shares prices in 2022, the two main instruments in pension fund portfolios, affected the assets of pension savings. Rising interest rates have reduced the value of bonds in pension fund portfolios. At the same time, capital markets saw a global decline in 2022 compared to 2021 (19% decline in the S&P500, 9% in the Nikkei 225 and 12% in DAX). Such developments caused negative nominal rates of return in many countries in 2022.

High inflation rates have exacerbated this dynamic, with negative real rates of return recorded in most countries. Real rates of return were negative in all OECD countries and almost all non-OECD countries. Real investment rates of return were lowest in countries with the highest inflation (e.g. OECD countries such as Hungary, Latvia and Lithuania with annual rates above 20% and non-OECD countries such as Ghana, Suriname and Zimbabwe where the cost of living index rose by 52%, 55% and 111% respectively). Real rates of investment return were positive only in a few countries in Africa (Lesotho, Zambia) and in the Maldives, where inflation did not exceed nominal investment gains.

The investment performance of pension funds over the long term is more significant than short-term gains or losses because pension funds are long-term investors. Fluctuations in investment performance are inevitable over the life of a retirement portfolio. However, the large gains achieved in previous years have mitigated the impact of these negative rates of return in 2022 on the long-term investment results of pension funds. Pension funds in 21 countries out of 55 surveyed countries (or 38%) achieved an average annual rate of return above inflation in the last 5 years, in 33 out of 44 surveyed countries (or 75%) in the last 10 years, in 24 out of 34 surveyed countries (or 71%) in the last 15 years and in 15 of the 19 surveyed countries (or 79%) in the last 20 years.

Graph 1.3. shows nominal and real investment rates of return on pension funds in December 2021 - December 2022 in selected OECD countries and selected non-OECD countries.

Rising inflation and rising interest rates have caused changes in the asset allocation of pension funds. In 2022, most countries see a decrease in the participation in shares in pension fund investments, mainly due to the fall in share prices and of course due to decisions to reduce investment in shares because of global uncertainty with high inflation, volatility in capital markets and expectations for recession. On the other hand, even though bond prices fell, interest in bond investments increased by 1 percentage point. The recent rise in interest rates is rekindling interest in bonds (e.g. increase of 4 percentage points in North Macedonia) given the prospect of higher rate of returns from newly issued bonds and the relative certainty of the income they generate when held to maturity.

In 2023 a topic of discussion was the importance of digitization and how it can facilitate supervision and make it more efficient. IOPS summarized and shared experiences related to the development and use of innovative technologies by pension supervisors

Graph 1.3. Nominal and real investment rates of return (IRR) on pension funds, December 2021 - December 2022, in %



Source: OECD, Pension market in focus, 2023

(SupTech) in order to strengthen supervisory practices and processes based on the responses of 38 pension supervisors - members of IOPS. The report notes the range of technologies in use (eg machine learning, natural language processing, artificial intelligence, cloud processing, etc.) and the areas of financial supervision in which these innovative technologies are used, including data collection, storage and processing, data analysis for supervision, digital communication, consumer protection, etc. The report also contains several examples of initiatives specific to private pensions, such as setting up a single and integrated digital platform to standardise, streamline and automate the administration processes of existing pension schemes. This should improve the efficiency of pension scheme operation, administration, quality of pension services and provide cost savings for pension schemes and members. The report then discusses and includes supervisors' opinions on major implementation challenges (such as supervisors' capacity and skills to utilize current and future SupTech tools, resources, data quality, integration of new tools into work processes, and existing IT infrastructure, legal, operational challenges, including cybersecurity challenges, etc.) in the process of adopting SupTech tools. Supervisors emphasize that innovative technology, so far, is used mainly for data collection and data management (transformation, visualization and validation) and storage. The use of advanced analytics by supervisors in the pension sector is currently still quite limited. Supervisors are still exploring the benefits of introducing new data science and analytics software, mainly for analyzing supervisory data. Supervisors agree that expanding the use of data, technology and digitization of supervisory tasks and processes is a top priority. Supervisors are improving their work processes to support supervision and continue to invest in leveraging advanced, data-driven technologies. The use of innovative technologies is necessary for efficient supervision, as well as for the development of an electronic supervision system based on risk assessment.

Supervision based on risk assessment has been a continuously topical topic of IOPS for several years in a row, and thus also during 2023. The approach to supervision, based on the assessment and control of risks, is a process that includes identifying the potential risks faced by pension funds, or plans, assessing those risks and the potential negative financial impacts on pension fund members and taking measures to mitigating or eliminating the effects of these risks. In the last three years, some of the activities included updating the IOPS tool for risk-based supervision and case studies of several IOPS members, as well as discussing the challenges of risk-based supervision by analyzing lessons learned and challenges related to the design, implementation, use and audit of systems that already practice risk-based supervision. Based on the experiences of 45 surveyed countries, IOPS has identified trends that have evolved over the years of applying this approach and good practices for risk-based supervision. Risk assessment models continue to evolve in order to revise the risk focus and different approaches to risk assessment and how supervised entities deal with risks and challenges. Supervisory activities to support risk-based supervision have expanded, though the collection of data and the application of supervisory judgment remain critically important.

Also, IOPS members discussed and determined the need to revise the 2010 IOPS Principles for Private Pension Supervision. The revision will be based on the best experiences and practices of the members and on the exhaustive research of IOPS. Based on the digitalization research, the possibility of introducing a new principle for digital supervision is being considered. In addition, the need for a principle regarding supervision based on risk assessment is also being considered. Furthermore, developments in the pension industry may reinforce the need for adjustments or development of principles on issues such as the resilience of pension supervision and pension systems to external shocks (e.g. pandemic and disaster risks), cyber risks and changing aging dynamics of the society. As part of the revision of the IOPS principles, the IOPS defined supervision guidelines related to the integration of environmental, social and governance factors (ESG factors) in investments and risk management of pension funds.

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

Description of the pension system	2.1
The role of fully funded pension insurance in the pension system	2.2
Institutions in fully funded pension insurance	2.3

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

The Macedonian pension system is a combined system of public, currently funded and private fully funded pension insurance. Fully funded pension insurance is based on the principle of capitalization of contributions paid in the name and on behalf of the member. A characteristic of this insurance is that the funds in it are privately and competitively managed by pension companies. Important characteristics of fully funded pension insurance are the right to personal choice, the right to portability of assets, as well as providing a high degree of transparency.

In Republic of North Macedonia, in 2023 there are four pension companies, three of which manage one mandatory and one voluntary pension fund, and one pension company that manages one voluntary pension fund.

2.1 Description of the pension system

The Macedonian pension system is part of the social insurance of the Republic of North Macedonia and it 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 being prepared for many years, and its legal framework was established in 2000. There are four laws and a number of bylaws that regulate the pension system in the Republic of North Macedonia. These include: 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 field.

The pension system in the Republic of North Macedonia has a history of long existence, large coverage of the workforce and provision of pensions for the insured persons. However, the socio-economic changes in the Republic of North Macedonia, 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 continuously.

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 live longer due to better living conditions and better health services, and at the same time the number of newborns, i.e., the number of young people has been decreasing. As a result of this factor, the share of adults in the total population is increasing.

Such demographic movements in the pension system cause the emergence of an increased number of retirees and longer use of pension, while reducing the number of insureds. For a system with current financing, the ratio between the insureds and the pensioners is very important, because the pensions to the existing pensioners are paid with the contributions from the existing insureds. The actuarial projections, made during the preparation of the pension system reform, showed that these factors can be expected to have a major negative impact on the solvency of the PDIFNM, in the long run, i.e., without reforms, the system would function with an expressed deficit, which will increase quickly and significantly.

In order to meet these expected conditions, a thorough reform of the pension and disability insurance in our country was implemented, 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 retirees and long-term financial stability of the pension system.

The first pillar is financed on an ongoing basis (PAYG), which means that the contributions of existing insureds are used for paying the pensions of current retirees. This pillar functions according to the principle of the so-called defined pensions, i.e., pensions are provided through this pillar according to a predetermined formula for pension calculation. The first pillar is used for payment of part of the old-age pension, disability pension, family pension, as well as the lowest amount of pension.

The second pillar and the third pillar are fully funded pension insurance in which the paid contributions are capitalized in the name and on the account of the member. These two pillars operate on the principle of the so-called defined contributions, i.e., 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 is used for payment of part of the old-age pension. The third pillar provides financial protection/compensation in case of old age, disability and in case of death of the insured.

The establishment of a multi-pillar pension system as a combined system of public pension insurance that is funded on an ongoing bases, and private, fully funded pension insurance in the Republic of Macedonia, is expected to ensure long-term stability of the system and security in exercising the rights of pension and disability insurance, by achieving long-term benefits for the individuals who participate in the pension system, for the pension system itself, as well as additional effects on the economy. Namely, from an individual point of view, greater security is provided in the provision of pension which will be financed from several sources, hence the risks are divided. At the same time, the reform achieves greater transparency and provision of information to the members of pension funds. The reform should lead towards the establishment of a solvent pension system as well as an increase in savings, encouraged investments by the population and stimulated 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 the treatment and the record of paid contributions and in terms of the determination and payment of the pension. In this insurance, each member has an individual account on which the member's assets are recorded and a close connection and dependence are 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 accumulation of funds from contributions to individual accounts, which are further invested and the realized return on investment, reduced for the operating costs of the system, is fully added to the accumulated funds on individual accounts. The future pension depends on the accumulated funds on the individual account and on the life expectancy at retirement, i.e., the expected period of using the pension. It is important to note that these pension savings are long-term savings, in the course of which there is a gradual however continuous increase in savings, due to which, at the beginning, while the insured is young, the savings are small, however in the future, when the insured person reaches retirement age, the savings become significantly greater.

A characteristic of this insurance is that the assets in it are privately and competitively managed, therefore the paid contributions are invested by specialized licensed pension companies that manage pension funds. This ensures that the economic goals determine the investment strategy, creating an opportunity to maximize the overall return in the interest of the members. The diversification of investment risks (including international diversification) is one of the most important characteristics of this system.

Furthermore, important characteristics of fully funded pension insurance are the right to personal choice and the initiative of the individual. Before January 1, 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 wish to join, while all newly employed persons after January 1, 2003, had the opportunity to choose a mandatory pension fund of their choice. Furthermore, with the amendments to the Law on Mandatory Fully Funded Pension Insurance from December 2018, the members of the mandatory pension funds who voluntarily joined the second pillar (employed for the first time before January 1, 2003) and who were born before January 1, 1967, were given the opportunity to choose to terminate or extend the duration of their 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 younger than 40 years of age, can choose a mandatory pension fund of their choice. Then, the membership in the voluntary pension funds is a personal choice of the individual or it takes place through participation in an occupational pension scheme, financed by the employer, or by a citizens' association.

The portability of assets 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, whereby their saved funds 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 characteristics 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 assets on their individual accounts, by submitting the so-called "green envelope", with a report on the 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:

- The Ministry of Labor and Social Policy – in charge of creating and conducting the policy of pension and disability insurance and of supervising the implementation of the legality of this insurance.
- The 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 2023, this percentage was 0.7%.
- Pension company - a joint stock company, established by financial institutions with large capital and experience, whose sole activity is the management of pension fund assets. In the reformed pension system, there is a possibility to establish three types of companies:
 - o Mandatory Pension Company - manages only mandatory pension funds
 - o Voluntary Pension Company - manages only voluntary pension funds
 - o Joint Pension Company - manages mandatory and voluntary pension funds
- Property custodian of the pension fund - safely keeps the assets of the pension fund on a special account, separate from the company's assets.
- 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 pension insurance contributions between the first and second pillar and transfers contributions and relevant data about 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 Company Law 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 it manages a pension fund on the basis of a pension fund management approval. Mandatory pension fund management company is established, and it manages only mandatory pension funds, voluntary pension fund management company is established and it manages only voluntary pension funds, and mandatory and voluntary pension fund management company is established and it manages mandatory and voluntary pension funds. Mandatory and voluntary pension fund management company should have a charter capital in the amount of at least 1.8 million euros in denar countervalue according to the average exchange rate of the National Bank of the Republic of North Macedonia, a mandatory pension fund management company should have charter capital of at least 1.5 million euros and a voluntary pension fund management company should have a charter capital of at least 0.5 million euros. In an event 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 charter 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 management of pension funds. The main 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 the retired members of the pension fund it manages, which it should conduct 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 on behalf of and for the account of the members, the assets of the members, the assets of the retired members and returns on invested contributions and funds, reduced for the fees collected by 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, and an enforcement may not be conducted on those assets, by or on behalf of, the creditors of the pension company which manages that pension fund.

In 2005, MAPAS, through an international public tender, issued two licenses on the establishment of companies, whereby two pension fund management companies were established, and in 2009, MAPAS issued licenses for performing an activity - management of a voluntary pension fund and approvals for management of a voluntary pension fund to the two existing mandatory pension management companies. In 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 JSC Skopje² were transferred to Pozavarovalnica Sava dd Ljubljana, Republic of Slovenia. In June 2018, MAPAS gave an approval to change the name of the company Joint Stock Company for Management of Mandatory and Voluntary Pension Funds “NLB Nov Penziski Fond” Skopje into a Company for Mandatory and Voluntary Pension Fund Management Sava Pension Company a.d. Skopje, it gave an approval to change the name of the Pension Fund Open Mandatory Pension Fund – “NLB Penziski Fond” Skopje into Open Mandatory Pension Fund Sava Pension Fund and gave an approval to change the name of the pension fund Open Voluntary Pension Fund – “NLB Penzija Plus” Skopje into 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, an approval for management of a mandatory pension fund and an approval for voluntary pension fund management. Then, in 2022, a fourth pension company was established. At the end of May 2022, MAPAS issued a permit for the establishment of a company for voluntary pension funds management to the Voluntary Pension Funds Management Company VFP FUND MANAGEMENT AD SKOPJE and an approval for voluntary pension fund management.

As of 31.12.2023, in the Republic of North Macedonia there are three pension companies that manage one mandatory and one voluntary pension fund each, and one pension company that manages only a voluntary pension fund as presented in Table 2.1.

Table 2.1. Pension companies and pension funds in RNM

Mandatory and Voluntary Pension Funds Management Company Sava Pension Company a.d. Skopje	KB First Company for Mandatory and Voluntary Pension Funds Management AD Skopje	Mandatory and Voluntary Pension Funds Management Company TRIGLAV PENSION COMPANY AD Skopje	Voluntary Pension Fund Management Company VFP PENSION COMPANY AD SKOPJE
which manages:	which manages:	which manages:	which manages:
<ul style="list-style-type: none"> • Open Mandatory Pension Fund Sava Pension Fund • Open Voluntary Pension Fund Sava Penzija Plus 	<ul style="list-style-type: none"> • KB First Open Mandatory Pension Fund - Skopje • KB First Open Voluntary Pension Fund - Skopje 	<ul style="list-style-type: none"> • Triglav Open Mandatory Pension Fund – Skopje • Triglav Open Voluntary Pension Fund - Skopje 	<ul style="list-style-type: none"> • VFP Open Voluntary Pension Fund - Skopje
Property custodian of the pension funds: NLB Banka AD Skopje	Property custodian of the pension funds: Sparkasse AD Skopje	Property custodian of the pension funds: Komercijalna Banka AD Skopje	Property custodian of the pension funds: Komercijalna Banka AD Skopje
Shareholder: <ul style="list-style-type: none"> • Pozavarovalnica Sava d.d. Ljubljana, Republic of Slovenia - 100% participation in the capital of the company. 	Shareholders: <ul style="list-style-type: none"> • Skupina Prva Zavarovalniški Holding DD Ljubljana, Republic of Slovenia - 51% share in the capital of the company. • Komercijalna Banka AD Skopje, Republic of North Macedonia - 49% share in the capital of the company. 	Shareholder: <ul style="list-style-type: none"> • Zavarovalnica Triglav DD Ljubljana, Republic of Slovenia - 100% share in the capital of the company. 	Shareholder: <ul style="list-style-type: none"> • Open and Closed Investment Funds Management Company VFP FUND MANAGEMENT AD SKOPJE, Republic of North Macedonia - 100% share in the capital of the company.
Startup capital 2,12 million euro	Startup capital 1,8 million euro	Startup capital 6,356 million euro.	Startup capital : 0,575 million euros.

One of the pension companies had a combination of domestic (49% share) and foreign (51% share) shareholders, two pension companies have a single foreign shareholder (100% share) and one pension company has a single domestic shareholder (100% share). The shareholders of the four pension companies are indicated in Table 2.1.

The assets of the pension fund are completely separated from the assets of the company that manages that fund and are kept with a property custodian bank. 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 - property custodian, for both mandatory and voluntary pension funds, is performed by commercial banks that meet the legal requirements and wherewith the company has concluded agreements on custody of the assets of the pension funds. The four pension companies have selected a custodian for each pension fund they manage, as shown in Table 2.1. In 2023, VFP PENSION COMPANY AD Skopje concluded an agreement for the custody of the property of the voluntary pension fund, which it manages with a new property custodian - Komercijalna banka AD Skopje, for which MAPAS gave approval. For the property custody function of mandatory and voluntary pension funds, 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 custody of the assets of the pension funds. An overview of the fees charged by property custodians from pension companies in 2023 is presented in Table 2.2.

²Shareholders of the Joint Stock Company for Mandatory and Voluntary Pension Funds Management “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 capital of the company.

Table 2.2. Fees charged by property custodians from the pension companies for property custody of the pension funds

For mandatory pension funds	Amount (at an annual level)	For value of the assets (in million Euros)	Date of application	
Sparkasse AD Skopje as a property custodian of KBPz		0,030%	3 October 2022	
		0,024%	3 October 2023	
NLB Banka AD Skopje as a property custodian of SAVAz		0,058%	4 April 2019	
		up to 100		
		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
Komerijalna Banka AD Skopje as property custodian of TRIGLAVz		0,029%	1 April 2019	
		over 800 to 900		
		0,025%		over 900 to 1000
		0,024%		over 1000
		0,050%		up to 50
		0,041%		over 50 to 100
		0,038%		over 100 to 200
		0,035%		over 200 to 300
		0,033%		over 300 to 400
Komerijalna Banka AD Skopje as property custodian of TRIGLAVd		0,028%	1 April 2019	
		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
	Sparkasse AD Skopje as a property custodian of KBPd			0,060%
		0,060%	to 50	
NLB Banka AD Skopje as a property custodian of SAVAd		0,048%	4 April 2019	
		0,180%		over 50
Komerijalna Banka AD Skopje as property custodian of TRIGLAVv		0,144%	1 April 2019	
		up to 50		
		0,050%		over 50 to 100
		0,041%		over 100 to 200
		0,038%		over 200 to 300
		0,035%		over 300 to 400
		0,033%		over 400 to 500
		0,028%		over 500 to 600
		0,026%		over 600 to 700
Sparkasse Banka AD Skopje as a property custodian of VFPd		0,025%	18 October 2022	
		over 700 to 800		
		0,023%		above 800 to 900
		0,020%		above 900 to 1000
		0,018%		above 1000
		0,017%		above 1000
		0,050%		to 50
		0,041%		over 50 to 100
		0,038%		over 100 to 200
Komerijalna Banka AD Skopje as property custodian of VFPv		0,035%	8 November 2023	
		0,033%		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		

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



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

In order to improve and specify or simplify certain procedures in 2023, amendments were made to the rules governing the areas of financial reporting, transfer of funds, agents and domestic legal entities for performing services with securities. At the same time, the type of information that the pension company submits to MAPAS is expanded, in order to provide more data on the operation of pension companies and pension funds, and enables submitting of the basic financial reports and additional reports for the pension company, mandatory and voluntary pension funds via electronic mail.

During 2023, the Council of Experts of MAPAS adopted ten regulations, i.e. amendments to the regulations, which refer to mandatory and/or voluntary fully funded pension insurance, namely:

1. Rulebook on the form and content of financial statements of a pension company (“Official Gazette of RNM” no. 71/2023);
2. Rulebook on the accounting plan, form and content of basic financial reports and additional reports for mandatory and voluntary pension funds (“Official Gazette of RNM” no. 71/2023);
3. Rulebook on the amending and supplementing the rules for the confirmation with the opinion of the authorized actuary (“Official Gazette of RNM” no. 71/2023);
4. Rulebook on the methodology for calculating the pension company’s own funds (“Official Gazette of the RNM” no. 71/2023);
5. Rulebook on the method and time of transfer of funds to voluntary pension funds (“Official Gazette of RNM” no. 101/2023);
6. Rulebook on compensation for mandatory pension funds (“Official Gazette of RNM” no. 101/2023);
7. Rulebook on the transfer of funds between mandatory pension funds (“Official Gazette of RNM” no. 101/2023);
8. Rulebook for amending the Rulebook on the manner and time of transfer of assets in voluntary pension funds (“Official Gazette of RNM” No. 166/2023);
9. Rulebook for amending the Rulebook for agents of pension companies (“Official Gazette of RNM” no. 268/2023) and
10. Rulebook for amending and supplementing the Rulebook for the selection procedure of domestic legal entities for performing services with securities (“Official Gazette of RNM” no. 268/2023).

The amendments to the rulebooks were done to clarify certain procedures. With the amendment of the Rulebook on the method of payment of contributions to a voluntary pension fund, it is possible to make a payment of a voluntary contribution through a transaction connected to the transaction account of the member, the payer or the insurer, which increases the possibilities for the payment of a voluntary contribution to the third pension pillar. The Rulebook on the rules and minimum standards for determining interest rates prescribes the rules and minimum standards for determining interest rates that the pension company uses in the calculation of the annuity factor for pensions from the second pillar and pension benefits from the third pillar through lifelong and temporary programmed withdrawals. The Rulebook on minimum standards for mortality tables regulates the rules and minimum standards for determining the mortality tables that the pension company uses when calculating the annuity factor for pensions from the second pillar and pension benefits from the third pillar through lifetime and temporary programmed withdrawals. With the amendment to the Rulebook on the procedure for the selection of domestic legal entities for the performance of services with securities, the criterion for the selection of the legal entity that performs services with securities, is that it should be in the first 10 domestic legal entities that perform services with securities according to the volume of trading, i.e., realized turnover of classical trading with securities for the last six months before the start of the selection procedure, according to the official statistics of the Macedonian Stock Exchange, and nomotechnical improvement of the text of the rulebook is being performed.

The amendments to the regulations were made in order to clarify certain procedures. The Rulebook on the form and content of the financial statements of a pension company and the Rulebook on the chart of accounts, the form and content of the basic financial statements and the additional reports for the mandatory and voluntary pension funds expand the type of information that a pension company submits to MAPAS, for the purpose of providing more data on the operation of pension companies and pension funds and enabling the delivery of basic financial reports and additional reports for the pension company, mandatory and voluntary pension funds via e-mail. Then, with the amendment of the Rulebook on the confirmation with the opinion of the authorized actuary, the delivery of the statistical data from the confirmation of the authorized actuary to the pension company via electronic mail is enabled. Also, the Rulebook on the methodology for calculating the pension company’s own funds expands the type of information that the pension company submits to MAPAS and enables the delivery of the Report on the pension company’s own funds via e-mail. The Rulebook on the manner and time of transfer of funds in voluntary pension funds and the Rulebook on the transfer of funds between mandatory pension funds facilitates and improves the procedure for the transfer of funds in voluntary and mandatory pension funds, while the Rulebook on compensation for mandatory pensions funds improves the procedure for changes in the fees charged by the companies.

With the amendment of the Rulebook for agents of pension companies, the documentation that the pension company submits to MAPAS is prescribed, as proof of fulfillment of the conditions for taking the agent exam, and the obligation to renew the registration of an agent every 12 months is abolished. The Rulebook for amending and supplementing the Rulebook for the selection of domestic legal entities for the performance of securities services specifies the procedure for issuing consent for the selection of domestic legal entities for the performance of securities services and prescribes the necessary documentation, the method of submitting the request and documentation to MAPAS and the deadline for MAPAS to make a decision.

Data on financial operation of the pension companies **4**

Revenues and expenditures of the pension companies for 2023 **4.1**

Financial result of the pension companies **4.2**

Capital, charter capital and own assets of pension companies **4.3**

Indicators **4.4**

4. Data on financial operation of the pension companies

Sava pension company a.d. Skopje and KB Prvo also achieved a positive financial result in 2023. The two pension companies ended 2023 with a net profit and achieved a total comprehensive profit, namely, Sava pension company a.d. Skopje in the amount of about 138 million MKD and KB Prvo in the amount of about 189 million MKD. TRIGLAV PENSION COMPANY AD Skopje recorded a negative financial result in the fifth year of its operation. The pension funds managed by this company have a relatively small number of members and the assets are of a smaller scale, which affects the lower amount of income on the one hand, and on the other hand there are significant costs for managing the company and the funds. VFP PENSION COMPANY AD SKOPJE also recorded a negative financial result in the second year of its operation. Such a result is usual and expected for the initial years of the operation of a pension company.

4.1 Revenues and expenditures of the pension companies for 2023

Pension companies prepare financial reports about their financial operations, in accordance with the Company Law, the Rulebook on the Form and Content of the Financial Reports of the Pension Company and the Rulebook on Bookkeeping and Applicable International Accounting Standards. The data, on the basis of which the analyses in this chapter are made, are from the unaudited annual financial reports of the three pension companies, as of 31.12.2023.

In order to perform the sole activity – management of 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 assets 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 four pension companies for 2023 are presented in Table 4.1

Table 4.1. Revenues of the pension companies for 2023

(in denars)

Basis	SAVA		KB First		TRIGLAV		VFP	
Revenues from the management of the mandatory pension fund								
Fee from contributions	111.191.976	30,51%	120.386.365	30,25%	23.224.653	41,28%	-	-
Fee from assets	198.851.718	54,56%	223.507.155	56,15%	25.721.475	45,71%	-	-
Fee from transfer	930	0,00%	0	0,00%	124.076	0,22%	-	-
Total revenues from the management of the mpf	310.044.624	85,07%	343.893.520	86,40%	49.070.204	87,21%	-	-
Revenues from the management of the voluntary pension fund								
Fee from contributions	5.031.630	1,38%	4.772.001	1,20%	94.904	0,17%	339.597	21,78%
Fee from assets	14.463.511	3,97%	14.506.129	3,64%	92.938	0,17%	347.716	22,30%
Fee from transfer	615	0,00%	0	0,00%	0	0,00%	2.463	0,16%
Total revenues from the management of the vpf	19.495.756	5,35%	19.278.130	4,84%	187.842	0,33%	689.776	44,23%
Financial revenues	33.538.009	9,20%	33.177.199	8,34%	5.894.152	10,48%	869.622	55,77%
Other revenues of the company	1.371.763	0,38%	1.673.787	0,42%	1.113.831	1,98%	0	0,00%
Total revenues	364.450.152	100,00%	398.022.636	100,00%	56.266.029	100,00%	1.559.398	100,00%

Table 4.2. Expenditures of the pension funds for 2023*

(in denars)

Basis	SAVA		KB First		TRIGLAV		VFP	
Expenditures for management of the mandatory pension fund								
Expenditures for company agents	5.296.211	2,41%	1.586.957	0,81%	14.460.189	17,48%	-	-
Marketing expenditures	23.455.212	10,69%	15.327.049	7,82%	4.732.938	5,72%	-	-
Transaction expenditures	89.094	0,04%	0	0,00%		0,00%	-	-
Expenditures for MAPAS	40.971.025	18,67%	44.360.103	22,62%	8.556.982	10,34%	-	-
Expenditures for property custodian	14.806.053	6,75%	17.663.973	9,01%	2.766.529	3,34%	-	-
Expenditures for the PDIFNM	5.562.053	2,54%	6.333.537	3,23%	1.153.743	1,39%	-	-
Other expenditures from the fund management	1.172.205	0,53%	1.137.228	0,58%	1.243.000	1,50%	-	-

Total expenditures for management of the mpf	91.351.853	41,64%	86.408.847	44,06%	32.913.381	39,78%	-	-
Expenditures for managing a voluntary pension fund								
Expenditures for company agents	5.560.438	2,53%	1.454.059	0,74%	31.854	0,04%	62.078	0,63%
Marketing expenditures	1.387.471	0,63%	1.091.032	0,56%	14.482	0,02%	53.100	0,54%
Transaction expenditures	63.030	0,03%	0	0,00%		0,00%		0,00%
Expenditures for MAPAS	1.538.454	0,70%	1.373.783	0,70%	23.568	0,03%	10.517	0,11%
Expenditures for property custodian	2.228.386	1,02%	967.567	0,49%	5.193	0,01%	3.051	0,03%
Other expenditures from the fund management	106.438	0,05%	409.002	0,21%	20.000	0,02%	80.000	0,81%
Total expenditures for management of the voluntary pension fund	10.884.217	4,96%	5.295.443	2,70%	95.097	0,11%	208.746	2,12%
Expenditures for management of the pension company								
Salaries and compensations for the employees	70.021.835	31,91%	52.287.290	26,66%	27.853.888	33,67%	4.664.183	47,34%
Expenditures for services	16.179.354	7,37%	12.167.118	6,20%	13.295.631	16,07%	2.211.851	22,45%
Expenditures for raw materials and other materials	2.858.101	1,30%	1.829.406	0,93%	911.846	1,10%	24.332	0,25%
Depreciation	2.416.872	1,10%	4.651.258	2,37%	3.412.658	4,13%	1.325.637	13,46%
Financial expenditures	3.996.763	1,82%	12.185.914	6,21%	388	0,00%	296.707	3,01%
Other operating expenditures	21.384.106	9,75%	21.297.916	10,86%	5.425.392	6,56%	1.120.842	11,38%
Reservations for expenditures and risks	311.607	0,14%	0	0,00%	-1.177.337	-1,42%	0	0,00%
Total expenditures from management of the company	117.168.638	53,40%	104.418.902	53,24%	49.722.466	60,10%	9.643.552	97,88%
Total costs	219.404.708	100,00%	196.123.192	100,00%	82.730.944	100,00%	9.852.298	100,00%

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

In order to perform the sole unique activity, pension companies have costs, generally, for managing the assets of the pension funds, for the assessment of the assets, membership, keeping accounts of the members and for the notification of the members as well as for the payment of fees for MAPAS, for the Fund of PDIFNM for the custodian of property and for covering costs related to the operation of pension companies. The costs of pension companies are divided into three groups: costs of managing the mandatory pension fund, costs of managing the voluntary pension fund and costs of managing the company. The costs of the four pension companies, in 2023, are shown in table 4.2.

Within the revenue side, in both SAVA and KB First there is an increase in the total revenues in 2023 compared to 2022, by about 15% in SAVA and 12% in KB First. Thereby, most of the revenues of SAVA and KB First, in 2023, are obtained from fees from assets of the mandatory and voluntary pension funds (approximately 59% in SAVA and 60% in KB First), followed by fees from contributions in mandatory and voluntary pension funds (about 32% in SAVA and 31% in KB First). Compared to the previous year, the percentage share of the income from fees from contributions, in the total revenues, for both pension companies decreased by about one percentage point. The percentage share of the revenues from fee from assets decreased by about one percentage point in SAVA and it remained at about same percentage point in KB First. Compared to 2022, the percentage share of financial revenues in SAVA increased by approximately two percentage point, while at KB First it increased by about one percentage point. The percentage share of the other revenues of the companies is the lowest (less than 1%) in both pension companies.

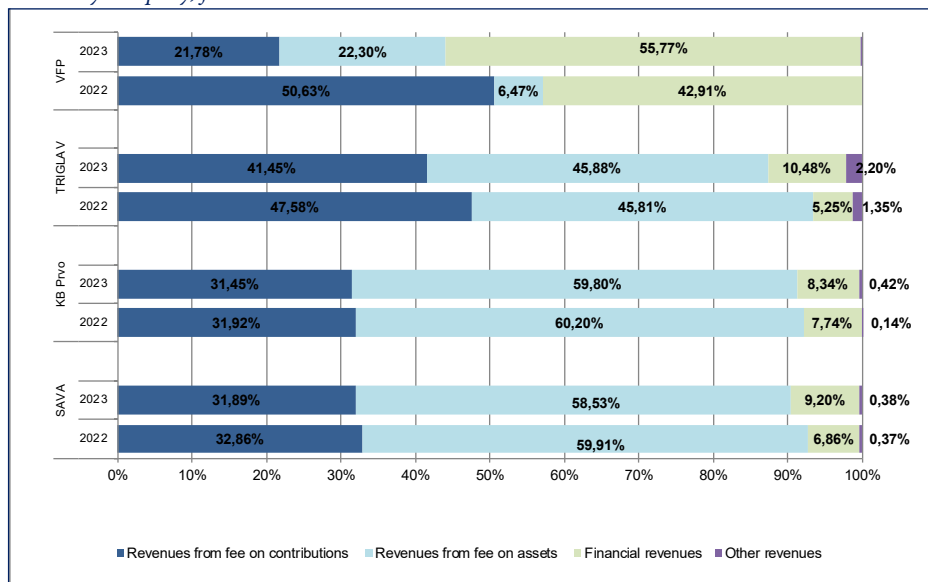
Within the expenditure side in 2023, compared to 2022, in both SAVA and at KB First there is an increase in the total expenditures by about 17% in SAVA and about 7% in KB First. Thereby, in SAVA, most of the expenditures, i.e., approximately 53% of the expenditures are related to the operation of the company, the largest part of which includes expenditures for salaries and allowances for employees, followed by the remaining operating expenditures and expenditures for services. At KB First in 2023, the expenditures related to the operation of the company amounted to about 53%. Again, most of these expenditures refer to expenditures in salaries and benefits for employees, then to financial expenditures, other operating costs and service costs. The remaining 47% of the expenditures of both SAVA and KB First refer to the pension fund management costs. At the same time, the expenditures for marketing and agents amount to about 16% of the total costs at SAVA and about 10% of the total expenditures at KB First, which compared to the previous year show that they have increased by one percentage point both in SAVA and in KB First. About 30% of the expenditures of SAVA and 36% of KB First refer to fees for MAPAS, the PDIFNM and property custodians.

TRIGLAV started activities of pension fund management and marketing of the mandatory and voluntary pension fund and public opinion survey from 01.04.2019. Triglav Open Voluntary Pension Fund - Skopje started operating on 1 March 2021. There is a difference in the amounts and distributions on the basis of revenues and costs in regards to SAVA and KB First, which have been operating for eighteen years. In TRIGLAV, the revenues from the fee from contributions have the largest share on the revenue side, i.e., around 46% of the total revenues. The share of income from compensation from assets in 2023 has increased and amounts

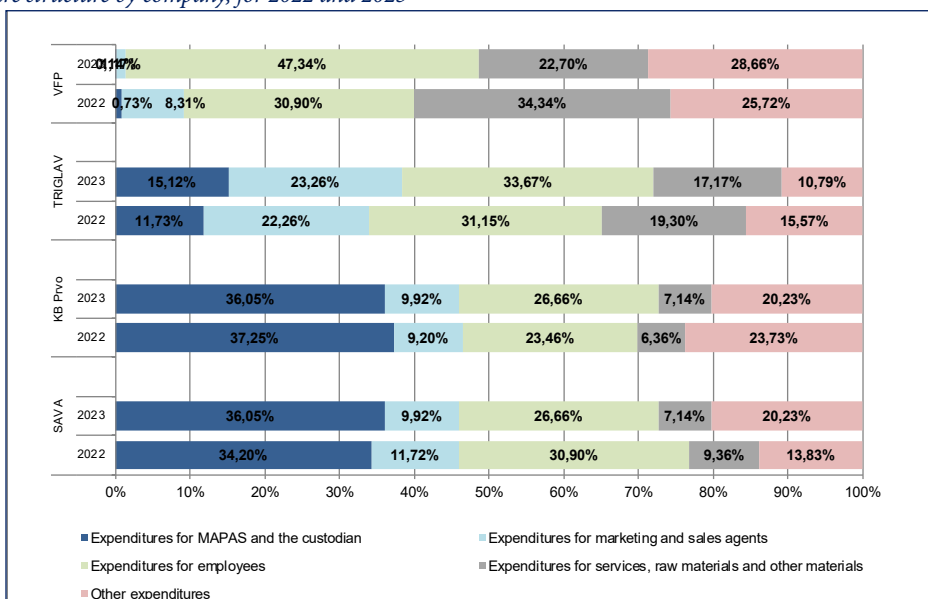
to 41%. Then, the financial revenues have a share of around 10% in TRIGLAV's total revenues, while the lowest is the percentage share of the other revenues (around 2%). In terms of expenditures, most of the costs, i.e., around 60% of the expenditures refer to the operation of the company, where the expenditures of salaries and allowances for employees have the largest share, followed by service costs and other operating costs. The expenditures for managing the pension funds are around 40%. The expenditures for marketing and agents are around 23% of the total costs. Around 15% of the expenditures refer to the fees for MAPAS, the PDIFNM and property custodians and around 11% are the remaining costs from the pension fund management.

VFP started activities of pension fund management, voluntary pension fund marketing and public opinion survey from 01.08.2023. VFP manages only a voluntary pension fund and the revenues and expenditures of VFP refer only to the operation of a voluntary pension fund. VFP Open Voluntary Pension Fund - Skopje started operating on 18.10.2022 when the first voluntary contribution payment was made. The significant difference in amounts and distributions based on revenues and expenditures compared to other pension companies that also manage a mandatory pension fund is evident. In VFP on the revenues side, the largest share is the revenues from the compensation from contributions, that is, about 56% of the total revenues. The revenues from compensation from assets has a significantly smaller share of about 22%. In terms of expenditures, most of the them, that is, about 98% of the expenditures refer to the operation of the company, in which the largest amounts include expenditures for services, followed by expenditures for salaries and benefits for employees and other operating expenditures. The expenditures of managing the voluntary pension fund amount to about 2%. At the same time, the costs of marketing and agents amount to about 1% of the total expenditures. The share of costs related to fees for MAPAS and property custodians is less than 1%.

Graph 4.1. Revenue structure by company, for 2022 and 2023



Graph 4.2. Expenditure structure by company, for 2022 and 2023



4.2 Financial result of the pension companies

SAVA and KB First achieved a positive financial result in 2023 as well. Both pension companies ended 2023 with a net profit (profit after tax). KB First achieved a higher net profit than SAVA, which is mostly due to the fact that KB First achieved higher revenues, and at the same time has less expenses than SAVA, for 2023. In 2023, SAVA recorded a higher net profit compared to 2022, by 12%, while KB First recorded a higher net profit by 22%. Also, the two pension companies made a total comprehensive profit, SAVA in the amount of about 138 million denars and KB First in the amount of about 189 million denars. The accumulated profit (until 31.12.2023) of SAVA is approximately 486 million denars and of KB First it is approximately 476 million denars. TRIGLAV recorded a negative financial result in the fifth year of its operation. The mandatory pension fund managed by TRIGLAV still has a relatively small number of members and the assets are of a smaller scale, which affects the lower amount of income on the one hand, and on the other hand there are significant expenditures due to the maintenance of the company's infrastructure and employees, costs for marketing, as well as ongoing expenditures for managing the fund. Moreover, the voluntary pension fund managed by TRIGLAV has been operating for less than three years and has a relatively small number of members and a small amount of assets. VFP also recorded a negative financial result in the second year of its operation. Such a result is usual and expected for the initial years of the operation of a pension company. VFP manages only a voluntary pension fund that started working in October 2022 and it has a small number of members and the assets are of a smaller scale, which affects the smaller amount of income on the one hand, and on the other hand there are significant expenditures due to the establishment of the system, the infrastructure of the company and the employees, marketing costs, as well as current costs for managing the fund. More detailed data on the financial results of the pension companies are presented in Table 4.3.

Table 4.3. Financial result of the pension companies for 2023

(in denars)

Description*	SAVA	KB First	TRIGLAV	VFP
Profit / Loss (for 2023)	145.045.444	201.899.444	-26.464.915	-8.793.907
Profit / Loss after tax (for 2023)	135.301.683	188.790.529	-26.464.915	-8.793.907
Extraordinary expenses	0	0	0	0
Net profit (for 2023)	135.301.683	188.790.529	-26.464.915	-8.793.907
Other comprehensive profit**	3.103.758			
Total comprehensive profit ***	138.405.441	188.790.529	-26.464.915	-8.793.907
Accumulated profit / Transferred loss (until 31.12.2023)	485.747.124	475.744.354	-130.329.698	-13.141.636

*The data on other comprehensive profit and total comprehensive profit are from the audited financial statements of the pension companies for 2023.

**The data on other comprehensive profit includes unrealized profits or losses, which are not shown in the balance sheet.

***The data on total comprehensive profit include the net profit and the other comprehensive profit.

4.3 Capital, charter capital and own assets of pension companies

A very important factor for the system and the members is for the pension companies to be strong and stable institutions and to have an adequate charter capital. Three pension companies manage mandatory and voluntary pension funds and should have a charter capital of at least 1.8 million euros, in denar countervalue, according to the average exchange rate of the National Bank of the Republic of North Macedonia, while one pension company manages only a voluntary pension fund and it should have a charter capital of at least 0.5 million euros, in denar countervalue, according to the average exchange rate of the National Bank of the Republic of North Macedonia. In an event of an 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 charter capital of the pension company is paid only in monetary assets. In order to increase the financial strength of pension companies, it is not allowed for the charter capital to originate from loans and credits and it cannot be encumbered in any way. The charter capital of the company must originate from legal sources and it must be taxed in accordance with the regulations of the Republic of North Macedonia 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 capital, however not less than one half of the amount of the charter capital. The company is obliged, at all times, to maintain its own assets, in an amount not less than half of the amount of the charter capital.

Table 4.4. Capital, charter capital and own funds of the pension companies

(in denars)

Description	SAVA	KB First	TRIGLAV	VFP
Capital and reserves	760.295.104	817.529.255	234.066.407	22.318.039
Charter capital	130.001.478	110.459.024	390.861.020***	35.459.675****
Excess capital over a legally established minimum	23,63%	32,94%	35,94%	44,70%
Own funds*	706.840.824	739.577.385	220.621.573	18.871.054
Excess own funds over the legal minimum**	129,87%	140,53%	156,26%	22,35%

*The 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 April 2023, is obliged to maintain increased capital in relation to the charter capital, i.e., capital in the amount of 10 million euros in denar 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 900 million euros.

KB First, from November 2021, is obliged to maintain an increased capital in relation to the charter capital, i.e., capital in the amount of 10 million euros in denar 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 900 million euros.

***In July 2023, TRIGLAV increased the share capital for an amount of 1.000.000 euros by issuing ordinary shares with voting rights from the second issue by means of a private offer, with which the charter capital amounts to 6.356.000 euros. The increase of the charter capital of the company is for the purpose of maintaining the necessary amount of capital in accordance with the law.

****In September 2023, VFP increased the share capital by 75,000 euros by issuing ordinary shares with voting rights from the second issue by means of a private offer, with which the share capital amounts to 575,000 euros. The increase of the basic capital of the company is for the purpose of maintaining the required amount of capital in accordance with the law.

4.4 Indicators

When analyzing the financial data of the pension companies, the movement of specific indicators per member and the efficiency coefficient are both important. Table 4.5 shows the most important indicators per member and the efficiency ratio of the four pension companies for 2023.

Compared to 2022, the average income per member increased by 13% at SAVA, 10% at KB First, 36% at TRIGLAV and 49% at VFP. Then, compared to 2022, the average expenses per member increased by 15% at SAVA and 5% at KB First, while at TRIGLAV they decreased by 12% and in VFP a decrease of 51%. At the same time, at SAVA there is an increase in profit per member compared to 2022 in the amount of about 10%, and at KB First there is also an increase of about 15%. It is also noted that the efficiency coefficient at SAVA shows a slight increase, while at KB First a decrease compared to 2022. In 2023, TRIGLAV records a reduction in loss per member of about 50% compared to 2022, but the efficiency ratio still shows a high representation of total costs in relation to total revenues. Also VFP records a decrease in loss per member in 2023 of about 57%, and also the efficiency ratio still shows a high representation of total costs in relation to total revenues.

Graph 4.3 and Table 4.6 show the movement of the profitability indicators ROA – return on assets (net profit/total assets) and ROE – return on equity (net profit/capital), compared for SAVA and KB First, for the period from 2006 to 2023, for TRIGLAV for the period from 2019 to 2023 and for VFP for 2022 and 2023. It can be noticed that, in 2023, compared to 2022, the rate of return on assets recorded a very small increase at SAVA and KB First. Also, the capital return rate in 2023 compared to 2022 at SAVA and KB First shows an increase. The ROA and ROE ratios for TRIGLAV have increased but are still negative, while for VFP they have decreased and are negative.

Table 4.5. Indicators

(in denars)

Description	SAVA	KB First	TRIGLAV	VFP
Revenue and expenditure indicators per member				
Average revenues per member	1.337,41	1.349,57	992,98	3.643,45
Average expenditures per member	805,14	664,99	1.460,03	24.189,96
Profit/loss per member	532,27	684,58	-467,05	-20.546,51
Efficiency indicators				
Efficiency coefficient (total expenditures / total revenues)	60,20%	49,27%	147,04%	663,93%

Graph 4.3. ROA and ROE by company and by year

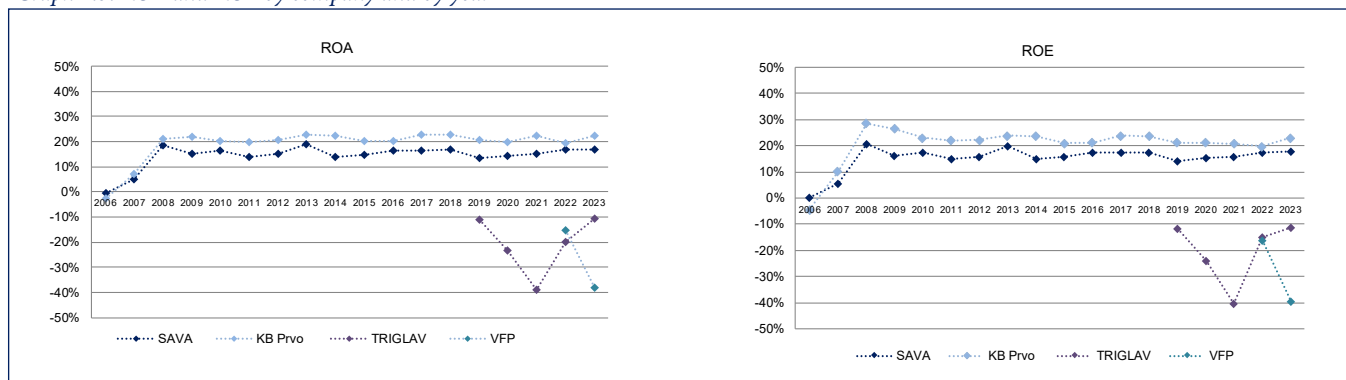


Table 4.6. Profitability indicators

Pension company	SAVA		KB First		TRIGLAV		VFP	
Year / Description	ROA	ROE	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%		
2021	15,38%	15,96%	22,46%	20,82%	-38,77%	-40,54%		
2022	16,84%	17,44%	19,23%	19,78%	-19,81%	-20,41%	-15,07%	-16,41%
2023	16,97%	17,80%	22,41%	23,09%	-10,81%	-11,31%	-38,27%	-39,40%

5 Information on mandatory pension funds

- 5.1 Membership in mandatory pension funds
- 5.2 Data on membership in mandatory pension funds
- 5.3 Transfer of a member from one mandatory pension fund to another
- 5.4 Contributions in mandatory pension funds
- 5.5 Investment and portfolio structure of the mandatory pension funds
- 5.6 Net assets, accounting unit and rate of return of the mandatory pension funds
- 5.7 Fees in mandatory pension funds
- 5.8 Payment of pensions from mandatory fully funded pension insurance

Information on mandatory pension funds

The total number of members and temporarily allocated insured persons in the second pillar in 2023 grew by about 3.66% and as of 2023 amounted to 593.023. The movement in the trend of member transitions from one mandatory pension fund to another mandatory pension fund that was stimulated by the start of operation of the third mandatory pension fund in 2019 continued in 2023, with 2.20% of the total number of members transferring from one to another mandatory pension fund.

During 2023, contributions in the amount of about 13.43 billion MKD were transferred to the mandatory pension funds. In addition to the contributions, the PIOSM (Pension and Disability Insurance Fund of North Macedonia) also transferred a total of about 9.23 million MKD as compensation for late transfer of contributions to members for whom it did not transfer the contributions to the accounts of the selected mandatory pension funds within three months from the day of receipt of the contributions.

During 2023, the total assets of the mandatory pension funds recorded a growth of 19.08% and reached 135.21 billion MKD, which represents about 16.08% of the GDP of RNM. Although the structure of investments of pension funds in 2023 does not differ much compared to 2022, a slight increase in the share of investments abroad is observed, which is mostly due to the increase in the share of investment funds. The investment portfolio of the mandatory pension funds in 2023 consists of domestic investments that include government securities (63.97%), deposits (2.70%), shares (1.97%), shares in investment funds (0, 19%) and corporate bonds (0.02%), as well as investments abroad which include investments in foreign government bonds (0.64%), short-term securities (0.21%), corporate bonds (0.18%), shares of investment funds (25.93%) and shares (3.40%).

In 2023, the values of the accounting units of the three mandatory pension funds recorded growth again after the deviation from the growth trend in 2022 (8.11% of SAVAZ, 7.27% of KBPz and 6.95% of TRIGLAVz). Although in 2023 there was a small increase in the return in nominal amount in the seven-year period 2017 - 2023 of the mandatory pension funds, however, the increase in the change in the level of the cost of living, reduced to an annual level, still significantly affects the return amounts regarding the actual amount in 2023. At the level of the second pillar, in the seven-year period 2017 - 2023, an average return, reduced to an annual level of 4.63% in nominal amount, i.e. 0.05% in real amount, was achieved, calculated through the change of the weighted average of the accounting units of the mandatory pension funds.

In 2023, pensions and payments were made for 421 members of the second pillar.

5.1 Membership in mandatory pension funds

An insured person can become a member in a mandatory pension fund in two ways:

1) by signing an agreement for membership in a mandatory pension fund and by registering in the Register of Members kept by MAPAS;

2) by random distribution in a mandatory pension fund, by the PDIFNM, in case when 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 kept by MAPAS.

The amendments to the Law on Mandatory Fully Funded Pension Insurance ("Official Gazette of the Republic of Macedonia" no. 245/2018 dated 28.12.2018 and no. 180/2019 dated 02.09.2019) stipulate several essential changes regarding the accession to mandatory fully funded pension insurance which are valid as of 01.01.2019.

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

- Mandatory members

- o insureds who were 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;

- o insureds who were employed, i.e., joined the mandatory pension and disability insurance, for the first time after January 1, 2019 and who are younger than 40 years of age on the date of joining.

- Voluntary members

- o insureds who were employed for the first time, before January 1, 2003, who by their own choice by concluding a membership agreement joined the mandatory fully funded pension insurance, and were born after January 1, 1967;

- o insureds who were employed for the first time, before January 1, 2003, who by their own choice joined a mandatory fully funded pension insurance by concluding a membership agreement, and who were born before January 1, 1967 and signed a statement for extension of membership in a mandatory fully funded pension insurance.

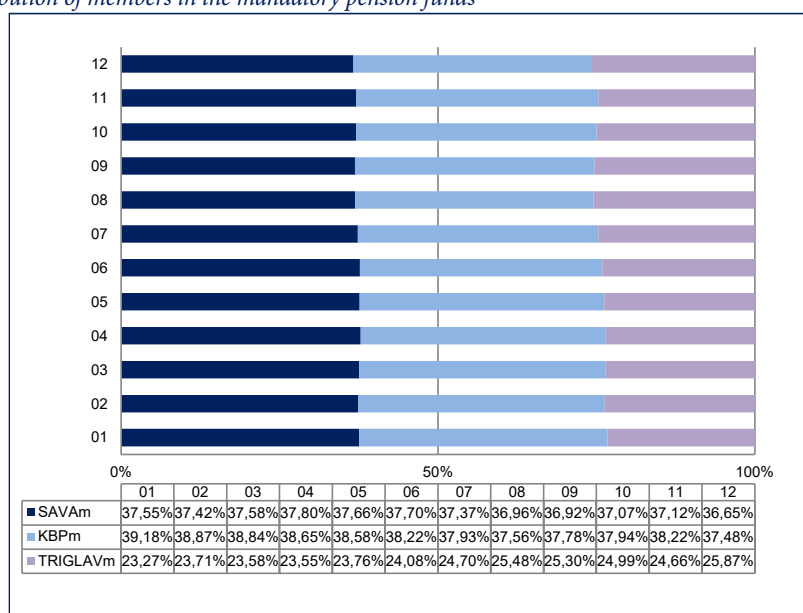
Insureds whose insurance length of service is considered with increased duration and insureds who belong to Chapter VII – “Acquisition and realization of the rights of specific categories of insureds under special conditions of the Law on Pension and Disability Insurance” (employees with beneficial length of service at the Ministry of Interior, penitentiary-correctional facilities, the Army of the Republic of Macedonia, etc.) are not included in the second pillar, if they have completed insurance length of service with increased duration which enables reduction of the age limit for exercising the right to old age pension for at least one year. When insureds who are members of a mandatory pension fund complete an insurance length of 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, they 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 length of service. If these members do not give a written statement, their membership in a mandatory pension fund ends after the expiry of this term.

5.2 Data on membership in mandatory pension funds

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

The weight, according to which the temporary distribution of the insureds in mandatory pension funds is performed 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 collected by the pension company and the return in nominal amount realized by the pension fund, whereby the return (70%) has greater impact compared to the contribution fee (30%)³. The weights used for the distribution of the insureds in the mandatory pension funds in 2022 are presented in Graph 5.1.

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



As of April 2019, insured persons are distributed into three mandatory pension funds because on 01.4.2019 the mandatory pension fund TRIGLAVm started operating. In May 2022, the period of support for the operation of a new mandatory pension fund in relation to the distribution of insured persons in accordance with the provisions defined in the regulation has passed.

Taking into account the fact that, in 2023, the three pension companies charged compensation from contributions in the same amount, the amounts of the weighting were mostly influenced by the amounts of the realized returns of the mandatory pension funds. In 2023, the weight of TRIGLAVm is lower compared to SAVAm and KBPm because the rate of return of TRIGLAVm during this period (prescribed in the regulation) was lower. Also, during the entire year 2023, the value of the weighting of KBPm is slightly higher (on average by one percentage point) in relation to the value of the weighting of SAVAm.

³The formula for calculating the weight is prescribed in the Rulebook on membership in a mandatory pension fund.

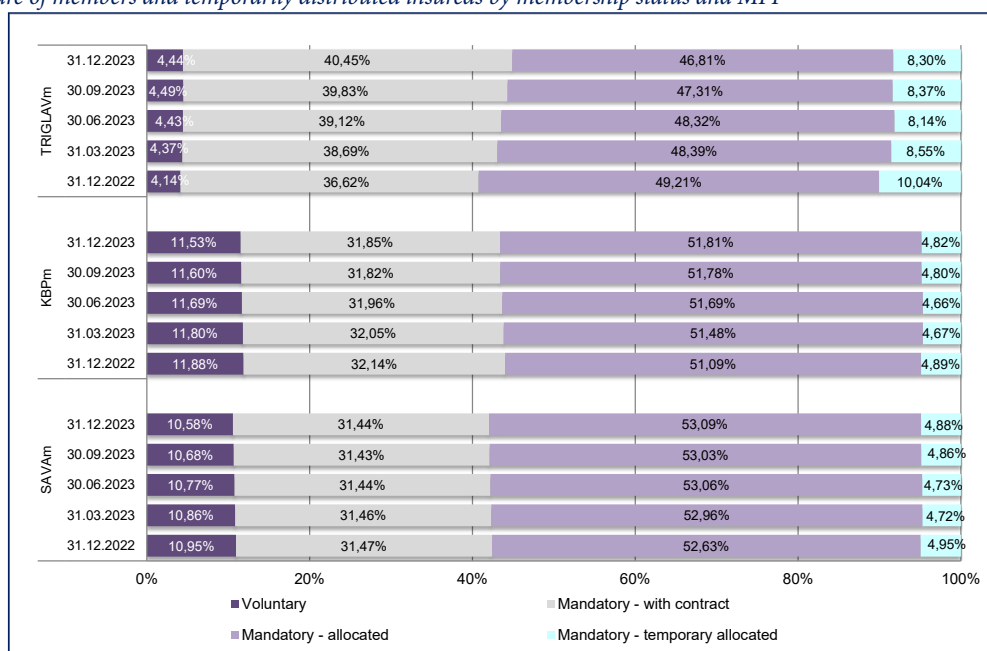
The total number of members and temporarily distributed insureds in the mandatory pension funds, until December 31, 2023, is 593.023, which means an increase in the number of members of the second pillar by 20.929, or about 3.66%, compared to 2022. The growth of the membership in 2023 compared to 2022 retains approximately the same level as the previous year.

In regard to the distribution of membership by mandatory pension funds, it is expected that in 2023 the largest number of insureds are members of SAVAm and KBPm. Hence, of the total number of members and temporarily distributed insureds under the mandatory pension funds, until 31.12.2023, 46,87% are in KBPm, 43,61% are in SAVAm and 9,52% are in TRIGLAVm. Compared to 2022, there is an observable lower percentage share of membership in both SAVAm and KBPm (by about one percentage point), i.e., higher percentage share of membership in TRIGLAVm (by about two percentage points).

Of the total number of members of the second pillar, 61.909 or 10% are voluntary members, whereas 531.114 or 90% are mandatory members. Out of the total number of mandatory members, 192.675 members signed a membership agreement, 307.733 did not sign an agreement and are permanently assigned and 30.706 insured persons are temporarily assigned. In 2023, there is an observable increase in the number of new insured persons who signed membership agreements compared to last year. Namely, it can be noticed that in 2023 about 16% of the insured persons who are obliged to join a mandatory pension fund in 2023 and for whom the deadline for selection of a mandatory pension fund has expired, signed a membership agreement, while the remaining ones, approximately 84%, did not sign a contract and remained in the fund where they were previously distributed.

In the structure of members and temporarily distributed insureds by membership status, in 2023, for SAVAm and KBPm, no unexpected and significant changes occurred. The structure of members and temporarily distributed insureds by membership status, in 2023, is similar in both SAVAm and KBPm. Thereby, it can be noticed that in each quarter, the percentage participation of voluntary members decreases, while the participation of mandatory members increases, which is expected, because every year the influx of mandatory members increases. In addition, it can also be noticed that the percentage share of mandatory members who have signed a membership agreement gradually decreases from quarter to quarter, as opposed to the share of mandatory members who are permanently distributed, which gradually increases from quarter to quarter. After working for more than four years, the structure of members and temporarily distributed insureds by membership status of TRIGLAVm is gradually approaching the structure of SAVAm and KBPm. However, the participation of voluntary members at TRIGLAVm is lower compared to the participation of voluntary members at SAVAm and KBPm, while the participation of temporarily distributed insureds at TRIGLAVm is higher compared to the participation of temporarily distributed insureds at SAVAm and KBPm. Voluntary members in TRIGLAVm are insureds who have signed contracts for transition from SAVAm or KBPm to TRIGLAVm. The structure of members and temporarily distributed insureds by mandatory pension funds and by membership status in 2023 is presented on a quarterly level, on Graph 5.2.

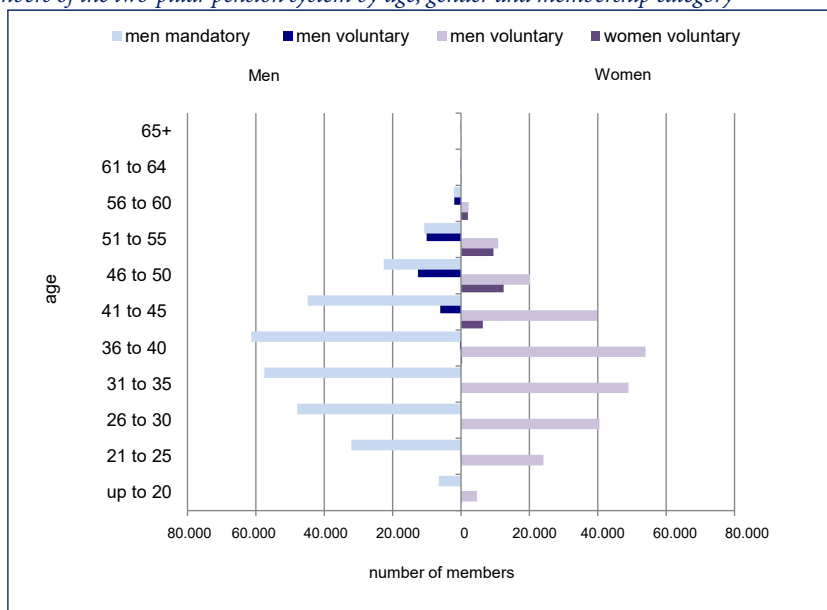
Graph 5.2. Structure of members and temporarily distributed insureds by membership status and MPF



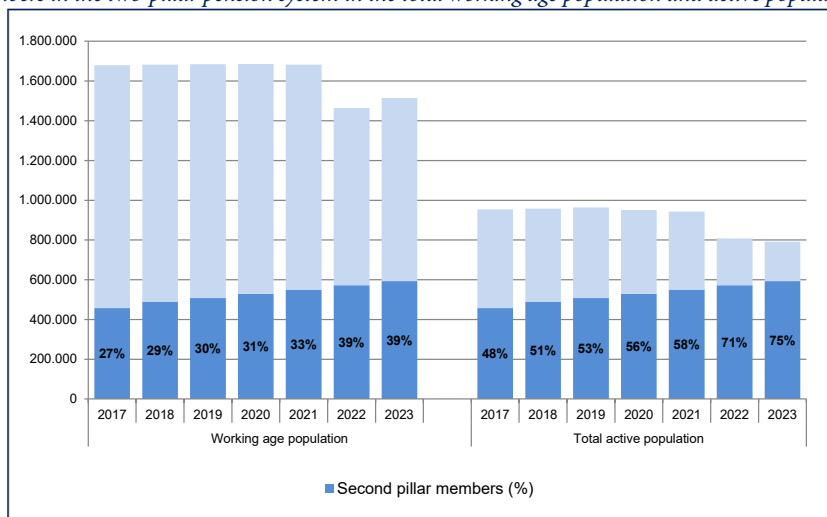
The analysis of the structure of members by age shows that most of the members are young people. Mandatory members are young people, whereby 71% of the mandatory members are up to 40 years of age, while voluntary members are slightly older and 62% of them are up to 50 years of age. The average age of the mandatory members is 35 for men and 36 for women, and for the voluntary members it is 48 years (for both men and women), and for all members, in total, it is 37 years. The structure of the members of the two-pillar pension system by age, gender and category of membership is shown in Graph 5.3.

According to SSO data, at the end of 2023, the total number of working age population⁴ in the Republic of North Macedonia is 1.515.107, while the total active population⁵ 791.647. As of the end of 2023, approximately 39% of the total working age population of the Republic of North Macedonia are members of the two-pillar system, i.e. approximately 75% of the total active population in the Republic of North Macedonia are members of the two-pillar pension system. The increase in the participation of members in the two-pillar pension system, in the total working age population and active population in the Republic of North Macedonia, in the period from 2017 to 2025, is presented in Graph 5.4.

Graph 5.3. Structure of members of the two-pillar pension system by age, gender and membership category



Graph 5.4. Structure of members in the two-pillar pension system in the total working age population and active population, by year, 2017-2023



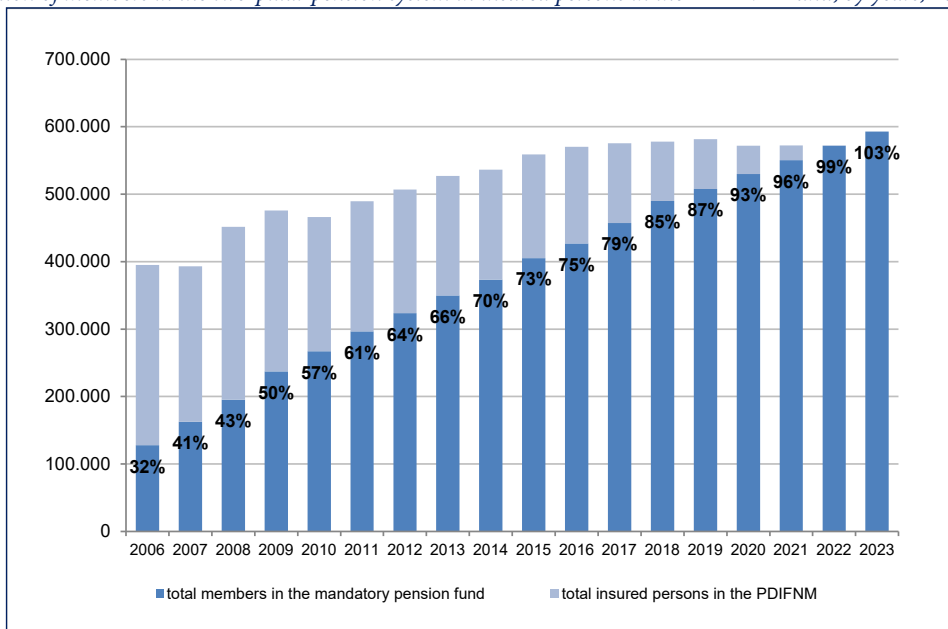
Source: MAPAS and SSO - Active Population in the Republic of North Macedonia, Results of the Labor Force Survey, 2023.

⁴Working population - consists of all persons from 15 to 79 years of age.

⁵Economically active population - consists of employed and unemployed persons.

According to the data of the PDIFNM regarding the number of insureds until 31.12.2023, the total number of members⁶ in the mandatory pension funds is greater than the total number of insured persons in the PDIFNM. In Graph 5.5. one can see the increase of the participation of the members in the two-pillar pension system in the total number of insureds in the PDIFNM from the beginning of the operation of the second pillar.

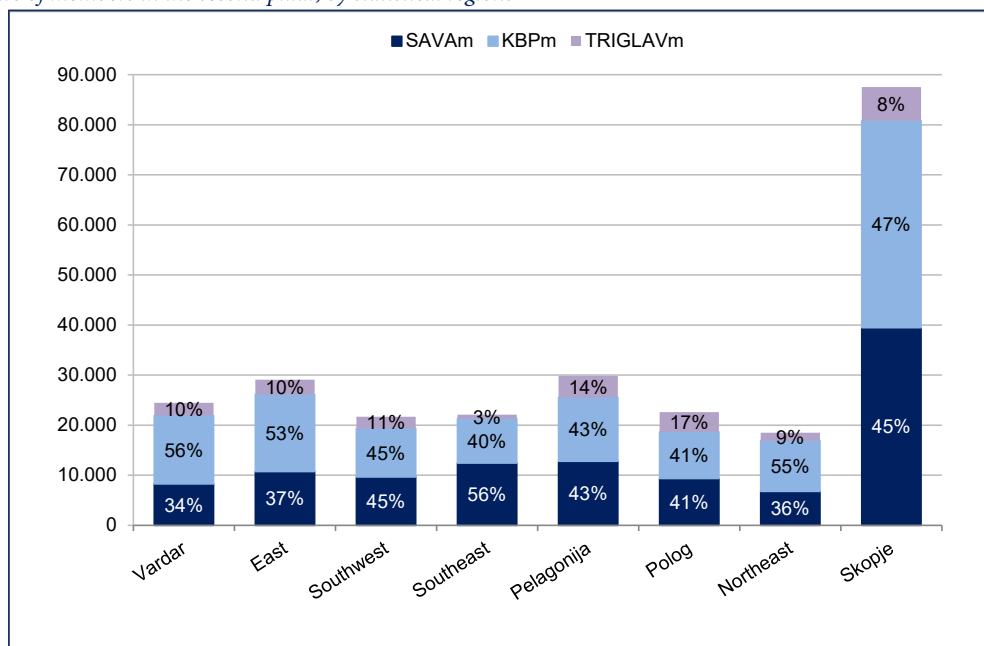
Graph 5.5. Participation of members in the two-pillar pension system in insured persons in the PDIFNM Fund, by years, 2006-2023



Source: MAPAS and PDIFNM

The structure of members in the mandatory pension funds, by statistical regions⁷ in the Republic of North Macedonia, is presented in graph 5.6⁸. The Skopje region has the most members in all three mandatory pension funds. SAVAm has the fewest members from the Northeast region, KBPm and TRIGLAVm have the fewest members from the Southeast.

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



⁶According to the law, the cessation of contribution payment does not affect the status of membership in a mandatory pension fund. About 73% of the total number of insured persons in the PIOSM Fund are members of the two-pillar pension system who had at least one payment to a mandatory pension fund in 2023.

⁷The statistical regions are defined according to SSO - territorial units. The nomenclature of the territorial units is based on the territorial organization of the local self-government in the RNM and it is harmonized with the EU classification.

⁸MAPAS does not have data for a statistical region for all members of mandatory pension funds because the majority of members have not signed a membership agreement and are permanently allocated.

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

Every member of a mandatory pension fund has the right to transfer from one to another mandatory pension fund. If the person has been a member of the mandatory pension fund for less than 24 months, in case of 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. During the transfer, the total funds from the member's account are also transferred.

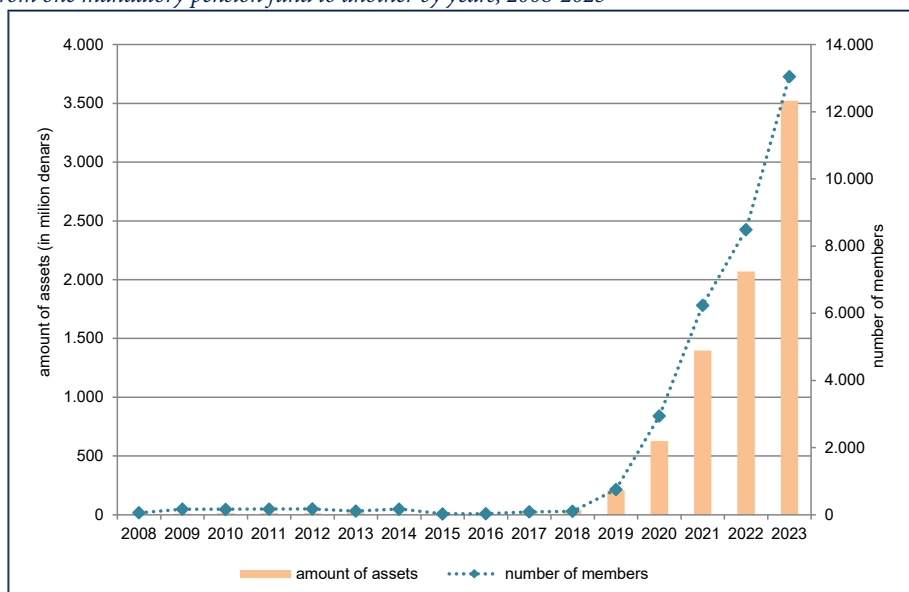
Table 5.1. contains data on the number of members who transferred from one mandatory pension fund to another and on the amount of transferred funds from one mandatory pension fund to another, on that basis, in the course of 2023.

Table 5.1. Transfers of members from one mandatory pension fund to another

2023		MPF to which members have transferred, i.e., in which funds have been transferred			Total
		SAVAz	KBPz	TRIGLAVz	
Members who transferred from a MPF	SAVAz	-	882	4.288	5.170
	KBPz	808	-	5.131	5.939
	TRIGLAVz	440	1.499	-	1.939
	Total	1.248	2.381	9.419	13.048
Assets that have been transferred from a MPF (in denars)	SAVA	-	297.173.956	1.041.557.462	1.338.731.418
	KBPz	267.197.800	-	1.293.410.539	1.560.608.339
	TRIGLAVz	184.754.877	437.431.174	-	622.186.051
	Total	451.952.677	734.605.130	2.334.968.001	3.521.525.808

The movement in the trend of transfers of members from one mandatory pension fund to another, which was encouraged by the commencement of the operation of the third mandatory pension fund in 2019, continued in 2023. In 2023, the total number of members in the mandatory pension funds, who transferred from one mandatory pension fund to another, is 13.048, which is 2,20% 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, in 2023, the number of members who made a change in the mandatory pension fund is significantly higher compared to 2022. At the same time, the largest part or 72% of the members who chose to transfer to another mandatory pension fund transferred to TRIGLAVm, then 18% transferred to KBPm and 10% transferred to SAVAm. In terms of assets, the largest part or 66% of the assets of the members who chose to transfer to another mandatory pension fund were transferred to TRIGLAVm, 21% were transferred to KBPm and 13% of the assets were transferred to SAVAm. Chart 5.7. gives an overview of all transitions of members from one to another mandatory pension fund and total assets transferred from one to another mandatory pension fund from 2008 to 2023.

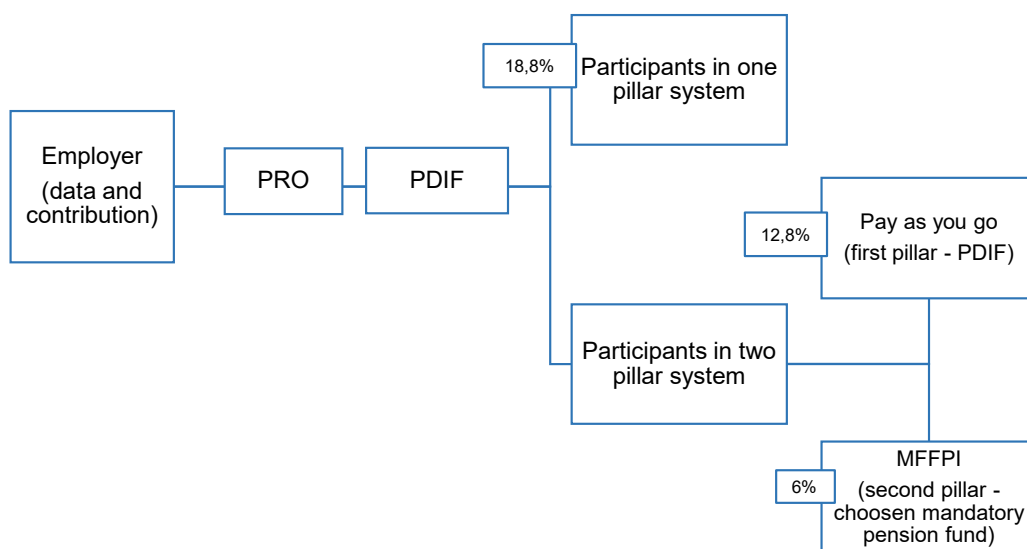
Graph 5.7. Transfers from one mandatory pension fund to another by years, 2008-2023



5.4 Contributions in mandatory pension funds

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

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



For the insureds who participate in a one-pillar system, the total paid contribution remains in the PDIFNM (for 2023, it was 18.8% of the gross salary). For the insureds 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 a mandatory pension fund, is 6% of the gross salary, and the contribution that remains in the PDIFNM is the amount that was received as the difference between the total contribution for pension and disability insurance and the contribution paid to the mandatory pension fund (for 2023, it was 12.8% of the gross salary (12.8% = 18.8% - 6%).

Immediately, and not 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 the law were received within the same deadline, 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 not later than five working days from the day of receiving the contributions due to lack of appropriate data, the PDIFNM is obliged within a period not longer than three months from the day of receipt of the contributions to provide appropriate data and to transfer the contributions of the members of the mandatory pension funds to the accounts of the selected mandatory pension funds with the property custodian. Then, the PDIFNM submits data to the companies and MAPAS related to the performed transfer of contributions.

In 2023, contributions in the amount of approximately 13,41 billion denars were transferred to the mandatory pension funds, which is approximately 1.59% of the GDP⁹ of the Republic of North Macedonia. The total paid contributions in the mandatory pension funds in 2023 increased by 20,39% compared to the total paid contributions in 2022. The detailed paid contributions by months (in millions of denars) are presented in Table 5.2.

Table 5.2. Paid contributions in the second pillar

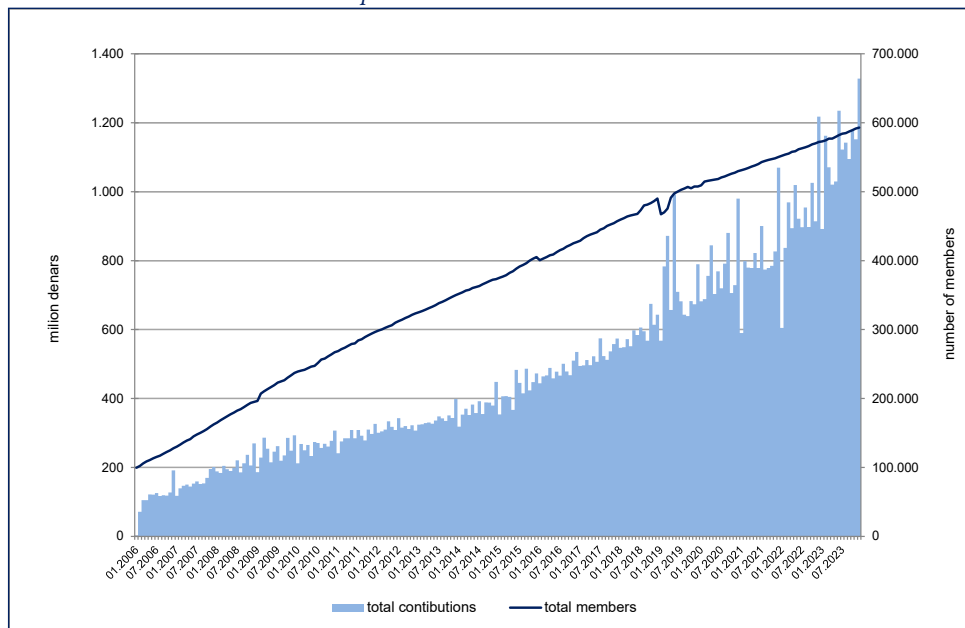
	Total 2022	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.	Nov.	(in million denars) Dec. 2023	Total 2023
SAVAz	5.002	392	514	471	448	451	542	469	508	474	512	493	575	5.850
KBPz	5.396	427	554	508	484	486	583	531	524	515	551	545	624	6.334
TRIGLAVz	754	72	94	91	89	93	110	101	110	105	114	114	129	1.222
Total	11.153	892	1.162	1.071	1.021	1.030	1.235	1.101	1.143	1.095	1.177	1.152	1.328	13.405

⁹Source for GDP: SSO - Announcement - gross domestic product, fourth quarter of 2023 - estimated data.

Graph 5.9. shows the total contributions (in millions of denars), paid in the second pillar, each month, from the commencement of the operation of mandatory fully funded pension insurance until 31.12.2023 and the total number of members, at the end of each month, in the same period.

It can be noticed that, in general, with the increase in the number of members, the paid contributions in the mandatory pension funds increase (although the trend of payments is not completely linear, however there are certain declines and bigger increases in specific months). The larger increases in the paid contributions in the months in the first half of 2019 are probably due to the paid contributions for the insureds who were untimely distributed in the second pillar. The reduction of the membership status in the first month of 2019 is due to the termination of the membership of certain categories of insureds on 01.01.2019 in accordance with the amendments to the law.

Graph 5.9. Paid contributions and members in the second pillar



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 Fund to pay compensation for untimely transfer of contributions in case when the PDIFNM did not distribute the insureds who were mandatory members of the second pillar in accordance with the criteria before the adoption of the amendments to the law, in case if 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 if 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 receipt of the contributions. The funds for mandatory fully funded pension insurance, attained on the basis of untimely and incomplete payment of contribution, are transferred to the individual account of the member of the mandatory pension fund.

The amount of compensation for untimely transfer of contributions is determined¹⁰ on the basis of an assessment of the balance of a hypothetical individual account of a member of a mandatory pension fund who has an identical history of payment of contributions as the insured with untimely distribution, i.e., on the basis of an assessment of the balance of part of the funds on the individual account of the member of the mandatory pension fund, the amount of the total untimely transferred contributions and the contribution fees charged by the pension company.

In 2023, in the mandatory pension funds, the PDIFNM transferred a total of approximately 9,23 million denars as a fee for untimely transfer of contributions for members for which it did not transfer the contributions to the accounts of the selected mandatory pension funds within three months of the day of receipt of the contributions. Table 5.3. shows detailed data on the transferred fees for untimely transfer of contributions by funds.

¹⁰The formula for calculating the fee for untimely transfer of contributions is prescribed in the Rulebook for untimely transfer of contributions.

Table 5.3. Paid fees for untimely transferred contributions in the second pillar in 2023 (in millions of denars)

Mandatory pension fund	Fee for untimely transfer of contributions
SAVAz	3,65
KBPz	3,54
TRIGLAVz	2,04
Total	9,23

5.4.2 Returned assets to the PDIFNM

In 2023, a part of the paid assets in the mandatory pension funds (about 556 million denars) 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 insureds who during the insurance have completed insurance length of service with increased duration which allows to lower the age limit for exercising the right to old age pension for at least one year and
- termination of membership of an insured employee employed for the first time before 1.1.2003, born before 1.1.1967, who did not sign a statement to extend the membership.

In 2023, most of the returned assets to the PDIFNM (80%) refer to the termination of membership of the insureds who during the insurance have completed insurance length of service with increased duration which allows to lower the age limit for exercising the right to old age pension for at least one year and did not give a written statement for extension of the membership in the mandatory pension fund within three months of the completion of the insurance service

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

Table 5.4. Structure of returned funds in the PDIFNM, by MPF

(in millions of denars)

Reasons	From the mandatory pension fund			Total
	SAVAz	KBPz	TRIGLAVz	
Earned pension	53,84	52,87	4,63	111,34
- disability pension	15,05	18,73	1,92	35,70
- family pension	38,79	34,14	2,71	75,65
Excess contribution payments	0,42	0,21	0,007	0,63
Termination of agreements and cancellation of distributions	0,00	0,01	0,00	0,01
Termination of membership	215,39	219,47	9,40	444,27
- members who during the insurance have completed the insurance length of service with increased duration that allows to lower the age limit for exercising the right to old age pension for at least one year	215,39	218,59	9,40	443,39
- members employed for the first time before 1.1.2003, born before 1.1.1967, who did not sign a statement	0,00	0,88	0,00	0,88
Total	269,66	272,56	14,03	556,26

5.5 Investment and portfolio structure of the mandatory pension funds

Usually, in fully funded pension systems, proactive control and quantitative and qualitative investment constraints are used in the initial phase. Starting from that, the law and bylaws define the investment goals and principles, the types of instruments in which the assets of the mandatory pension funds can be invested, the conditions that must be met by the regulated secondary capital markets, where the assets of the mandatory pension funds are traded, 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 constraints within the instruments and issuers, prohibited investments, overcoming of investment constraints, 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 the members and retired members of the mandatory pension fund and through diversification and financial analysis to minimize the risk of losses that incurred as a result of non-payment by the issuer or the other contracting party arising from the impact of the domestic and foreign financial markets, losses in the real value of the assets of the mandatory pension fund due to inflation and losses resulting from sales of the assets of the mandatory pension fund due to provision of liquidity to the mandatory pension fund. Thereby, a member of the management board and the supervisory board in the company, during the management and control of the investment of assets of the mandatory pension fund, is obliged to apply a degree of care, efficiency and skills, which would be applied by a reasonable person when investing his own assets. 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 person with a work engagement in the company.

The law and bylaws stipulate that the assets of the mandatory pension funds can be invested in bank deposits and certificates for deposit, bonds and other debt securities, in shares and commercial bills issued by issuers with headquarters in the Republic of North Macedonia and abroad, in EU or OECD member states. Considering that it is necessary to achieve appropriate diversification between different types of investments, maximum constraints are stipulated for investing in a specific company and maximum constraints 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 mandatory pension funds, it is legally prohibited to invest in shares, bonds and other securities that are not listed on the official market or that are not publicly traded, instruments that cannot be legally available, instruments that cannot be immediately assessed, multiple forms of property that cannot be immediately assessed and items of uncertain value, such as antiques, works of art, etc.

Considering that the assets of the mandatory pension funds are constantly growing, their increase is accompanied by the opportunity to expand to a larger number of capital markets and on a larger scale, since the domestic market is becoming smaller in terms of the needs to invest the assets of the mandatory pension funds, as well as in order to enable greater diversification of the assets during their investment and greater choice of companies for investing the assets of the mandatory pension funds by the companies. The maximum investment constraints are presented in Table 5.5.

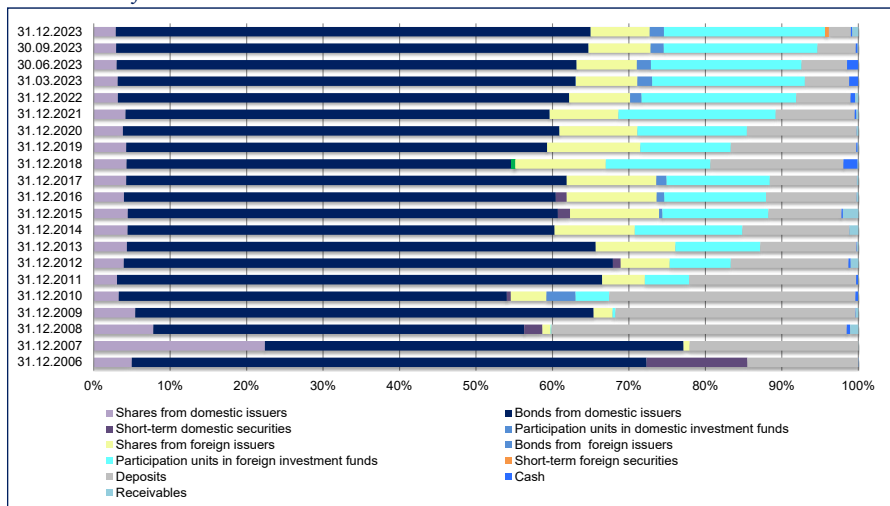
Table 5.5. Maximum investment limits

Type of instrument	Maksimum limit
Investment abroad (EU and OECD)	50%
<ul style="list-style-type: none"> • bonds and other securities issued by foreign governments and central banks 	50%
<ul style="list-style-type: none"> • securities issued by non-state foreign companies, banks or investment funds 	30%
Securities issued or guaranteed by RNM on the domestic market or NBRNM	80%
Bank deposits, deposit certificates, mortgage backed securities, and other securities issued by domestic banks	60%
<ul style="list-style-type: none"> • bank deposits 	30%
Bonds issued by local self-government and domestic joint stock companies, which are not banks and, commercial notes from domestic joint stock companies, which are not banks	40%
<ul style="list-style-type: none"> • bonds issued by local self-government 	10%
Shares issued by domestic joint stock companies	30%
Participation units and shares of open-end, close-end and private investment funds in RNM	5%
<ul style="list-style-type: none"> • participation shares in private investment funds 	1,5%

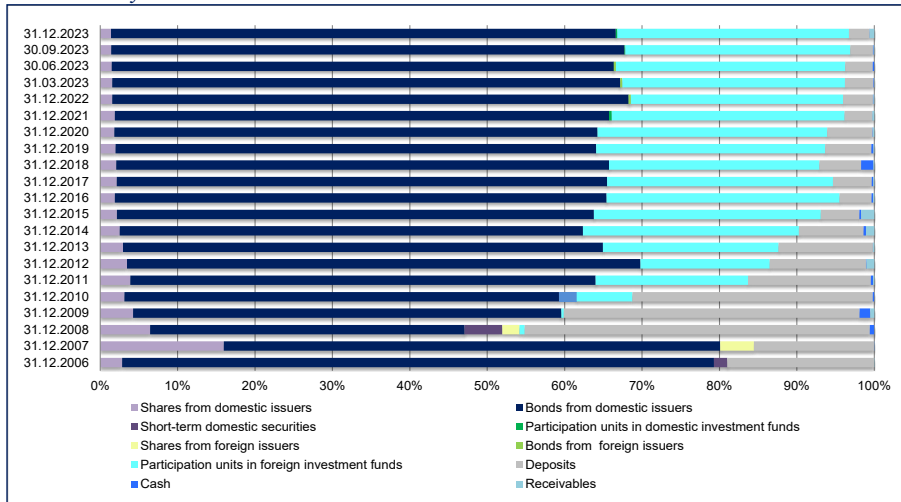
MAPAS may prescribe restrictions on investments in certain types of instruments other than the limitations established by law, which will be valid for a period also prescribed by MAPAS, but not longer than five years. In 2019, decisions were made on additional constrains according to which a maximum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

The structure of investments of the mandatory pension funds SAVAm and KBPm, from the initial functioning of the system (for the period 2006 - 2022, annually, and for 2023, quarterly) is presented in Graph 5.10. and in Graph 5.11. The structure of the investments of the mandatory pension fund TRIGLAVm from the initial operation of the fund (April 1, 2019) and on a quarterly basis for 2023, is shown in Graph 5.12.

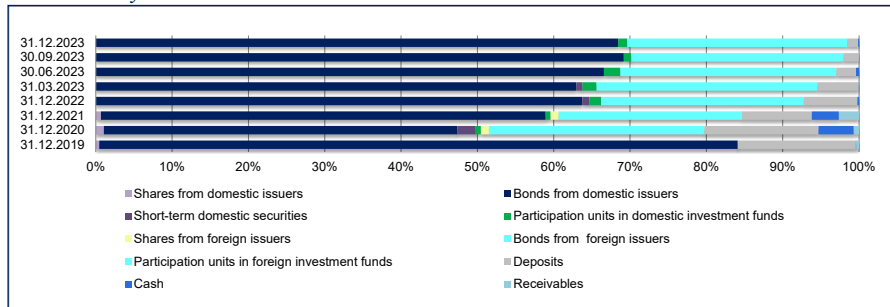
Graph 5.10. Structure of investments of SAVAm



Graph 5.11. Structure of investments of KBPm

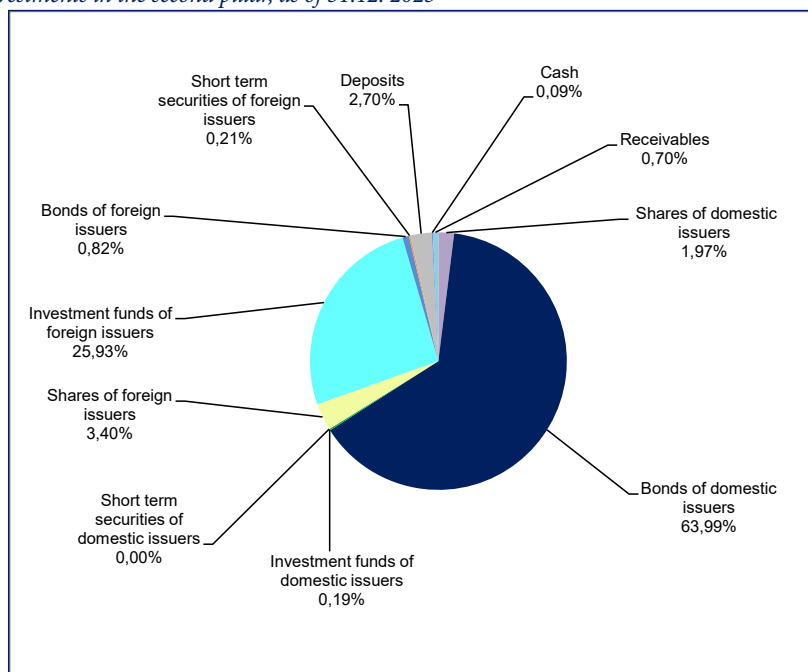


Graph 5.12. Structure of investments of TRIGLAVm



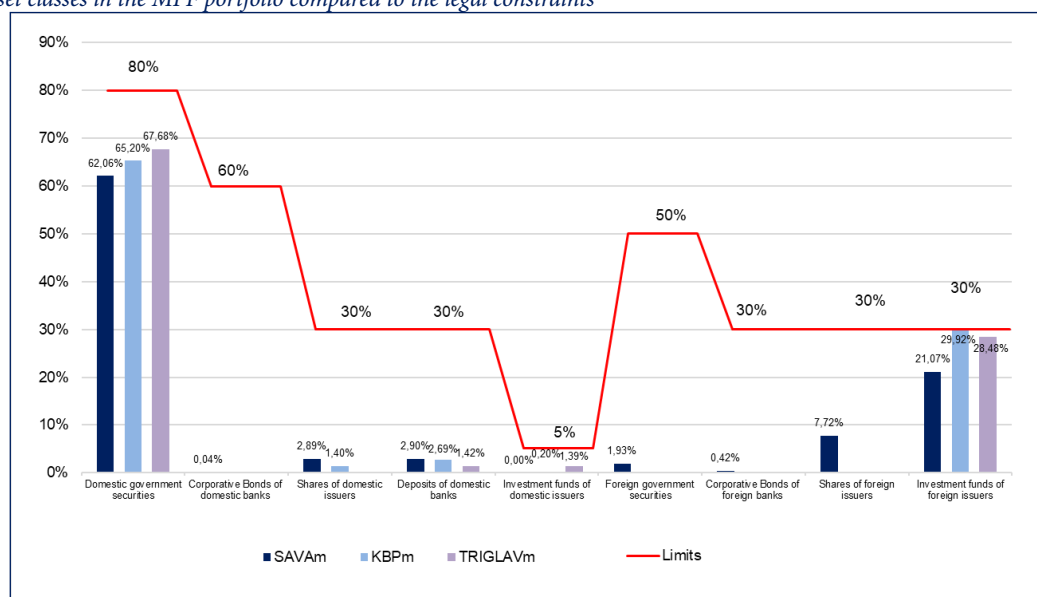
The structure of the investments of the mandatory pension funds, as of 31.12.2023, does not differ much compared to the structure of the investments of the mandatory pension funds, as of 31.12.2021, and it is presented in Graph 5.13. The share of domestic bonds, which include domestic government bonds (63.97%) and a corporate bond (perpetual bond issued by a bank - 0.02%) is 63.99%, which means it is minimally increased compared to the situation on 31.12.2021 (63.10%). The share of bank deposits is reduced and it is 2.70%. Domestic shares are also reduced and amounted to 1.97%. A very small part of the investments of the mandatory pension funds belong to investments in stocks of domestic investment funds (0.19%). In 2023, the share of investments abroad increased, compared to the previous year, and amounted to 30,36%. In 2023 one pension fund also invested in foreign bonds and in short-term securities from foreign issuers, hence the investments securities from foreign issuers include investments in foreign government bonds (0.64%), short-term securities (0.21%), corporate bonds (0.19%), investment fund shares (25.93%) and investments in shares (3.40%). The remaining assets are cash 0.09% and receivables 0.70%.

Graph 5.13. Structure of investments in the second pillar, as of 31.12. 2023



In 2023, the three mandatory pension funds invested within the maximum investment constraints. Graph 5.14. shows the percentage share in the portfolio by asset classes in SAVAm, KBPm and TRIGLAVm and the legal restrictions, as of 31.12.2023.

Graph 5.14. Asset classes in the MPF portfolio compared to the legal constraints



Same as in the previous year, in 2023, a small percentage of the assets of the mandatory pension funds (1.97%) were invested in shares of domestic issuers. In 2023, in SAVAm, the exposure in shares decreased compared to 2022, while in KBPm remained almost at the same level. At the same time, the exposure of shares in domestic issuers is higher in SAVAm (2.89%), compared to KBPm (1.40%). As of 31.12.2022, TRIGLAVm has no investments in shares of domestic issuers.

In comparison, the movement¹¹ of the value of the Macedonian Stock Market Index - MBI10, the Bond Index of the Macedonian Stock Exchange - OMB and the values of the accounting units of the mandatory pension funds, in 2023, are presented in Graph 5.15. The value of the accounting unit of SAVAm marked an increase by 8.11%, the accounting unit of KBPm an increase by 7.27%, and the accounting unit of TRIGLAVm an increase by 6.95%. In 2023, the MBI10 marked an increase by approximately 8.21%. The OMB in 2023, increase by approximately 0,35%.

Graph 5.15. Comparative movement of the value of MBI10, OMB and the value of the accounting unit of MPF, 2023

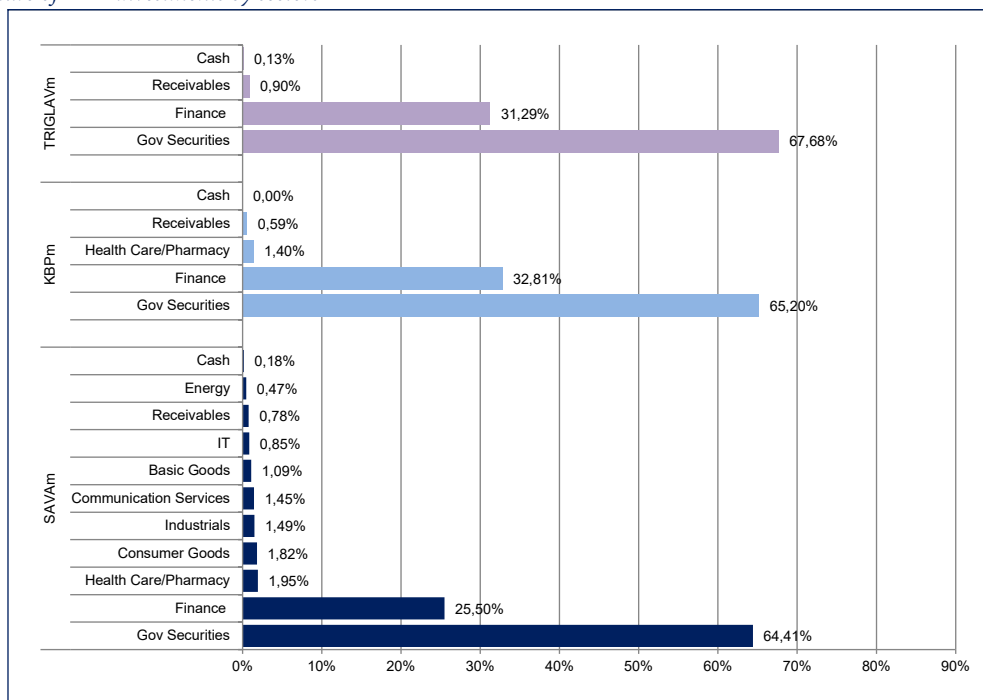


Source: MAPAS and Macedonian Stock Exchange JSC Skopje - Annual Statistical Bulletin 2023.

In 2023, more than 60% of the assets of the mandatory pension funds belong to government securities, namely domestic government securities (62.06% at SAVAm, 65.20% at KBPm and 67.68% at TRIGLAVm) and of foreign government securities (1.93% at SAVAm). Viewed by sectors, more than a quarter of the assets of the three pension funds are investments in instruments from issuers/joint stock companies from the financial sector, that is, 25.92% at SAVAm, 32.81% at KBPm and 31.29% at TRIGLAVm. Within this sector, SAVAm has the largest share of stocks in foreign and domestic investment funds (83.31%) and domestic bank deposits (11.17%), while the share of financial services is smaller (5.02%). on bonds issued by domestic and foreign banks (1.78%) and on shares in domestic banks (0.71%). At KBPm, within the financial sector, the participation of foreign and domestic investment funds prevails (91.81%), followed by domestic bank deposits (8.19%). And at TRIGLAVm, within the financial sector, the participation of foreign and domestic investment funds prevails (95.46%), followed by domestic bank deposits (4.54%). In addition to the above sectors, mandatory pension funds also invest in other sectors: pharmaceuticals, consumer goods, industry, basic goods, information technology, communication services and energy, but with a much smaller participation (from 0.47% to 1.95%). The structure of investments of mandatory pension funds by sector is shown in graph 5.16.

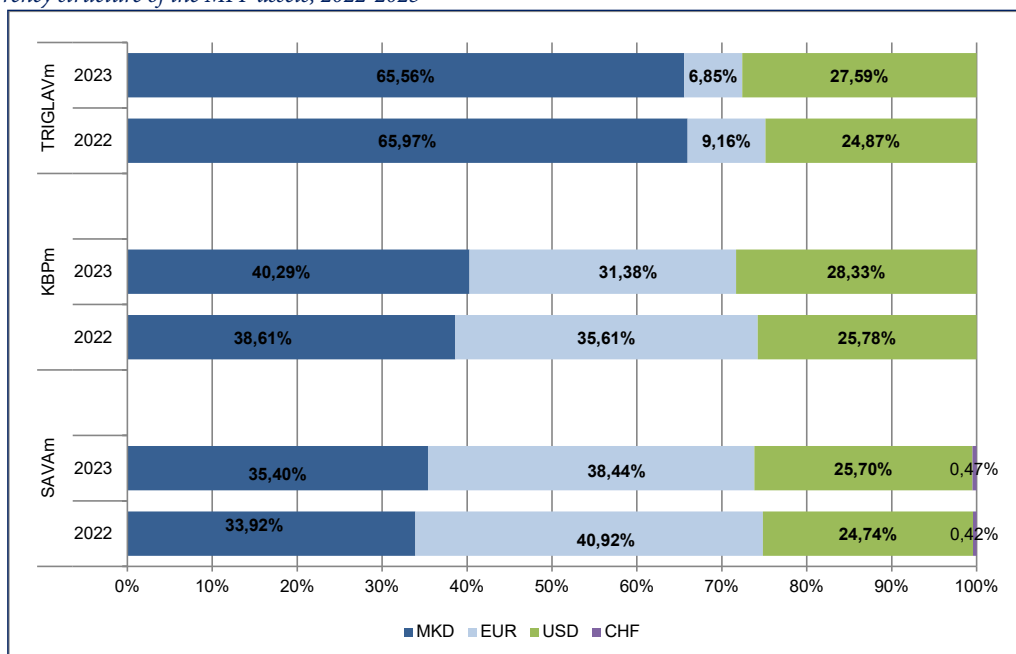
¹¹The movements are presented through the change of the indices/units in relation to the initial index equal to 100, on 31.12.2022.

Graph 5.16. Structure of MPF investments by sectors



According to the currency structure of the assets of the mandatory pension funds, which is shown in graph 5.17., it can be noted that in 2023 at SAVAm (38.44%) most of the assets are invested in euros, while a decrease of participation in relation to 2023 can be observed. In KBPm (40.29%), most of the assets were invested in domestic currency, with an increase in participation compared to 202. At KBPm, too, a decrease in the participation in instruments in euros can be observed (31.38%), compared to the previous year. The participation in domestic currency instruments at SAVAm has increased and amounts to 35.40%. Then, both in SAVAm (25.70%) and KBPm (28.33%) we can see an increase in the participation in instruments in US dollars, compared to 2022. A very small part of SAVAm assets are invested in Swiss francs (0.47%). The currency structure of TRIGLAVm differs in relation to the currency structure of SAVAm and KBPm in relation to the participation in instruments in euros and denars. The weight of TRIGLAVm assets is still on the side of assets invested in instruments in Denars (65.56%), then 27.59% of the assets are invested in instruments in US dollars, and the remaining 6.85% in instruments in euros.

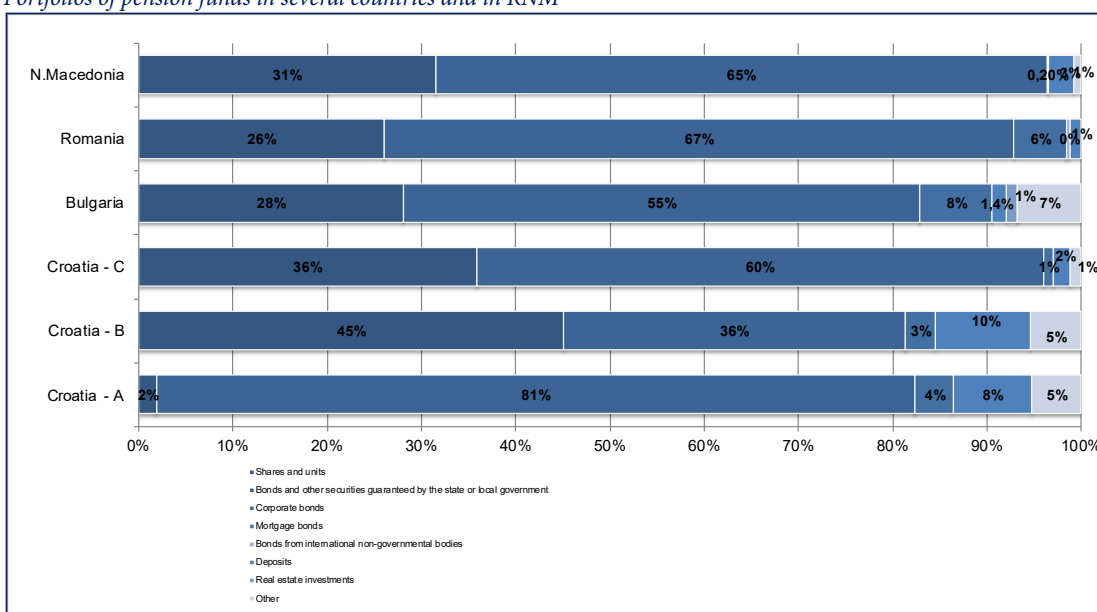
Graph 5.17. Currency structure of the MPF assets, 2022-2023



If a comparison is made with the countries of the region that have similar pension systems to the Macedonian one, similarities can be seen, but also significant differences in the investment portfolios of the mandatory pension funds. Chart 5.18. shows the portfolios of pension funds (corresponding to the mandatory pension funds in North Macedonia) in several countries and in the RNM, on 31.12.2023.

If the portfolios of the mandatory pension funds are reviewed by types of instruments, it can be noted that, except for Bulgaria, in all countries, more than 50% of the assets of the pension funds are invested in bonds and other securities, which are guaranteed by the state, or local government (67% in Romania, 65% in North Macedonia, 60% in Croatia B¹² and 55% in Bulgaria). The remaining part of the assets are invested in different ways. Most of the investments in stocks and shares are in Croatia B (36%), followed by North Macedonia (31%), Bulgaria (28%) and Romania (26%). Pension funds in Macedonia have the most investments in deposits (3%), followed by Croatia B (2%), Romania and Bulgaria (1%). Pension funds also invested in corporate bonds, 8% in Bulgaria, 6% in Romania and 1% in Croatia. Compared to pension funds in other countries, the share of investments in corporate bonds in North Macedonia is significantly lower, 0.20%. Only pension funds in Bulgaria (1%) have investments in real estate (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 issuers¹³, it can be noted that the pension funds in North Macedonia and Croatia B (30%), followed by Romania (11%) have the highest exposure abroad.

Chart 5.18. Portfolios of pension funds in several countries and in RNM



Sources: www.hanfa.hr; www.fsc.bg; www.asfromania.ro and own calculations.

¹²In Croatia there are multi-funds, i.e., three categories of pension funds: A (with the highest risk), B (existing portfolios at the time of introduction of the multi-funds) and C (with the lowest risk).

¹³The data on foreign investments for Bulgaria dated 31.12.2023 were not available at the time of the analysis.

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

The contributions paid into mandatory pension funds, reduced by the contribution fees, are invested immediately. The total achieved return is attributed to the assets in the mandatory pension fund, i.e., to the individual accounts of the members. Once a month, the companies also charge a fee for asset management, which is calculated on a daily basis, as a percentage of the net assets of the mandatory pension fund. In addition, in each transaction, the transaction fees of the mandatory pension fund are charged with the assets of the mandatory pension fund. The value of the assets of the mandatory pension fund is assessed every day. It is determined on the basis of the market value of each individual asset or on the basis of the depreciated 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.

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

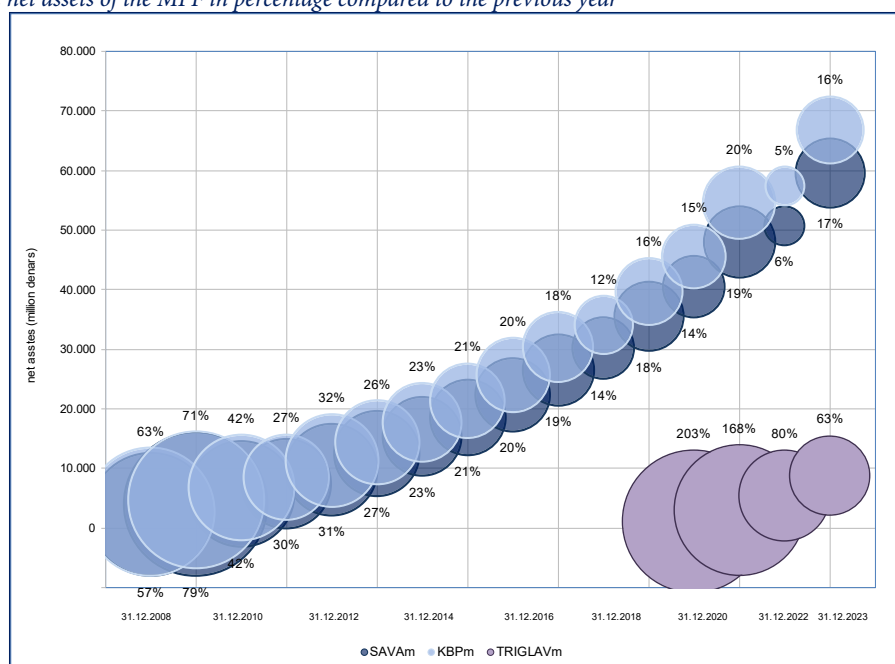
- inflow of contributions,
- inflow of fees for untimely transfer of contributions in case of untimely transfer of contributions,
- outflow due to fees and transaction fees, - inflow due to transfer from the other mandatory pension fund (for persons who were previously temporarily distributed to another 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 distributed 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, outflow due to overpayment, outflow due to exercising the right to disability or family pension and outflow for persons whose membership in the mandatory pension fund has ended and who have completed the insurance length of service with increased duration during the insurance which allows to lower the age limit for exercising the right to old age pension for at least one year.
- outflow due to payment of inheritance,
- 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,
- outflow due to payment of family pension – programmed withdrawals,
- (un)realized gains or losses from investment.

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

Table 5.10. Changes in the assets of the MPF (in millions of denars)

	SAVAm	KBPm	TRIGLAVm	Total
Net assets on 31.12.2022	50.715,46	57.418,84	5.407,76	113.542,06
Contributions	5.849,75	6.333,54	1.221,99	13.405,28
Contribution fees	111,19	120,39	23,22	254,80
Contributions reduced for contribution fees	5.738,56	6.213,15	1.198,76	13.150,47
Compensation for untimely transfer of contributions	3,65	3,54	2,04	9,23
Fees from assets	198,85	223,51	25,72	448,08
Expenditures for intermediary fees	1,88	0,39	0,28	2,55
Transfer from the other fund	453,05	735,66	2.335,32	3.524,02
Transfer to the other fund	1.339,60	1.561,38	622,94	3.523,92
Transfer from the fund on the basis of termination of an agreement, return of contribution, retirement and termination of membership	269,66	272,56	14,03	556,26
Inheritance payment	16,90	9,83	0,09	26,82
Payment of old age pension - programmed withdrawals	1,40	1,57	0,00	2,97
Lump sum payment	0,03	0,19	0,00	0,22
Payment of family pension - programmed withdrawals	0,23	0,00	0,00	0,23
Gross return on investment	4.470,31	4.564,28	507,19	9.541,78
Net return on investment	4.269,58	4.340,38	481,19	9.091,15
Net assets on 31.12.2023	59.552,47	66.866,04	8.788,01	135.206,52

Graph 5.19. Increase in net assets of the MPF in percentage compared to the previous year

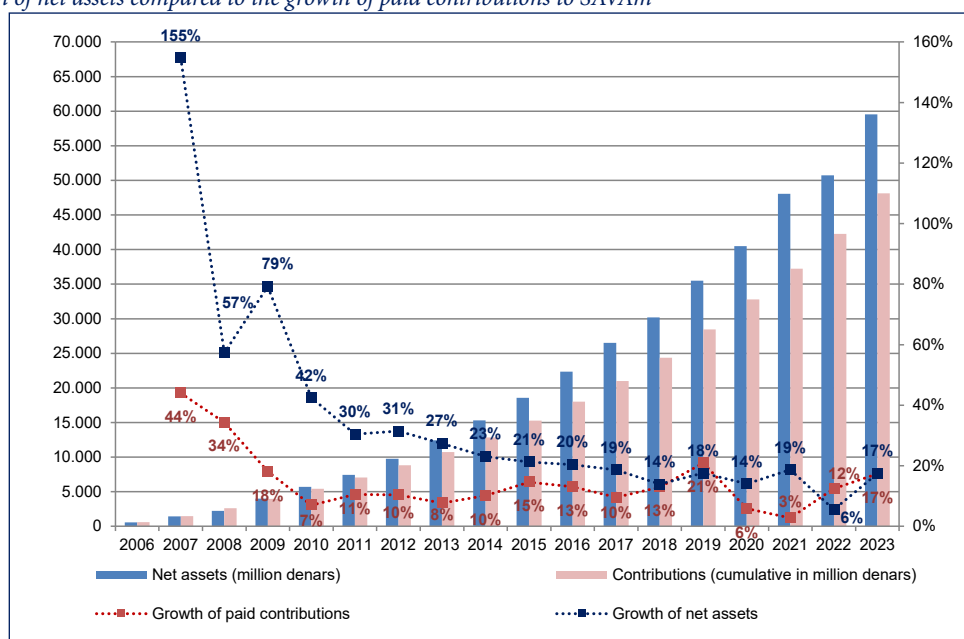


The total net assets of the mandatory pension funds, as of 31.12.2023, amounted to approximately 135,21 billion denars or approximately 2,20 billion euros, which is about 16,08% of the GDP of the Republic of North Macedonia.

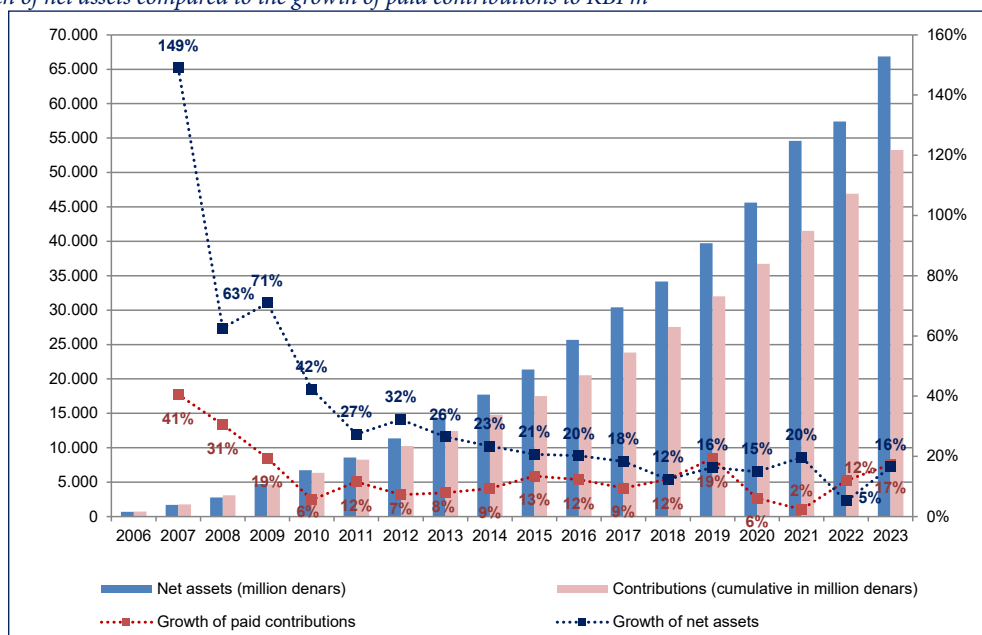
Graph 5.18. shows the values of the net assets of the mandatory pension funds, at the end of each year (2008-2023), and their increase in percentage, compared to the net assets in the previous year. Thereby, one can notice that the net assets of both SAVAm and KBPm are growing at a similar pace. The largest increase in both SAVAm and KBPm was observed in 2009 compared to 2008, while the lowest growth is observed in 2022 compared to 2021. The growth of the assets of SAVAm and KBPm in 2023 compared to the previous year is already following the expected trend. In TRIGLAVm there is an observable large increase in net assets in the initial years of operation of the fund.

The movement of the value of the net assets and the cumulative contributions, as well as the growth of the paid contributions and the growth of the net assets of SAVAm and KBPm, since the beginning of the operation of the system (i.e. from the date of the first payment, on 01.01.2006) until 31.12.2023, are shown on graph 5.20. and on 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. After the decrease in growth in 2022, in 2023, an increase in the growth of net assets is observed again. For 2023, more than two-thirds of the growth of net assets is due to paid contributions. Compared to the first years of the funds' operation, the share of paid contributions in the total growth of net assets is gradually decreasing, except in 2022. It can also be noted that during the first years, the share of cumulative contributions in total net assets is significantly high, then it gradually decreases, and in the last five years, it averages 80%.

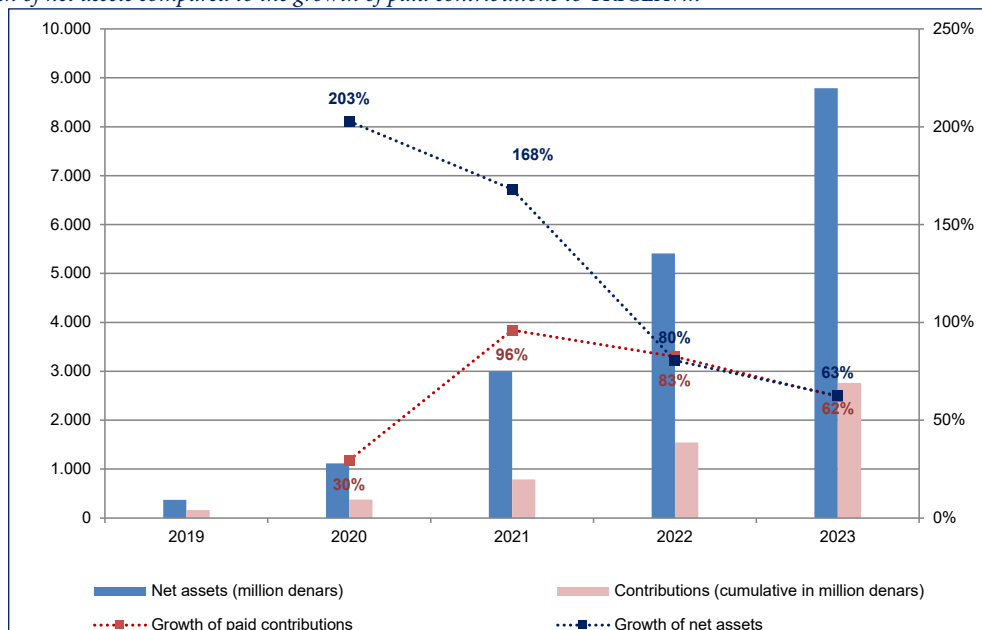
Graph 5.20. Growth of net assets compared to the growth of paid contributions to SAVAm



Graph 5.21. Growth of net assets compared to the growth of paid contributions to KBPm



Graph 5.22. Growth of net assets compared to the growth of paid contributions to TRIGLAVm



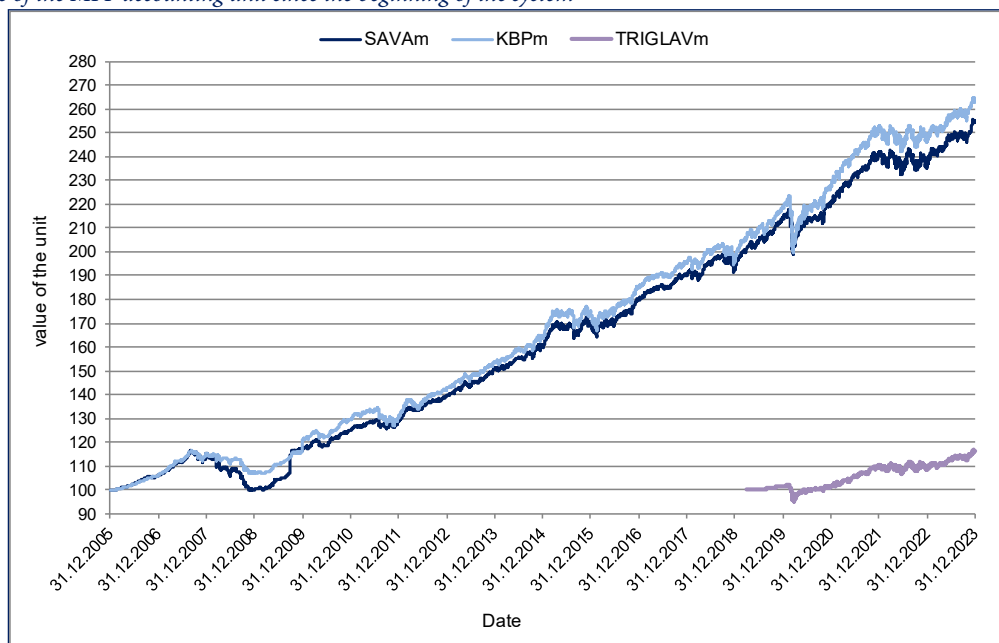
At SAVAm and KBPm, net assets and cumulative contributions have been continuously growing since the beginning of the system’s operation. The highest growth of net assets (about 150%) as well as of paid contributions (about 40%) was recorded in 2007 at both SAVAm and KBPm. It is due, probably, to the largest percentage growth of the membership, that is, to the contributions compared to the previous year, as well as to the fairly high growth of the unit. Then follows 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 and the growth of paid contributions, in the last five years, on average, is about 15%. In 2023 compared to 2022, there is an increase in the growth of paid contributions (17% both at SAVAm and at KBPm) and an increase in the growth of net assets (17% at SAVAm and 16% at KBPm).

The movement of the value of net assets and cumulative contributions, as well as the growth of paid contributions and the growth of net assets of TRIGLAVm, for four years of operation of TRIGLAVm, (2019 - 2023), is shown in graph 5.22. Although reduced, TRIGLAVm also saw an increase in net assets and cumulative contributions in 2023 compared to 2022. The growth of the net assets of TRIGLAVm, in addition to being implied by the growth of paid contributions, is largely due to the funds transferred to TRIGLAVm from SAVAm and KBPm based on the concluded agreements for the transfer of members who moved from SAVAm and KBPm to TRIGLAVm.

Accounting units are used to record the assets of the mandatory pension funds. One accounting unit represents 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 a pension fund is 100 denars. Pension funds, including the Macedonian ones, are subject to cyclical phenomena and movements, which implies an increase or decrease in the values of their accounting units, depending on the investment of the 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 31.12.2023, is given in table 5.11., on graph 5.23. and on graph 5.24. Moreover, since the beginning of the operation of SAVAm and KBPm, a growing trend of the accounting units has been observed. TRIGLAVm, the third mandatory pension fund, started operating on April 1, 2019. In 2023, the values of the accounting units of the three mandatory pension funds recorded growth again after the deviation from the growth trend in 2022 (8.11% of SAVAm, 7.27% of KBPm and 6.95% of TRIGLAVm). Pension funds, by their very nature, operate on the long term, so their performance should be evaluated over the long term.

Graph 5.23. Value of the MPF accounting unit since the beginning of the system



Graph 5.24. Value of the MPF accounting unit in 2023

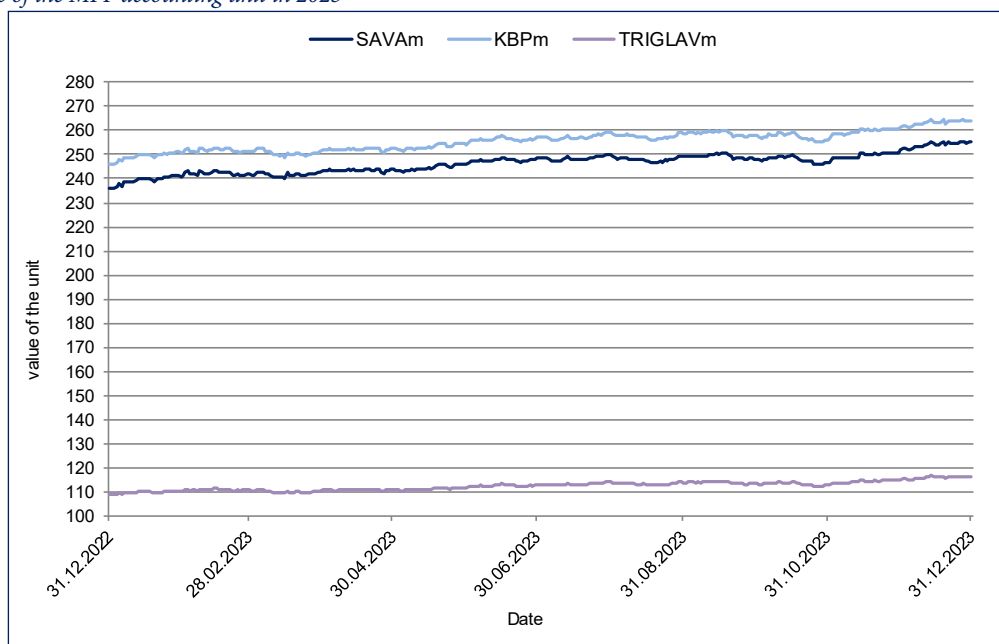


Table 5.7. Value of the accounting unit from the beginning of the system

Date	Value of accounting unit (in denars)		
	SAVAz	KBPz	TRIGLAVz
31.12.2006	105,929336	106,265900	
31.12.2007	115,511364	115,303221	
31.12.2008	100,155213	107,116421	
31.12.2009 ¹⁴	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
31.12.2020	220,489334	227,667060	101,665261
31.12.2021	241,504146	252,373824	110,128711
31.12.2022	235,843874	246,231776	108,891957
31.03.2023	243,383374	251,919686	110,789113
30.06.2023	248,543507	257,198774	113,135488
30.09.2023	248,178252	257,618177	113,530071
31.12.2023	254,969666	264,141459	116,463817

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

Considering the long-term nature of pension insurance, it is important to calculate the rate of return of the mandatory pension funds from the beginning of the system, i.e. from the beginning of operation of the mandatory pension fund reduced to an annual level, which for SAVAm is 5.33% in nominal amount, i.e. 2.24% in real amount, for KBPm 5.54% in nominal amount, i.e. 2.44% in real amount. The rate of return since the beginning of operation of TRIGLAVm, reduced to an annual level, amounts to 3.26% in nominal terms, i.e. -2.61% in real terms.

The movement of the rate of return in a nominal amount, during the eighteen years of existence of the mandatory capital funded pension insurance, can be seen on graph 5.25., where the rates of return are shown by periods (from the beginning of the system to the corresponding date), from the beginning of the system until 31.12.2023, by funds (for SAVAm and for KBPm). The graph also shows the rate of return by periods from the start of operation of TRIGLAVm to the corresponding date. At the beginning of the system's existence, an increase in rate of return was observed, so that, at the end of 2006 and 2007, there were high rates of return, while at the end of 2008, the lowest rates of return were observed, as a result of the negative developments of domestic and foreign financial markets. Then follows a gradual recovery from the crisis and an increase in rates of return, until the end of 2009, as well as at the end of 2010. At the end of 2011, there is a slight decrease in rate of return compared to the end of 2010. During the following years, growth is observed (with small deviations from the growth of rates of return as of the end of 2015 and the first half of 2016 and rates of return in 2018). The lower amounts of rates of return in 2018 are mostly due to the impact of prices in the world financial markets, which saw higher volatility during 2018 and a decrease at the end of 2018. During 2019, a gradual growth of rates of return is observed. In 2020, lower rates of return compared to 2019 are observed for SAVAm and KBPm, mostly due to the unfavorable conditions of the financial markets in the conditions of the Corona virus pandemic. TRIGLAVm in the initial years of its operation and in exceptional circumstances due to the unfavorable conditions of the financial markets in the conditions of the Corona virus pandemic, recorded a rate of return in a nominal amount less than zero, which was compensated already in the next period. After the drop in rates of return in 2022 due to the global crisis caused by the military conflict between Ukraine and Russia, 2023 sees a slight increase in rates of return for the three pension funds.

¹⁴In the second half of 2009, both SAVA and KB First made decisions on reclassification of the financial instruments held to maturity in the category of available-for-sale financial instruments and, in this procedure, the companies reassessed the value of the financial instruments, by applying an objective, fair value and determined the value of the assets, net assets, the value of the accounting units and the number of accounting units, which caused a relatively high correction in the value of the accounting units..

¹⁵TRIGLAVz is included in the comparative return analyses with a calculated return for the respective periods, according to the regulation, because it exists longer than 12 months, however less than 84 months.

¹⁶The formulas for calculating the yield in nominal and real amount are prescribed in the Rulebook for assessment of the assets of the mandatory and voluntary pension funds.

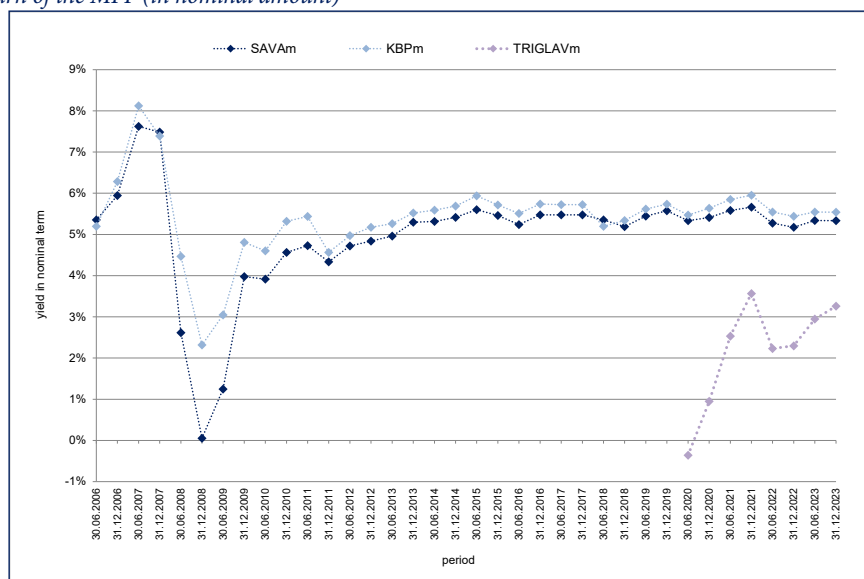
Table 5.8. Yields of MPF

Period*	SAVAz		KBPz		TRIGLAVz	
	in nominal amount	in real amount	in nominal amount	in real amount	in nominal amount	in real amount
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%		
31.12.2013 - 31.12.2020	5,54%	4,84%	5,76%	5,06%	-	-
31.12.2014 - 31.12.2021	5,98%	4,48%	6,29%	4,79%	-	-
30.06.2019 - 31.12.2021	-	-	-	-	3,84%	1,01%
31.12.2015 - 31.12.2022	4,77%	0,73%	5,05%	1,00%	-	-
30.06.2019 - 31.12.2022	-	-	-	-	2,40%	-4,40%
31.03.2016 - 31.03.2023	5,32%	1,14%	5,48%	1,30%	-	-
30.06.2019 - 31.03.2023	-	-	-	-	2,72%	-3,82%
30.06.2016 - 30.06.2023	5,49%	1,09%	5,60%	1,19%	-	-
30.06.2019 - 30.06.2023	-	-	-	-	3,08%	-3,57%
30.09.2016 - 30.09.2023	5,16%	0,43%	5,33%	0,59%	-	-
30.06.2019 - 30.09.2023	-	-	-	-	2,98%	-3,77%
31.12.2016 - 31.12.2023	5,12%	0,51%	5,23%	0,63%	-	-
30.06.2019 - 31.12.2023	-	-	-	-	3,40%	-2,76%
Start** - 31.12.2023	5,33%	2,24%	5,54%	2,44%	3,26%	-2,61%

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

**The date of commencement of operation of SAVAz and KBPz is 01.01.2006. The date of commencement of operation of TRIGLAVz is 01.04.2019.

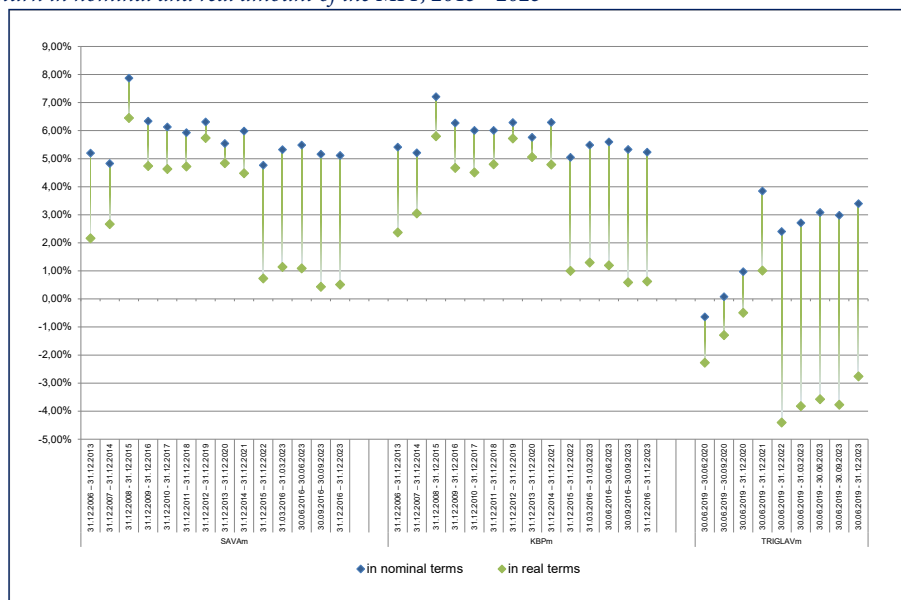
Graph 5.25. Rates of return of the MPF (in nominal amount)



The movement of the rate of return in nominal and in real amount, in the period from 2013 to 2022 (on an annual level) and in 2023 (on the quarterly level), after seven-year periods, converted into an equivalent annual rates of return, per mandatory pension fund, can be seen on graph 5.26. This graph also shows the movement of the rate of return in nominal and real amount of TRIGLAVm, for the corresponding periods according to the regulation because it exists longer than 12 months but shorter than 84 months. After the growth of the rate of return in the first quarter of 2023 in relation to 2022, in 2023 the rate of return in both nominal and real amounts also recorded a decrease in SAVAm (from 5.32% to 5.12% in nominal and from 1.14 % to 0.51% in real amount) and at KBPm (from 5.48% to 5.23% in nominal amount and from 1.30% to 0.63% in real amount). At the same time, the lowest amount of rate of return in nominal amount and in real amount was recorded in the third quarter for pension funds that have been in existence for more than seven years. The rate of return of the third mandatory pension fund, which started operating in April 2019 after the fall in 2022, in 2023 records growth both in nominal (from 2.72% to 3.40%) and in real amount (from -3.82 % to -2.76%). In the considered period (2013 - 2023), the change in the level of the cost of living in the calculation periods, reduced to an annual level, until 2019, recorded a decrease, which affects the gradual approach of rates of return in real amount to rates of return in nominal amount, while in the period after 2019 (especially in 2022) there is an increase that affects the gradual distancing of rates of return in real amount from rates of return in nominal amount.

The seven-year rate of return at the level of mandatory capital-funded pension insurance for the period 31.12.2016 – 31.12.2023, calculated through the change of the weighted average¹⁷ of the accounting units of the mandatory pension funds, reduced to an annual level is 4.63% in nominal amount, i.e. 0.05 % in real amount.

Graph 5.26. Rates of return in nominal and real amount of the MPE, 2013 - 2023



5.7 Fees in mandatory pension funds

In order to perform its functions of management of the assets of the mandatory pension fund, assessment of the assets, membership registration, keeping individual accounts of the members and reporting to the members, as well as for payment of fees for MAPAS, the PDIFNM and the property custodian and for covering their own costs, the companies, in accordance with the Law, charge a fee from contributions, a fee from assets and a fee for transfer.

This method of financing the pension companies is common for the companies that operate in a pension system similar to the Macedonian one. The fee collected 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 the funds, while the fee that is collected from the funds is collected at the end of each month, from the total funds that are managed. Fees, based on contributions, have a weight “at the beginning”, i.e., they are relatively high in the initial years. Asset-based fees weight at “the end”, as accumulated assets are much higher the closer they are to retirement¹⁸. In the long run, the contribution fee will not have a significant impact on the amount of the member’s pension, and the fee from assets will become more significant over the years.

The types and amount of fees charged by companies managing mandatory pension funds in 2023 are shown in a Table 5.13.

¹⁷The 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.

¹⁸Administrative Charges for Funded Pensions: An International Comparison and Assessment, Edward Whitehouse, June 2000.

Table 5.13. Fees charged by companies managing mandatory pension funds in 2023

Type of fee	SAVA	KB First	TRIGLAV***
Fee from contributions	1,90%*	1,90%*	1,90%*
Monthly fee from the assets of the mandatory pension fund	0,030%**	0,030%**	0,030%
Transfer fee			
Number of days****	Amount of transfer fee	Amount of transfer fee	Amount of transfer fee
number of days ≤ 720	15 Euros	15 Euros	15 Euros
number of days > 720	Transfer fee not charged	Transfer fee not charged	Transfer fee not charged

* Legally determined maximum for 2023 is 2.00% (Previously the amount was 2.00% for all MPF).).

**The amount is equal to the legally determined maximum for 2019 (Previously the amount was 0,035% both in SAVAm and KBPm).

*** The amount is equal to the legally determined maximum for 2019. Since 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 fee from contributions was determined in a tender, and the initial fee, collected by SAVA and KB First, was 8.50%. Furthermore, with the development of the system and the reduction of the fees charged by state institutions from the companies, as well as the growth of the contributions and funds, which are the basis for calculating the fees, there was further continuous gradual reduction of this fee. The amount of fees from contributions, collected from the beginning of the system, until 2023, is shown in Table 5.14.

Table 5.14. Amount of the fees from contributions collected by the pension companies in the second pillar

Pension company	Amount	Date of application	Pension company	Amount	Date of application	Pension company	Amount	Date of application
SAVA	9,90%	Tendered	KB First	9,90%	In a tender	TRIGLAV	2,25%	From April 2019
	8,50%	Since the beginning of the system (2006)		8,50%	Since the beginning of the system (2006)		2,00%	From January 2020
	7,90%	Since July 2007		7,90%	From July 2007		1,90%	Since January 2023
	6,90%	Since February 2008		6,80%	From February 2008			
	6,50%	Since May 2009		5,50%	From January 2010			
	5,50%	Since January 2010		4,50%	From January 2011			
	4,50%	Since January 2011		4,00%	From January 2012			
	4,00%	Since January 2012		3,75%	From June 2013			
	3,75%	Since June 2013		3,50%	From January 2014			
	3,50%	Since January 2014		3,25%	From January 2015			
	3,25%	Since January 2015		3,00%	From January 2016			
	3,00%	Since January 2016		2,75%	From January 2017			
	2,75%	Since January 2017		2,50%	From January 2018			
	2,50%	Since January 2018		2,25%	From January 2019			
	2,25%	Since January 2019		2,00%	From January 2020			
	2,00%	Since January 2020		1,90%	Since January 2023			
	1,90%	Since January 2023						

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

Since 2013, the law has determined the maximum amount of compensation from contributions and compensation from funds, which pension companies can charge, and their gradual further reduction was foreseen. In 2023, all pension companies reduced the amount of compensation from contributions from 2.00% to 1.90% of paid contributions to mandatory pension funds. The collection of fees (in millions of denars) by the companies, during 2023, is shown in a table 5.15.

Table 5.15. Collection of fees by companies, in 2023 (in millions of denars)

	Jan.	Feb.	March.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
SAVAz- total	22,95	25,59	24,82	24,59	24,83	26,88	25,69	26,51	26,04	26,80	26,68	28,67	310,04
From contributions	7,46	9,80	8,95	8,50	8,56	10,30	8,91	9,66	9,01	9,73	9,38	10,93	111,19
From assets	15,49	15,79	15,87	16,08	16,27	16,58	16,78	16,85	17,03	17,06	17,30	17,74	198,85
KBPz - total	25,62	28,35	27,49	27,25	27,49	29,67	28,91	28,91	28,94	29,65	29,83	31,76	343,89
From contributions	8,13	10,56	9,66	9,20	9,23	11,08	10,09	9,96	9,79	10,47	10,35	11,86	120,39
From assets	17,49	17,79	17,83	18,05	18,25	18,59	18,83	18,95	19,16	19,19	19,47	19,90	223,51
TRIGLAVz – total	3,05	3,58	3,59	3,64	3,82	4,22	4,10	4,35	4,34	4,56	4,65	5,04	48,95
From contributions	1,37	1,80	1,73	1,69	1,77	2,09	1,91	2,09	2,00	2,16	2,16	2,44	23,22
From assets	1,68	1,78	1,86	1,96	2,05	2,13	2,19	2,26	2,34	2,40	2,49	2,60	25,72

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

In 2023, a total of MKD 2.82 million denars of transaction fees were collected by SAVAm, a total of 0.58 million denars was collected by KBPm and a total of 0.10 million denars of transaction fees were collected by TRIGLAVm. During the year 2023, a total of 1.18 million denars of transaction commissions were collected from SAVAm, a total of 0.93 million denars were collected from KBPm and a total of 0.28 million denars of transaction commissions 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 from the minimum pension. The pension from the first pillar is calculated as a defined pension according to a predetermined formula (a specific percentage, depending on the years of service, multiplied by the pension base, determined by valorized salaries from 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 the member's 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 Fees from Fully Funded Pension Insurance.

If the insured person who has been entitled to a 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 the event of the death of a member of second pillar mandatory pension fund member, whose members are entitled to a family pension, the total amount of assets on that member's account is transferred to the PDIFNM and the full payment of the family pension is paid by the PDIFNM. As an exception, if the accumulated assets 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 user of family pension can choose to use a second pillar pension instead of that pension.

In 2023, 98 disability pensions and 198 family pensions were obtained by members of the second pillar, i.e., family members of a deceased member, therefore their accumulated funds were transferred to the PDIFNM, which pays the disability pension, i.e., the family pension. In 2023, for 18 members of the second pillar began the payment of an old-age pension from the second pillar, through programmed withdrawals. Also in 2023, temporary programmed withdrawals began to be paid to a family member of a deceased member who was entitled to a family pension. While in 2023, a second pillar old age pension was paid, through programmed withdrawals, to a total of 44 retired members (including members who started withdrawals in previous years) and temporary programmed withdrawals were paid to family members of two deceased members, who exercised the right to a family pension.

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 a mandatory pension fund has no family members who are entitled to a family pension, then the assets of that member's account become part of the testator's estate and are dealt with in accordance with the Inheritance Law;
- 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 length of service of at least 15 years required for retirement, he/she can earn pension only from the assets of the second pillar, if the pension is greater than or equal 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 pension, the mandatory pension fund will pay the accumulated funds to the member's account all at once. Pension can be earned only from the assets from the second pillar and the payment of the total accumulated funds in these cases can be made after the person has reached 65 years of age.

In 2023, assets as inheritance were paid from the individual accounts of 102 deceased members. In addition, one-time payment of assets was made to 4 persons.

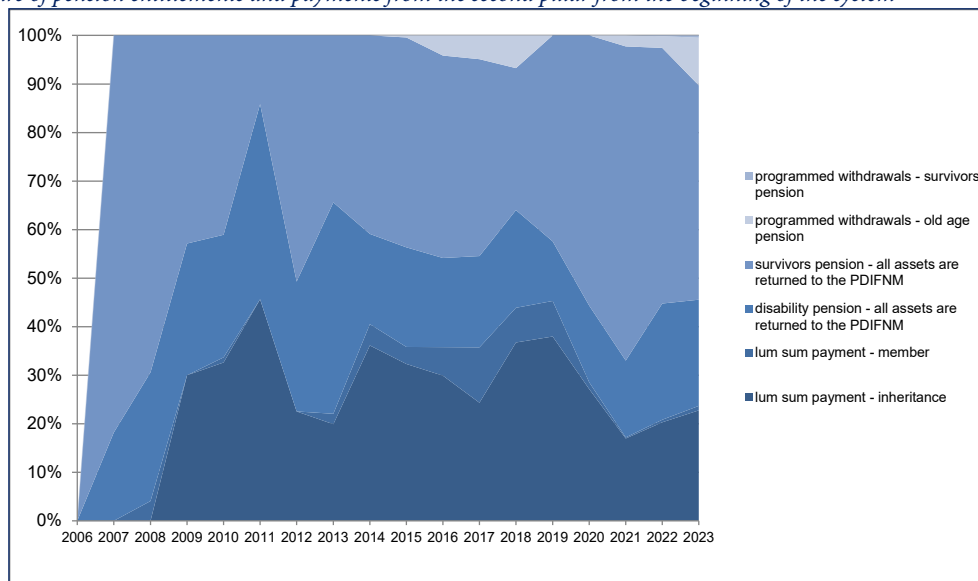
A detailed overview of the earned pensions and payments for members of the second pillar in 2023, by mandatory pension funds, is presented in Table 5.12.

Table 5.16. Pension entitlements and payments for the second pillar members in 2023

Type of pension and payment / Mandatory pension fund	SAVAz	KBPz	TRIGLAVz	Total
Disability pension	48	46	4	98
Family pension	95	94	9	198
Old age pension – programmed withdrawals	7	11	0	18
Family pension – programmed withdrawals	1	0	0	1
One-time payment – member	1	3	0	4
One-time payment – inheritance	59	41	2	102
Total	211	195	15	421

Graph 5.27. shows the structure of completed pensions and payments from the second pillar, in the eighteen years of existence of the second pillar, as of 2023. The number of payments is very small, because the members are young people. Most of the payments are in cases of the death of a member, through an earned family pension, or an inheritance payment, so payments based on an earned disability pension, and the smallest number is one-off payments to members and payments to members through programmed withdrawals.

Graph 5.27. Structure of pension entitlements 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 Member account transfer in the same or another voluntary pension fund
- 6.4 Contributions in voluntary pension funds
- 6.5 Investment and portfolio structure of the voluntary pension funds
- 6.6 Net assets, accounting unit and rate of return of voluntary pension funds
- 6.7 Fees in voluntary pension funds
- 6.8 Payment of pension benefits from voluntary fully funded pension insurance

6. Information on voluntary pension funds

In the voluntary fully funded pension insurance, as of 2023, there are a total of 31,500 members, which means an increase in membership in the year by about 6.77%, which is approximately at the same level as last year. Of the total number of members in the third pillar, about 49% are members with a voluntary individual account, while about 51% are participants in a pension scheme with a professional account. The new voluntary pension fund made a slightly bigger move in the transitions of members from one voluntary pension fund to another voluntary pension fund in 2023 as well.

During 2023, a total of about 431.91 million MKD were paid into the voluntary pension funds. The total assets of the voluntary pension funds recorded a lower growth compared to the total assets of the mandatory pension funds, that is, they grew by 17.46% and reached 3.59 billion MKD, which represents about 0.43% of the GDP of RNM. In the structure of the investment portfolio of the voluntary pension funds, a small increase in the share of domestic government securities and a small increase in the share of investments abroad is observed, mostly due to the increase in the share of shares of investment funds. The investment portfolio in 2023 consists of domestic investments that include government securities (55.48%), deposits (5.51%), stocks (6.18%), corporate bonds (0.58%) and a very small part in shares in investment funds (0.60%), as well as investments abroad, which include investments in foreign government bonds (0.94%), short-term securities (0.23%), corporate bonds (0.19%), shares of investment funds (23.61%) and shares (4.88%).

In 2023, the values of the accounting units of the four voluntary pension funds recorded growth again after the deviation from the growth trend in 2022 (8.46% of SAVAd, 6.46% of KBPd, 6.37% of TRIGLAVd and 8.20% of VFPd). Although in 2023 there was a small increase in the return in nominal amount in the seven-year period 2017 - 2023 of the voluntary pension funds as well, however, the increase in the change in the level of the cost of living, reduced to an annual level, still significantly affects the return amounts regarding the actual amount in 2023. At the level of the third pillar, in the seven-year period 2017 - 2023, an average return, reduced to an annual level of 4.89% in nominal amount, i.e. 0.30% in real amount, was achieved, calculated through the change of the weighted average of the accounting units of the voluntary pension funds.

In 2023, 359 pension benefits and payments from the third pillar were realized.

6.1 Purpose of voluntary fully funded pension insurance

The primary purpose of voluntary fully funded pension insurance is to provide higher income after retirement, for insureds who are already insured in the single-pillar and/or two-pillar pension system, to provide pensions to persons who are not covered by mandatory pension insurance for themselves or from others and to provide preconditions for establishing occupational pension schemes in the process of harmonization of the social security system in the Republic of North Macedonia with the EU systems. The basic principles of voluntary fully funded pension insurance include: provision of additional funds in case of old age, voluntary membership, capital financing on the principle of defined contributions, investing funds on the basis of security, risk diversification and maintaining adequate liquidity, as well as transparency.

Voluntary pension insurance enables coverage of a large group of persons from the population of the Republic of North Macedonia, as well as persons who are not citizens of the Republic of North Macedonia. This provides additional savings for old age, which increases material security in old age. Furthermore, in accordance with the common practices 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 provided in the Republic of North Macedonia. Since European social security systems are subject to increasing pressure, occupational pensions, in the future, will increasingly play a role in supplementing revenues after retirement. For those reasons, 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 a citizens' association (insurer), can organize and finance an occupational pension scheme and pay 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 insured signs an agreement with the company he/she has chosen to manage the voluntary pension fund, which will include the occupational pension scheme.

Voluntary fully funded 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, by increasing demand for new instruments and through new financial services, etc.

Voluntary fully funded pension insurance became operational in the second half of 2009, whereby the existing companies were granted licenses to manage voluntary pension funds. The Open Voluntary Pension Fund "NLB Penzija Plus" - Skopje started operating on 15.07.2009, while KB First Open Voluntary Pension Fund - Skopje, on 21.12.2009. In June 2018, MAPAS gave an approval to change the name of the pension fund Open Voluntary Pension Fund - "NLB Penzija Plus" Skopje to Open Voluntary Pension Fund Sava Penzija Plus. Triglav Open Voluntary Pension Fund - Skopje started operating on 01.03.2021. VFP Open Voluntary Pension Fund - Skopje started operating on 18.10.2022.

6.2 Membership in the voluntary pension funds

An individual can become a member of a voluntary pension fund in three ways:

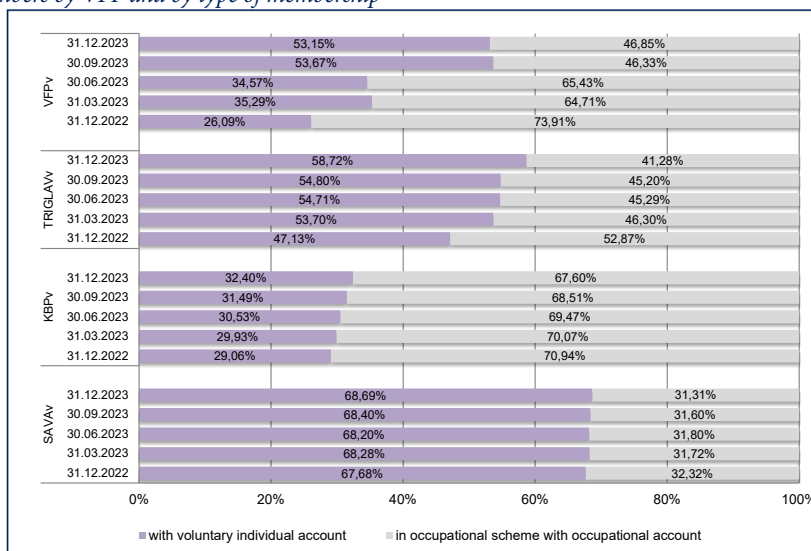
- 1) by signing an agreement on membership in a voluntary pension fund between the person and the company and by opening a voluntary individual account,
- 2) by signing an agreement on membership in a voluntary pension fund between the person, the natural person who pays on behalf and for the account of the person (payer) and the company and by opening a voluntary individual account,
- 3) by participating in an occupational pension scheme, organized by his employer or by an association in which he is 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.

In the voluntary fully funded pension insurance, as of 31.12.2022, there is total of 31.500 members, which means additional 1.998 members compared to 31.12.2021, i.e., there is an increase in membership by about 6.23%. The increase in membership in 2023 compared to 2022 retains approximately the same level as the previous year. Of the total number of members in the third pillar, 15.389 or about 49% are members with a voluntary individual account, while 16.111 or about 51% are participants in a pension scheme with a professional account. Because TRIGLAVv and the new voluntary pension fund VFPv have relatively small number of members (0.55% of the total number of members in TRIGLAVv and 1.36% in VFPv), in relation to the distribution of members by voluntary pension funds, as of 31.12.2022, for voluntary pension funds that have been operating since 2009, there is no significant change compared to the situation in the previous year, i.e., about 44,16% of the members are in SAVAvd, while about 53,93% are in KBPv.

From graph 6.1., which shows the structure of members by voluntary pension funds and by type of membership, in 2023, at the quarterly level, a significant difference can be observed in relation to the type of membership in the four voluntary pension funds. Regarding the structure of members by type as of 31.12.2023, there is no significant change at SAVAv and KBPv compared to the situation last year. Namely, SAVAv has a larger number of members with voluntary individual accounts (68.69%), while KBPv has more members in pension schemes with professional accounts (67.60%). At TRIGLAVv and VFPv there is a greater change compared to the situation in the last year and at the end of 2023 at TRIGLAVv and VFPv the distribution of membership is more even, although a larger number are members with voluntary individual accounts (58.72% at TRIGLAVv and 53.15% at VFPv).

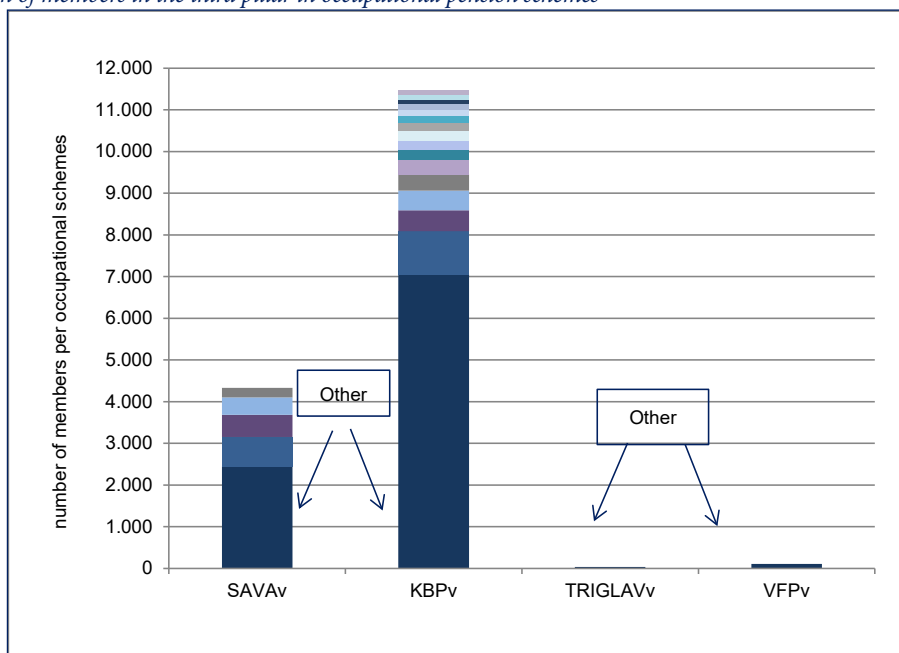
Graph 6.1. Structure of members by VPF and by type of membership



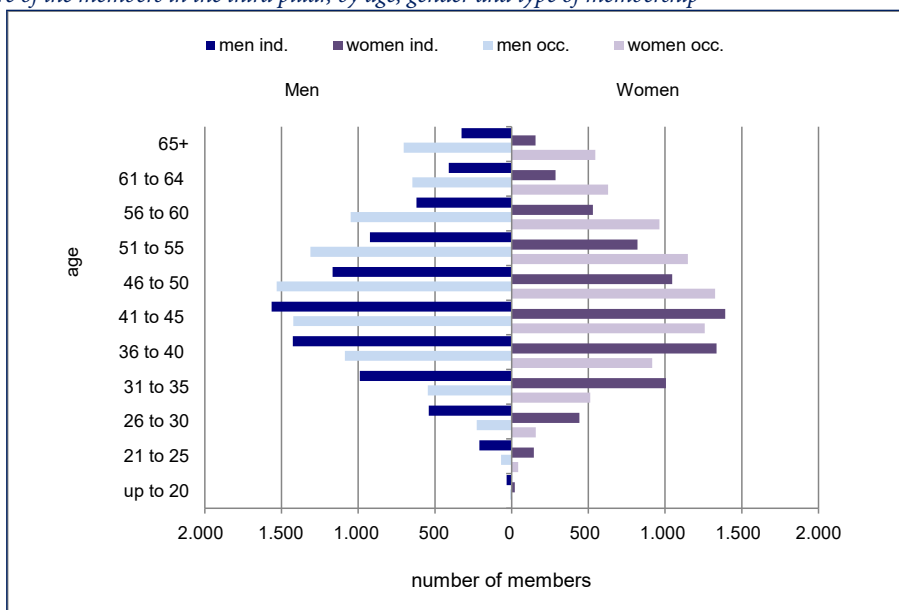
From the experience so far, usually, members who have individual accounts pay the assets themselves, and rarely there are members whose contribution is paid by a payer (out of a total of 15.389 members who have individual accounts, only 885 members or 5.8% have a payer). Voluntary fully funded pension insurance enables membership of persons who are not citizens of the Republic of North Macedonia. In the existence of the third pillar so far there are very few members who are foreign nationals (0.01% of the total number of member).

Regarding the participation of members in professional pension schemes, in SAVAv 4,355 members are participants in 1,228 professional pension schemes, in KBPv 11,484 members are participants in 2,879 professional pension schemes, in TRIGLAVv 71 members are participants in 5 professional pension schemes and in VFPv 201 members are participants in 43 occupational pension schemes. There are occupational pension schemes with several dozen members and occupational pension schemes with only 1 to 2 members each. Out of the total number of schemes, 19 professional pension schemes have over 100 members each, 4 schemes have over 500 members, one of which has over 1,000 members. The distribution of members in professional pension schemes by funds is given in graph 6.2., which only shows individually the schemes with more than 100 members individually, while the rest of the schemes are included in the item “others”.

Graph 6.2. Distribution of members in the third pillar in occupational pension schemes



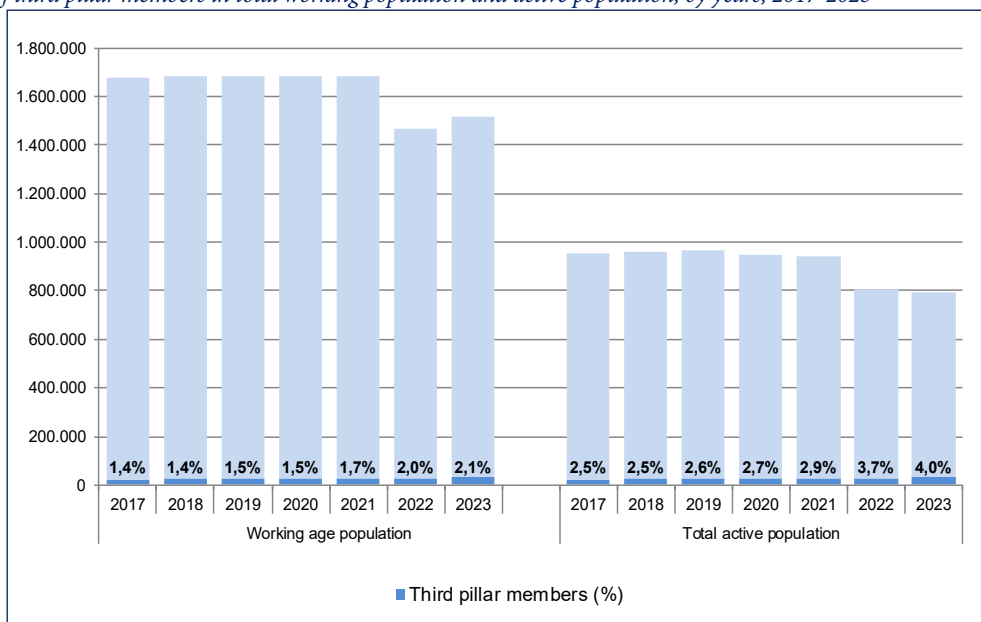
Graph 6.3. The structure of the members in the third pillar, by age, gender and type of membership



This graphical representation shows that in the third pillar compared to the second pillar the number of older members is higher. About 57% of the members with a voluntary individual account are up to 45 years of age, while about 58% of the members with a professional account are up to 50 years of age. Members who have a professional account are older than members with an individual account. The average age of the members with an individual account is 44 years for men and women, and the average age of the members with a professional account is 49 years for men and 49 years for women, while the average age of all members in total is 47 years.

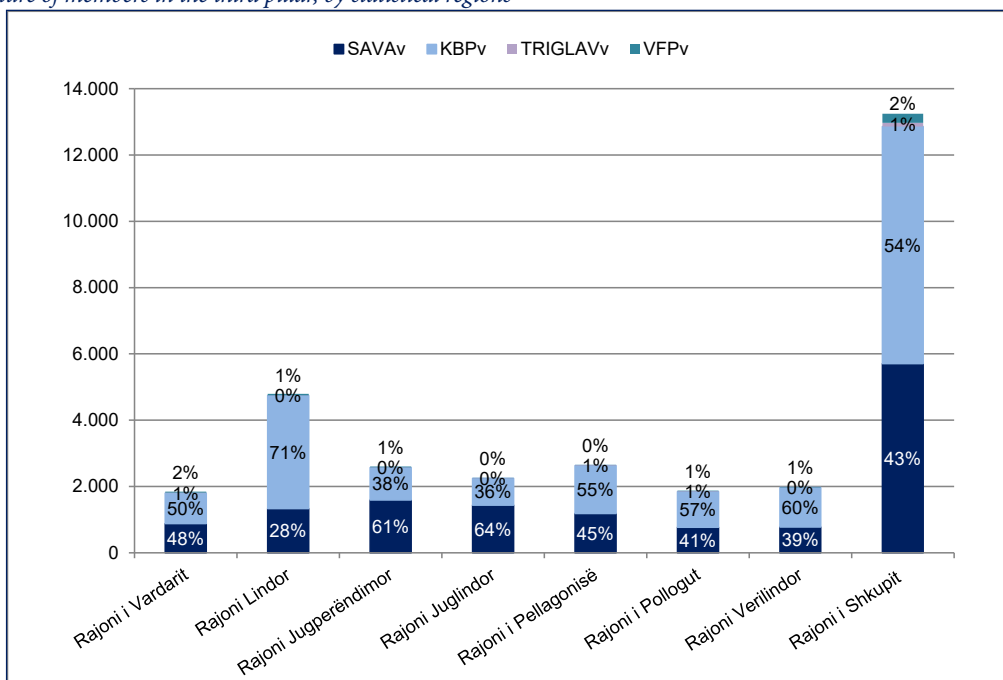
The participation of the total number of members of the third pillar in the total working population and in the total active population, although grown in 2023, it is still small. As of the end of 2023, only about 2.1% of the total working population in RNM are members of the third pillar, that is, about 4.0% of the total active population in RNM are members of the third pillar. The increase in the participation of members in the third pillar, in the total able-bodied population and active population in RNM, in the period from 2017 to 2023, is shown in graph 6.4. This result shows that there is significant potential for the development of the third pillar.

Graph 6.4. Share of third pillar members in total working population and active population, by years, 2017-2023



The structure of members in voluntary pension funds by statistical regions¹⁹ in RNM is given in a graph 6.5. The largest number of members in the four voluntary pension funds are from the Skopje region, 7,150 members in KBPv, 5,710 members in SAVAv, 114 members in TRIGLAVv and 274 members in VFPv. The fewest members in SAVAv are from the Polog region (770 members), the least members in KBPv are from the Southeast region (805 members), the least members in TRIGLAVv are from the Northeast region and the East region (2 members each), while the least members in VFPv are from Pelagonian region (6 members).

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



¹⁹The statistical regions are defined according to the State Statistical Office - territorial units. The nomenclature of the territorial units is based on the territorial organization of the local self-government in the RNM and is harmonized with the EU classification.

6.3 Member account transfer in the same or another voluntary pension fund

Every person has the right to choose a voluntary pension fund and the right to change the selected voluntary pension fund, at their own discretion any time they wish. If the member is a member of the existing voluntary pension fund for less than 12 months, he/she ought to pay a transfer fee upon transfer. Otherwise, the transfer is free. During the transfer, the total funds from the member's account are also transferred. In addition, in case of transfer of a participant in an occupational pension scheme from one insurer to another, he 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 the person in it. The member, who is a participant in an occupational pension scheme, has the right to transfer the funds to a voluntary individual account, if he/she is not employed or is not a member of a citizens' association.

Table 6.1. contains data on the number of members who transferred from one voluntary pension fund to another and on the amount of transferred funds from one voluntary pension fund to another, on that basis, in 2023.

The start of operation of the fourth VFP voluntary pension fund has caused a somewhat larger movement in the transition of members from one voluntary pension fund to another in 2023. Namely, in 2023, the total number of members in voluntary pension funds, who transferred from one voluntary pension fund to another, is 197, which represents 0,63% of the total number of members. Although the percentage share of members who made a change in the voluntary pension fund in the total number of members is still minimal in 2023, the number of members who made a transfer in the voluntary pension fund is significantly higher compared to 2022. At the same time, 48 members transferred to SAVAv, 21 transferred to KBPv, 3 members transferred to TRIGLAVv and 121 transferred to VFPv. During the transfer, about 10.26 million denars were transferred to SAVAv, about 8.12 million denars were transferred to KBPv, around 0.72 million denars were transferred to TRIGLAVv and about 35.36 million denars were transferred to VFPv. Also, in 2022, there were transitions within the same pension fund from one occupational scheme to another and from occupational to a voluntary individual account.

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

2023		VPF to which members have transferred, i.e., in which funds have been transferred				Total
		SAVAv	KBPv	TRIGLAVv	VFPv	
Members who transferred from a VPF	SAVAv	-	21	1	57	79
	KBPv	25	-	2	64	91
	TRIGLAVv	23	0	-	0	23
	VFPv	4	0	0	-	4
	Total	52	21	3	121	197
Assets that have been transferred from a VPF (in denars)	SAVAv	-	8.118.350	716.213	20.436.852	29.271.415
	KBPv	7.726.620	-	3.253	14.923.981	22.653.854
	TRIGLAVv	2.528.927	0	-	0	2.528.927
	VFPv	1.419.214	0	0	-	1.419.214
	Total	10.255.547	8.118.350	719.466	35.360.833	55.873.410

6.4 Contributions in voluntary pension funds

The payment of a voluntary contribution can be done only for a person who meets the membership requirements 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 for the account of a member who has a voluntary individual account, can be done by the member himself and/or the payer. The payment of voluntary contribution, on behalf and for the account of a member who has a professional account, can be made only by the insured. Payments are made from the transaction account of the member and/or the payer or insured. The voluntary contribution is paid to a special cash account of the voluntary fund, which is kept with the property custodian and is distributed to a voluntary individual account, or to a professional account of the member, depending on the manner of membership registration and after fulfilling the membership requirement.

The member, the payer and the insured 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, do not affect the right to membership in the fund, i.e., do not imply termination of membership. The amounts of voluntary contributions are determined by the

insurer, for all participants in the occupational pension scheme, which he organizes and finances and determines as a percentage of the salary of the member, who is included in the occupational pension scheme.

In 2023, a total amount of about 431.95 million denars were paid into the voluntary pension funds, which is about 0.05% of the GDP of the Republic of North Macedonia. The detailed contributions paid by month (in millions of denars) are presented in Table 6.2.

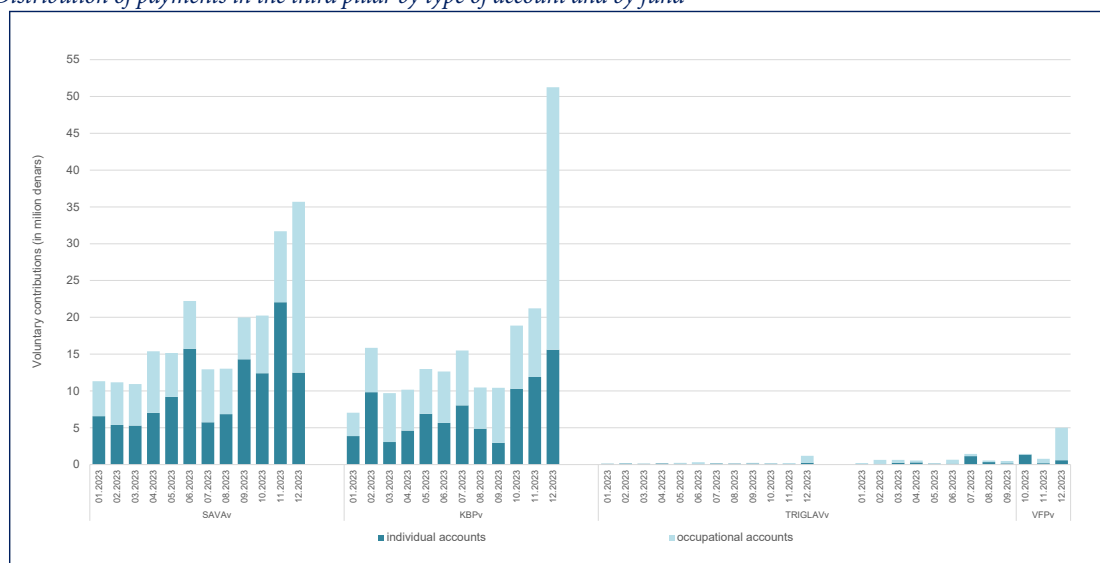
Table 6.2. Contributions in the third pillar by months and funds

(in million of denars)

	Total 2022	Jan.	Feb.	March	April	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Total 2023
SAVAd	189,83	11,32	11,18	10,95	15,38	15,15	22,22	12,94	13,02	19,98	20,24	31,70	35,69	219,77
KBPd	202,40	7,05	15,87	9,71	10,18	12,98	12,65	15,50	10,48	10,44	18,88	21,23	51,25	196,20
TRIGLAVd	3,76	0,12	0,21	0,13	0,16	0,24	0,32	0,20	0,14	0,23	0,20	0,21	1,19	3,37
VFPv	4,09	0,21	0,65	0,64	0,54	0,18	0,66	1,44	0,56	0,48	1,44	0,78	5,01	12,61
Total	400,09	18,70	27,90	21,44	26,26	28,55	35,86	30,08	24,21	31,14	40,76	53,93	93,13	431,95

In 2023, the total amount of paid voluntary contributions in the third pillar recorded an increase of 7.96% compared to 2022. Compared to the previous year, the total amount of paid voluntary contributions increased in SAVAv (by about 15.77%) and in VFPv (by about 208%) and decreased in KBPv (by about 3.07%) and in TRIGLAVv (by about 10.41%). In 2023, the distribution of voluntary contributions in the four voluntary pension funds in total, paid into professional accounts and voluntary individual accounts, is equal. In terms of funds, in 2023, only at SAVAv the majority of voluntary contributions were paid to voluntary individual accounts (56%), while at other funds the majority of voluntary contributions were paid to professional accounts (55% at KBPv, 52% in TRIGLAVv and 62% in VFPv). The distribution of payments by type of account to which they were paid and by fund, on a monthly basis, is given in Graph 6.6.

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



6.5 Investment and portfolio structure of the voluntary pension funds

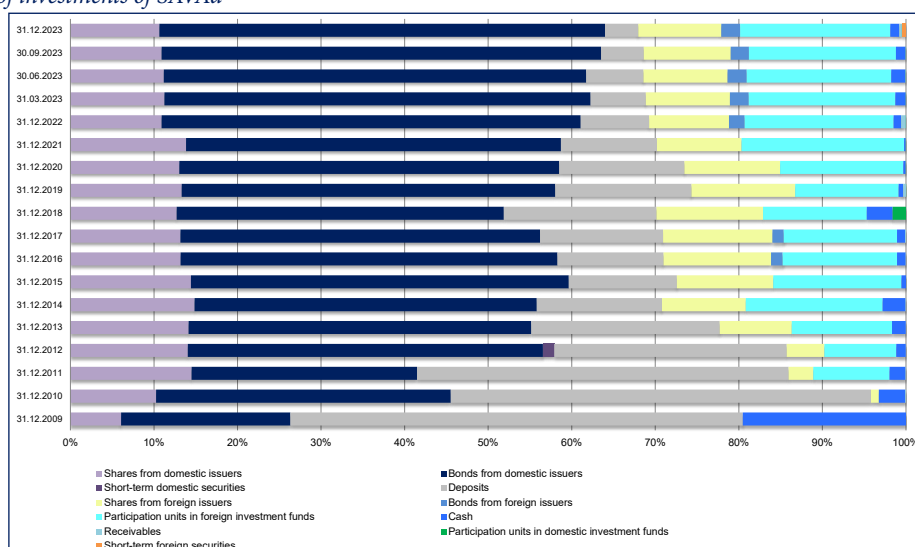
In voluntary fully funded pension insurance, same as in mandatory fully funded pension insurance, in the initial phase, proactive control and quantitative and qualitative restrictions on investments are used. However, unlike mandatory fully funded pension insurance, voluntary pension insurance has more liberal investment terms.

In addition to the instruments allowed in mandatory pension funds, in the voluntary pension funds, regarding 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 proper diversification between different types of investments and voluntary pension funds, maximum constraints are provided for investing in a certain company and in a certain economic group and maximum constraints 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, the law prohibits investments in shares, bonds and other securities, which are not listed on the official market or which are not traded publicly, instruments that cannot be legally available, multiple forms of assets that cannot be immediately assessed and items of uncertain value. The maximum investment constraints are shown in Table 6.3.

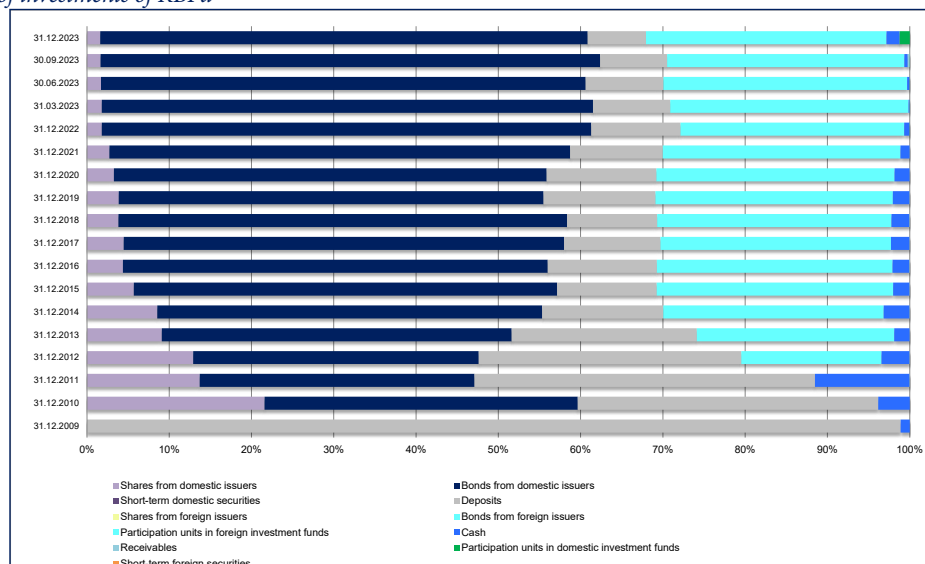
Table 6.3. Maximum investment limits

Type of instrument	Maksimum limit
Investments abroad (EU, OECD)	50%
<ul style="list-style-type: none"> 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%
<ul style="list-style-type: none"> 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%
Securities issued or guaranteed by RNM on the domestic market or NBRNM	80%
Bank deposits, deposit certificates, commercial papers, bonds and mortgage backed securities issued by domestic banks	60%
Bonds issued by local self-government and domestic joint stock companies, which are not banks and, commercial notes from domestic joint stock companies, which are not banks	40%
<ul style="list-style-type: none"> bonds issued by local self government units 	10%
Bonds issued by domestic joint stock companies	30%
Participation units and shares in Macedonian investment funds	5%

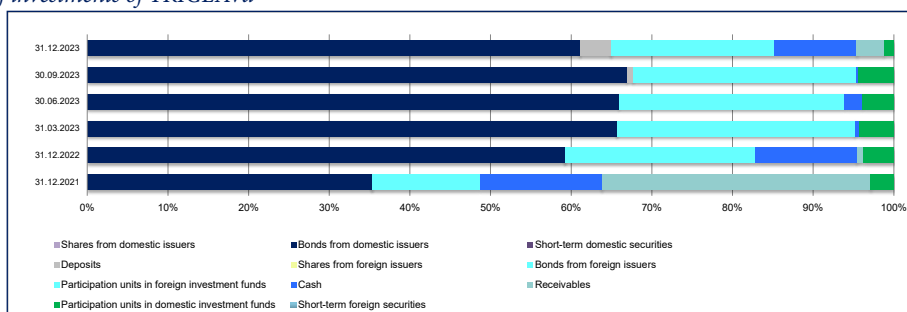
Graph 6.7. Structure of investments of SAVAd



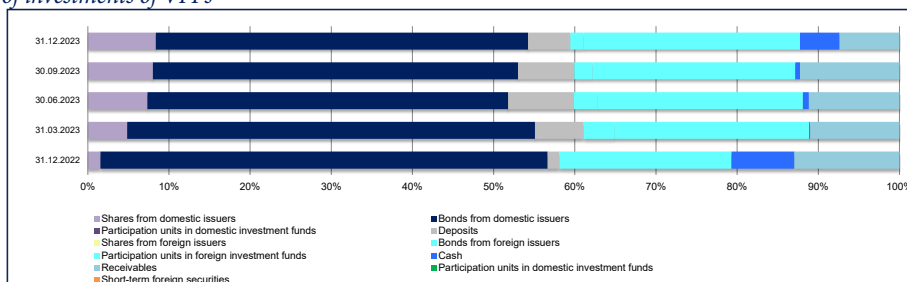
Graph 6.8. Structure of investments of KBPd



Graph 6.9. Structure of investments of TRIGLAVd



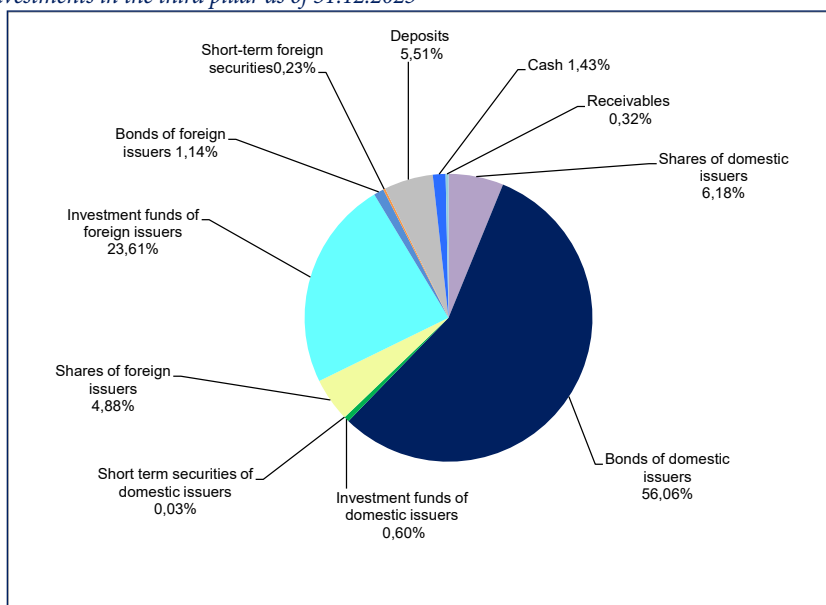
Graph 6.10. Structure of investments of VFVPs



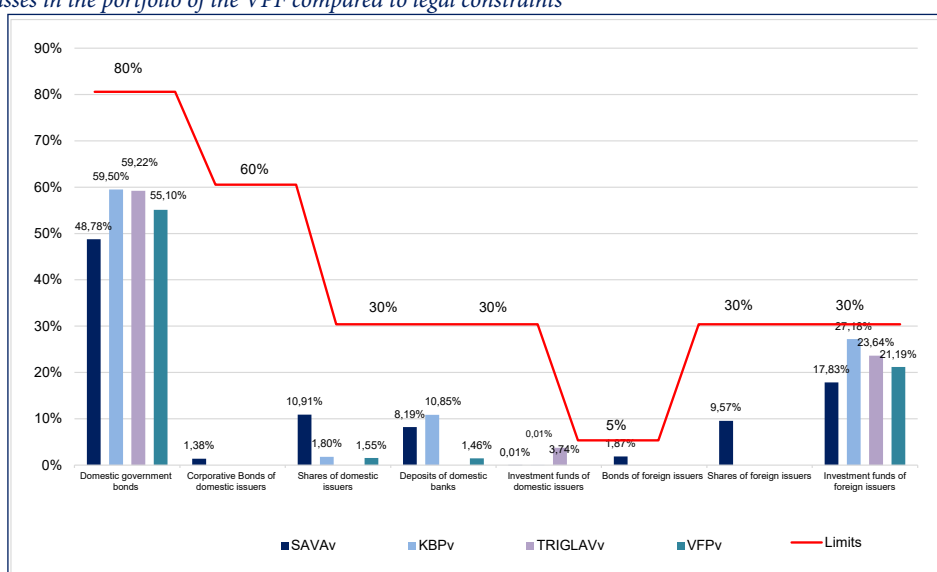
The structure of the investments of the voluntary pension funds SAVAv and KBPv, since the initial operation of the voluntary pension funds (for the period 2009 - 2022, on an annual basis, and for 2023, on a quarterly basis), is presented in Graph 6.7. and in Graph 6.8. The structure of the investments of the voluntary pension fund TRIGLAVv since the initial operation of the fund (01.03.2021) and on a quarterly basis for 2022 is presented in Graph 6.9. The structure of the investments of the voluntary pension fund VFVPv since the initial operation of the fund (18.10.2022) on a quarterly basis for 2022 is presented in graph 6.10.

The structure of the investments of the voluntary pension funds, as of 31.12.2023, does not differ much compared to the structure of the investments of the voluntary pension funds, as of 31.12.2022, and it is shown in graph 6.11. In 2023, the share of bonds from domestic issuers, which includes domestic government bonds (55.48%) and corporate bond (perpetual bond issued by a bank 0.58%) compared to the previous year, increased to 56.06%. In 2023, a small part of the investments also belongs to investments in short-term securities from domestic issuers (0.03%). The share of shares from domestic banks decreases compared to the previous year and amounts to 5.51%. The share of shares from domestic issuers remains at almost the same level as the previous year and amounts to 6.18%. A very small part of the investments of the voluntary pension funds belongs to investments in shares of domestic investment funds (0.60%). In 2023, the share of investments abroad increased, compared to the previous year, and amounted to 29.86%. In 2023, two pension funds also invested in foreign bonds and one pension fund also invested in short-term securities from foreign issuers, so investments in foreign securities include investments in foreign government bonds (0.94%), short-term securities (0.23%), corporate bonds (0.18%), investment fund shares (23.61%) and investments in shares (4.88%). The remaining part of the assets of the voluntary pension funds is made up of cash assets 1.43% and receivables 0.32%.

Graph 6.11. Structure of investments in the third pillar as of 31.12.2023



Graph 6.12. Asset classes in the portfolio of the VPF compared to legal constraints

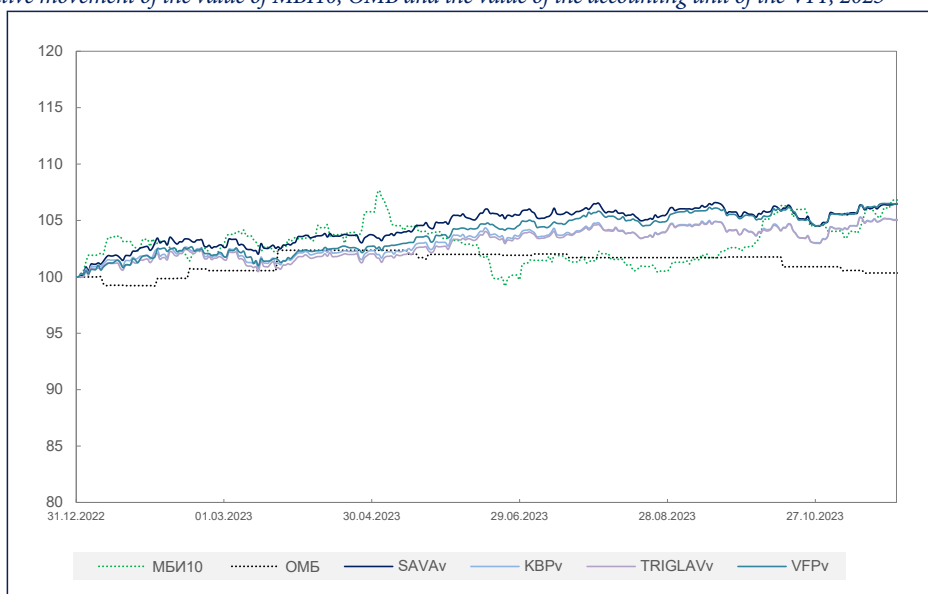


During 2023, the four voluntary pension funds invested within the maximum investment limits. On chart 6.12. the percentage share in the portfolio by asset classes at SAVAv, KBPv, TRIGLAVv and VFPv and the legal restrictions with the situation on 12.31.2023 are shown.

Voluntary pension funds have a higher exposure to assets in shares of domestic issuers (6.18%) compared to mandatory pension funds, although the exposure to shares in domestic issuers is different for all pension funds. At the same time, the exposure of shares in domestic issuers is significantly higher at SAVAv (10.65%) and VFPv (8.24%) compared to KBPv (1.61%). TRIGLAVv has no investments in shares of domestic issuers as of 31.12.2023.

Comparatively, the movement²⁰ 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 voluntary pension funds, during the year 2023, are shown in graph 6.13. The value of the accounting unit of SAVAv recorded an increase of 8.46%, the accounting unit of KBPv an increase of 6.46%, the accounting unit of TRIGLAVv an increase of 6.37% and the accounting unit of VFPv recorded an increase of 8.20%. MBI10, during 2023, recorded an increase of about 8.21% . OMB, during 2023, recorded an increase of about 0.35%¹¹.

Graph 6.13. Comparative movement of the value of MBI10, OMB and the value of the accounting unit of the VPF, 2023

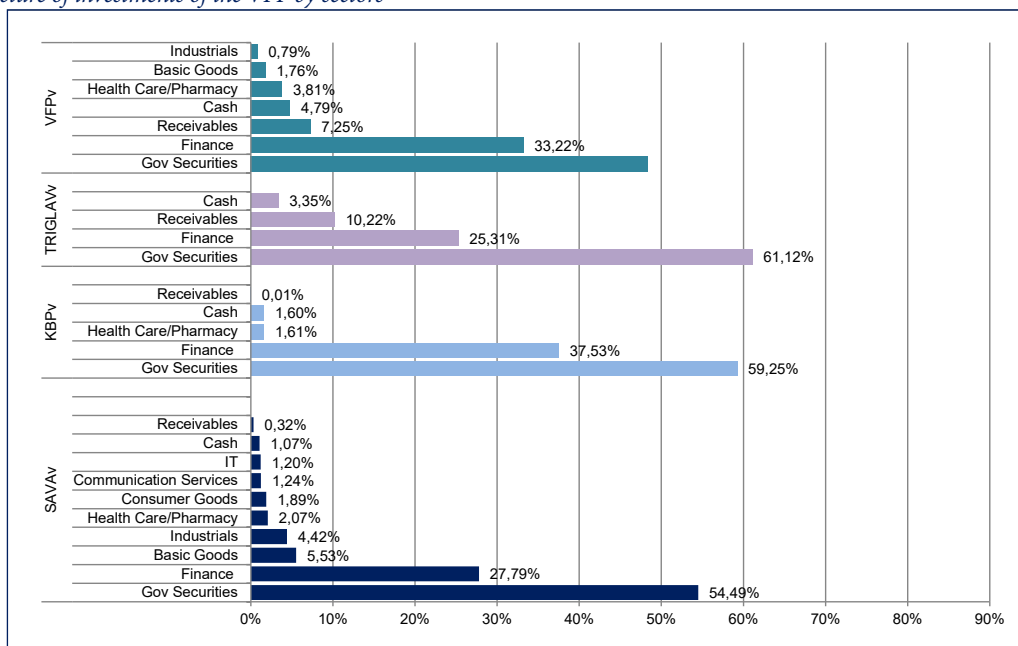


Source: MAPAS and Macedonian Stock Exchange AD Skopje - Annual Statistical Bulletin 2023

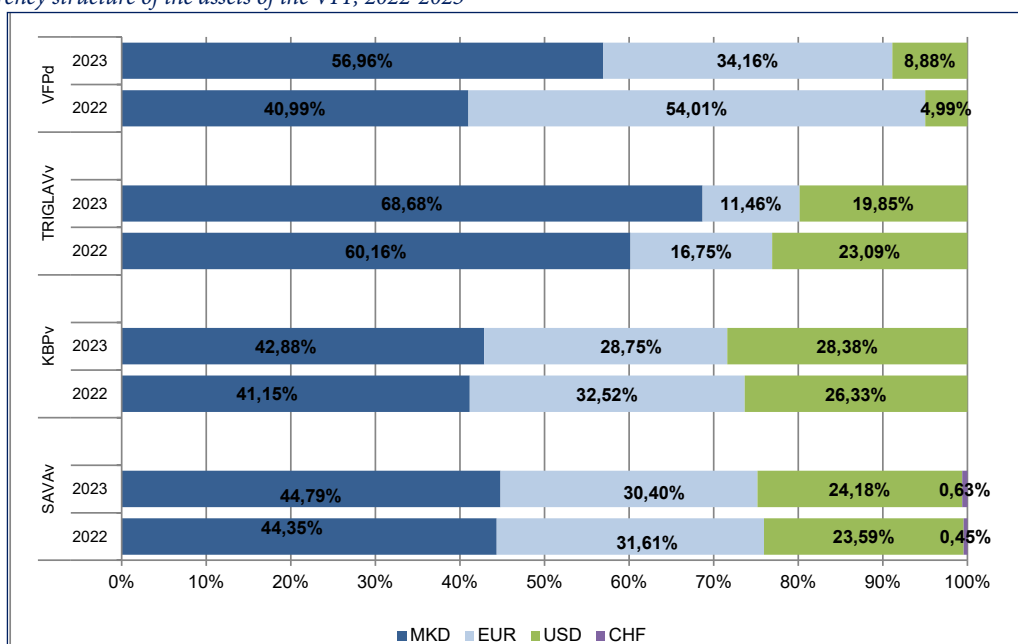
²⁰The movements are shown through the change of the indices/units in relation to the initial index equal to 100, on 31.12.2022.

Also, among voluntary pension funds, most of the funds in 2023 were invested in government securities, namely domestic government securities (52.16% at SAVAv, 59.25% at KBPv, 61.12% at TRIGLAVv and 46.77% at VFPv) and on foreign government securities (2.33% at SAVAv and 1.60% at VFPv). Investments in instruments from issuers/joint stock companies from the financial sector follow immediately (27.79% at SAVAv, 37.53% at KBPv, 25.31% at TRIGLAVv and 33.22% at VFPv). Within this sector, SAVAv has the largest share of shares in foreign and domestic investment funds (64.75%), followed by domestic bank deposits (14.34%), shares in domestic banks (8.98%), and financial services (6.30%) and bonds issued by domestic and foreign banks (5.63%). At KBPv, within the financial sector, the participation of foreign investment funds prevails (81.11%), and the rest belongs to domestic bank deposits (18.89%). And at TRIGLAVv, within the financial sector, the participation of foreign and domestic investment funds prevails (84.88%), and the rest is domestic bank deposits (15.12%). At VFPv, within the financial sector, the participation of foreign and domestic investment funds prevails (78.99%), and the rest belongs to domestic bank deposits (15.37%) and shares in domestic banks (5.64%). In addition to the above sectors, voluntary pension funds also invest in other sectors: basic goods, pharmaceuticals, consumer goods, industry, information technology and communication services, but with a much smaller share (from 0.79% to 5.53%). The structure of investments of voluntary pension funds, by sector, is shown in graph 6.14.

Graph 6.14. Structure of investments of the VPF by sectors



Graph 6.15. Currency structure of the assets of the VPF, 2022-2023

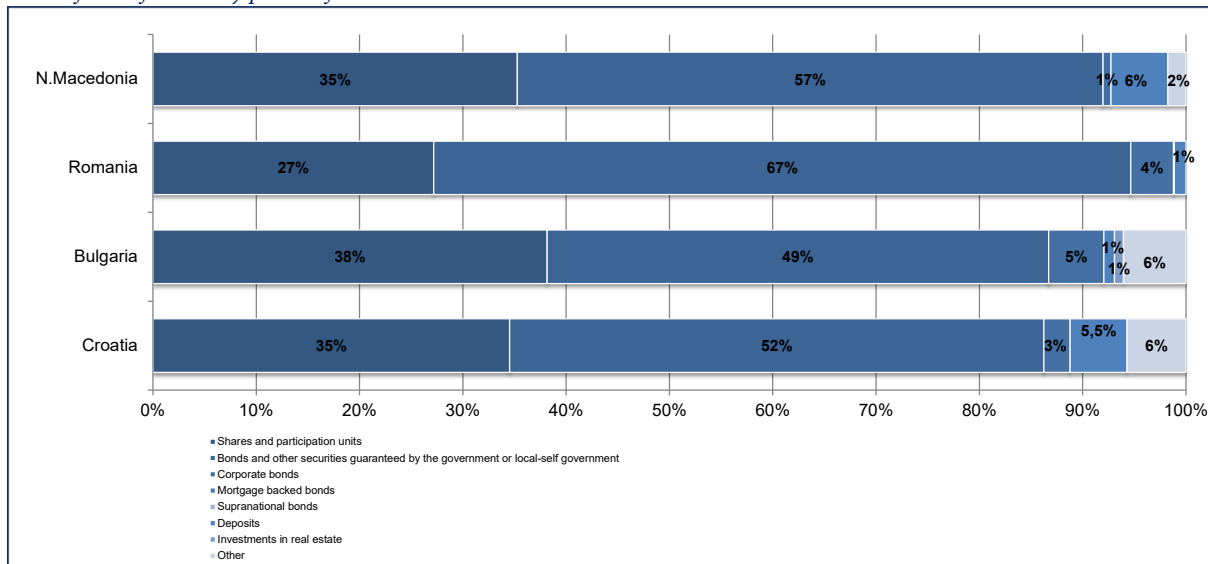


Regarding the currency structure of the assets of the voluntary pension funds, shown in graph 6.15, it is noted that SAVAv and KBPv have a similar currency structure. Namely, in 2023, most of SAVAv's funds are invested in instruments in local currency (44.79%), while the participation in instruments in euros is 30.40%. At SAVAv, the participation in instruments in denars remains almost at the same level compared to last year, while the participation in instruments in euros is slightly increasing. At KBPv, most of the funds are invested in instruments in domestic currency (42.88%), while the participation in instruments in euros is 28.75%. In 2023, compared to last year, at KBPv the participation in instruments in denars increases, while the participation in instruments in euros decreases. The share of investments in US dollars both at SAVAv (24.18%) and at KBPv (28.38%) is increasing compared to the previous year. The currency structure at SAVAv also includes a small part of instruments in Swiss francs 0.63%. The currency structure of TRIGLAVv differs from the currency structure of SAVAv and KBPv. The weight of TRIGLAVv's assets is still on the side of assets invested in denar instruments (68.68%). In 2023, a decrease in the participation of instruments in foreign currency is observed, that is, 11.46% of TRIGLAVv's assets are invested in instruments in euros, and 19.85% of the assets are invested in instruments in US dollars. Also, the currency structure of VFPv differs in relation to the currency structures of SAVAv, KBPv and TRIGLAVv. At VFPv, most of the assets are invested in instruments in domestic currency (56.96%), followed by participation in instruments in euros (33.31%), and the smallest participation in instruments in US dollars (8.88%)

If a comparison is made with countries that have similar pension systems to the Macedonian one, similarities, but also differences, can be seen in the investment portfolios of the voluntary pension funds. Chart 6.16. gives a comparison of the investments, as of 31.12.2023, of the voluntary pension funds in the RNM, with the investments of the voluntary pension funds in some of the countries of the region that have implemented voluntary capital funded pension insurance .

If the portfolios of voluntary pension funds are reviewed by instruments, it can be noted that pension funds in almost all countries have the highest exposure in bonds and other securities, which are guaranteed by the state or local government (in Romania 67%, in North Macedonia 57%, in Croatia 52%, and with the lowest percentage in Bulgaria 49%). The exposure in bank deposits is the highest in North Macedonia and Croatia and amounts to 6%. In Romania and Bulgaria, the exposure to deposits is significantly lower and amounts to about 1%. In terms of investments in shares and shares, the largest percentage of funds in shares and shares are invested in pension funds in Bulgaria (38%), North Macedonia and Croatia (35%) and in Romania (27%). Pension funds also invested in corporate bonds, 5% for pension funds in Bulgaria, 4% in Romania and 3% in Croatia. Compared to pension funds in other countries, the share of investments in corporate bonds among pension funds in North Macedonia is lower, 1%. Only in Bulgaria did pension funds invest in real estate (1%), and in other countries, most of the time, this instrument is not allowed. In terms of investing abroad²¹, pension funds in North Macedonia have the highest exposure in foreign investments with 30%, followed by pension funds in Croatia with 28% and Romania with 10%.

Graph 6.16. Portfolios of voluntary pension funds in several countries and in RNM



Sources: www.hanfa.hr; www.fsc.bg; www.asfromania.ro and own calculations.

²¹The data on foreign investments for Bulgaria dated 31.12.2023 were not available.

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 rates of 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,
- outflow due to incorrect payment of converted contributions,
- 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 payment of inheritance,
- outflow due to payment of pension benefits (single and multiple payments),
- un(realized) profits/losses from investments.

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

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

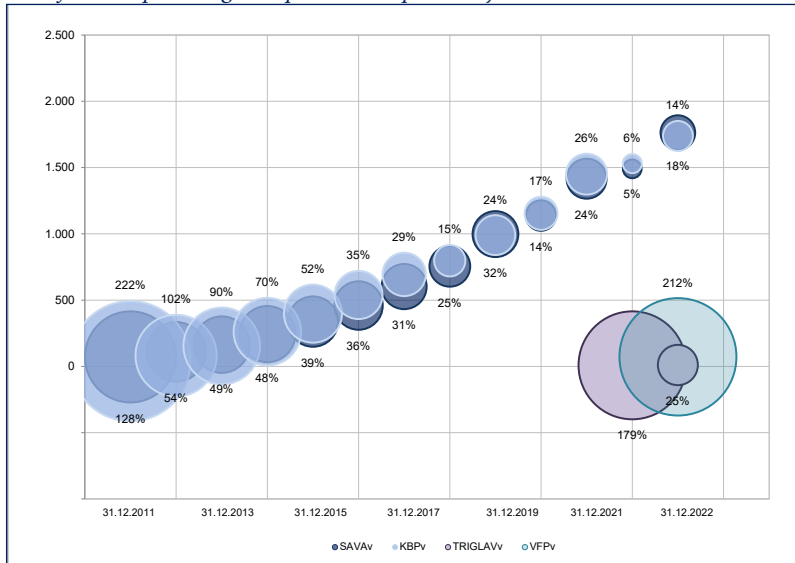
	SAVAd	KBPd	TRIGLABd	VFPd	Total
Net assets on 31.12.2022	1.490,03	1.530,44	8,55	23,18	3.052,19
Contributions	219,77	196,20	3,37	12,61	431,95
Fees from contributions	5,04	4,76	0,09	0,34	10,23
Contributions reduced for fees from contributions	214,74	191,44	3,27	12,27	421,71
Payment on an individual account from personal income tax refund	0,00	0,00	0,00	0,00	0,00
Outflow for incorrect payment of converted contributions	0,27	0,10	0,00	0,00	0,37
Compensation from assets	14,46	14,51	0,09	0,35	29,41
Expenditures for intermediary commissions	0,14	0,04	0,00	0,04	0,22
Transfer from the other fund	11,67	8,12	0,72	35,36	55,87
Transfer to the other fund	29,27	22,65	2,53	1,42	55,87
Inheritance payment	4,73	8,70	0,00	0,00	13,43
Payment of pension compensation - one-time payment/multiple payment	47,80	61,10	0,00	0,23	109,12
Gross return on investment	144,07	115,37	-104,81	48,05	202,69
Net return on investment	129,47	100,83	-104,90	47,66	173,06
Net assets on 31.12.2023	1.763,84	1.738,27	10,65	72,30	3.585,06

The total net assets in the voluntary pension funds, as of 31.12.2023, amounted to about 3.59 billion denars or about 58.29 million euros, which represents about 0.43% of the GDP.

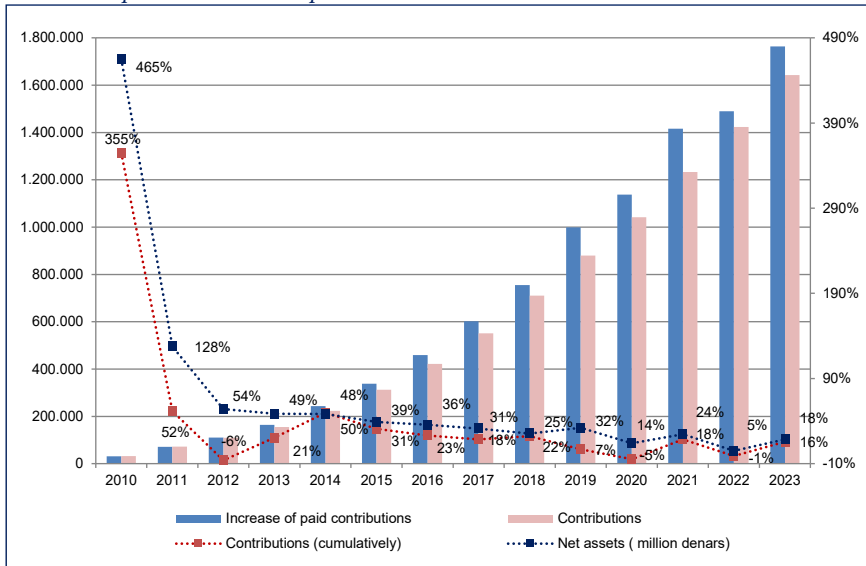
Graph 6.17. shows the values of the net assets at the end of all years and their increase in percentage compared to the net assets in the previous year. At the same time, it can be noted that the net assets of SAVAv and KBPv grow with a similar trend. The highest growth is observed in 2011 compared to 2010, while the lowest growth is observed in 2022 compared to 2021. The growth of the assets of SAVAv and KBPv in 2023 compared to the previous year is already following the expected trend. At TRIGLAVv and VFPv, a large growth of net assets can be observed in the second year of the funds' operation compared to the first year.

The movement of the value of net assets and cumulative contributions, as well as the growth of paid contributions and the growth of net assets in SAVAv and KBPv are shown in graph 6.18. and in graph 6.19. The growth of the net assets of voluntary pension funds is implied by the growth of paid contributions and investment results. After the decrease in growth in 2022, in 2023, an increase in the growth of net assets is observed again. The share of cumulative contributions in the total net assets during the first years is significantly high, and then it decreases with the exception of 2022.

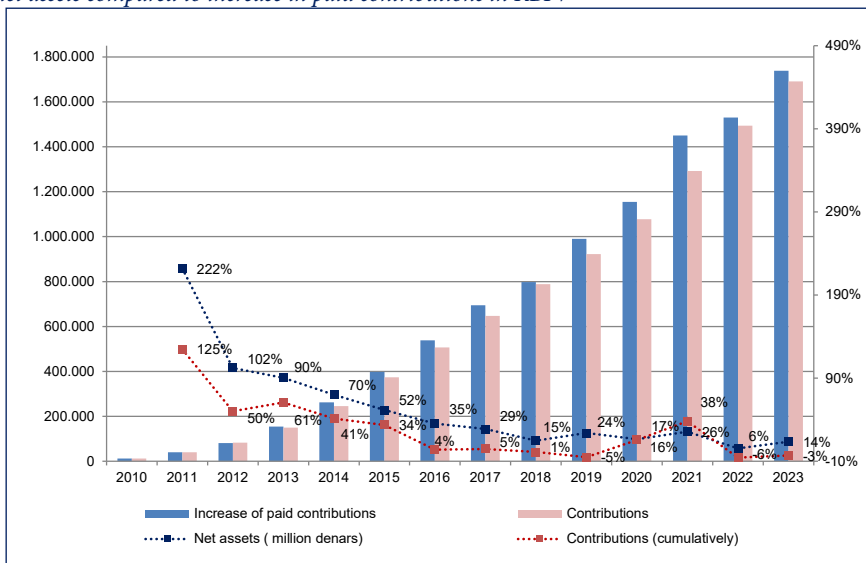
Graph 6.17. Increase in net assets of VFP in percentage compared to the previous year



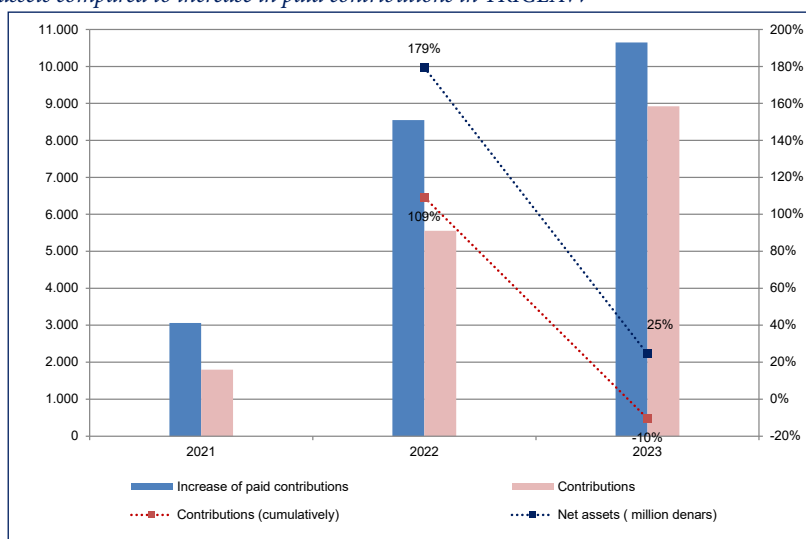
Graph 6.18. Increase in net assets compared to increase in paid contributions in SAVAv



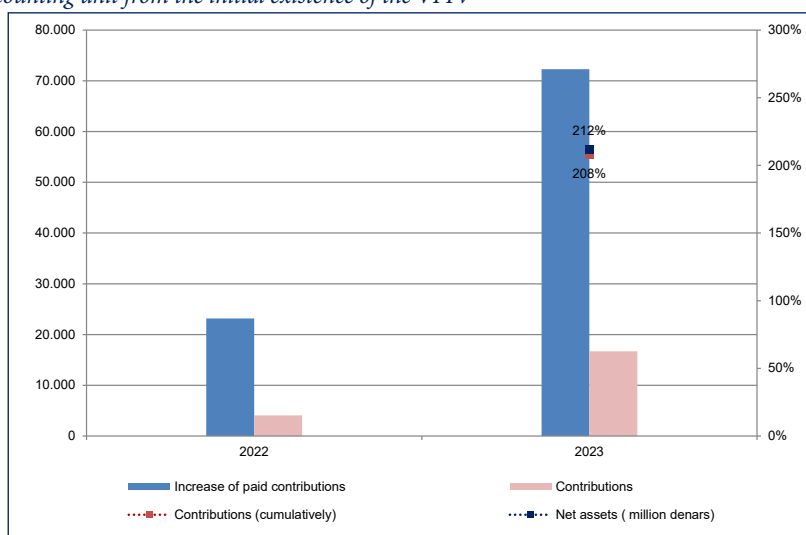
Graph 6.19. Increase in net assets compared to increase in paid contributions in KBPv



Graph 6.20. Increase in net assets compared to increase in paid contributions in TRIGLAVv



Graph 6.21. Value of the accounting unit from the initial existence of the VFPv



At SAVAv, after the reduced growth of SAVAv’s net assets in 2022 (5%), in 2023, an increase in the growth of net assets is observed again (18%). While, after the reduction of paid contributions by 1% in 2022, in 2023 an increase of paid contributions is observed by 16% compared to last year.

Also, in 2023 and with KBPv, after the reduced growth in 2022, there is an increase in the growth of net assets (14%). Regarding the contributions paid in 2023, a decrease of 3% is observed. The movement of the value of the net assets and the cumulative contributions as well as the growth of the paid contributions and the growth of the net assets of TRIGLAVv, for the first three years of operation, 2021 - 2023, and of VFPv for the first two years of operation, 2022 and 2023 are shown on Graph 6.20. and Graph 6.21., respectively. At TRIGLAVv, there is a decrease in the growth of net assets (25%) and a decrease in paid contributions in 2023 compared to 2022 by 10%. The growth of the net assets of TRIGLAVv is mostly due to the paid contributions. At VFPv, there is an increase in net assets and paid contributions in 2023 compared to 2022. The growth of the net assets of the VFPv, in addition to being implied by the growth of paid contributions, is also due to the assets transferred from other pension funds to the VFPv based on the concluded agreements for the transition to the VFPv.

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 31.12.2023, is given in table 6.5., on graph 6.22. and on graph 6.23. Moreover, since the beginning of the operation of SAVAv and KBPv, a growing trend of the accounting units has been observed. On March 1, 2021, the third voluntary pension fund, TRIGLAVv, began operating, and on October 18, 2022, the fourth voluntary pension fund, VFPv, began operating. In 2023, the values of the accounting units of the four voluntary pension funds recorded growth again after the deviation from the growth trend in 2022 (8.46% of SAVAv, 6.46% of KBPv, 6.37% of TRIGLAVv and 8.20% of VFPv). However, pension funds, by their very nature, operate over the long term, so their performance should be evaluated over the long term.

Graph 6.22. Value of the accounting unit since the beginning of the VPF existence

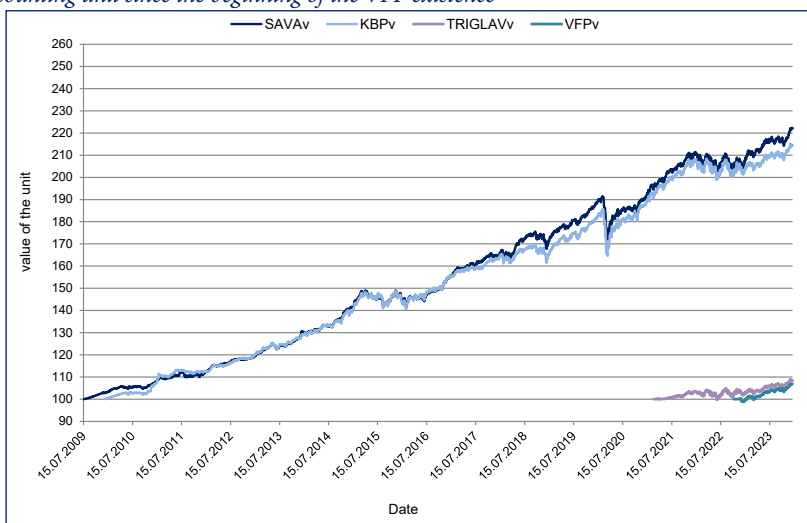


Chart 6.23. Value of the VPF accounting unit in 2023

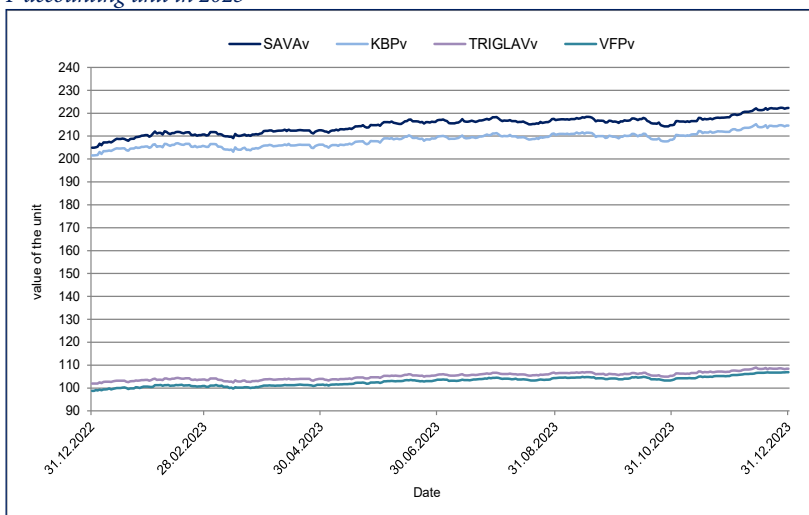


Table 6.5. Value of the accounting unit from the initial existence of VPF

Date	Value of accounting unit		Date	Value of accounting unit			
	SAVAd	KBPd		SAVAd	KBPd	TRIGLABd	VFPd
15.09.2009	100,000000		31.12.2021	210,750156	207,793725	103,476074	
21.12.2009	102,815757	100,000000	31.12.2022	204,936103	201,600542	101,945390	98,791716
31.12.2009	103,061825	100,204385	31.03.2023	212,199013	205,834046	103,744087	101,042619
31.12.2010	107,592926	106,891617	30.06.2023	216,891376	209,725642	105,792588	101,059053
31.12.2011	111,854726	112,639593	30.09.2023	216,321884	209,715936	105,999111	101,064674
31.12.2012	118,742851	119,129537	31.12.2023	222,263888	214,618876	108,442676	101,163246
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					
31.12.2020	191,209810	188,085163					

The rate of return of voluntary pension funds by periods, reduced to an annual level, is shown in a table 6.6²².

Table 6.6. VPF rate of return

Period*	SAVAd		KBPd		TRIGLAVd***		VFPd***	
	in nominal trem	in real term	in nominal term	in real term	in nominal term	in real term	in nominal term	in real term
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%				
31.12.2013 - 31.12.2020	5,60%	4,90%	5,53%	4,82%				
31.12.2014 - 31.12.2021	5,91%	4,41%	5,81%	4,31%				
31.12.2015 – 31.12.2022	4,80%	0,77%	4,64%	0,61%	-	-		
30.06.2021 – 31.12.2022	-	-	-	-	0,84%	-11,60%		
31.03.2016 – 31.03.2023	5,53%	1,34%	5,09%	0,92%				
30.06.2021 – 30.06.2023					1,73%	-9,43%		
30.06.2016 - 30.06.2023	5,82%	1,41%	5,23%	0,84%				
30.06.2021 – 30.06.2023					2,51%	-8,34%		
30.09.2016 - 30.09.2023	5,43%	0,69%	4,92%	0,20%				
30.06.2021 – 30.09.2023					2,32%	-8,24%		
31.12.2016 – 31.12.2023	5,32%	0,71%	4,81%	0,22%				
30.06.2021 – 31.12.2023					3,01%	-6,16%		
31.12.2022 – 31.12.2023							8,20%	4,42%
Start**– 31.12.2023	5,68%	2,62%	5,59%	2,47%	2,90%	-5,99%	5,87%	2,44%

*Until the adoption of the amendments to the Law on Voluntary Fully Funded Pension Insurance, from January 2013, the return of a voluntary pension fund was calculated for a period of 3 years, only in nominal amount.

**The start of SAVAv is 15.7.2009 , for KBPv it is 21.12.2009, for TRIGLAVv it is 1.3.2021. and for VFPv it is 18.10.2022.

***TRIGLAVd and VFPd are included in the comparative rate of return analyzes with calculated rate of return for the respective periods, according to the regulation, because they exist longer than 12 months but shorter than 84 months.

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

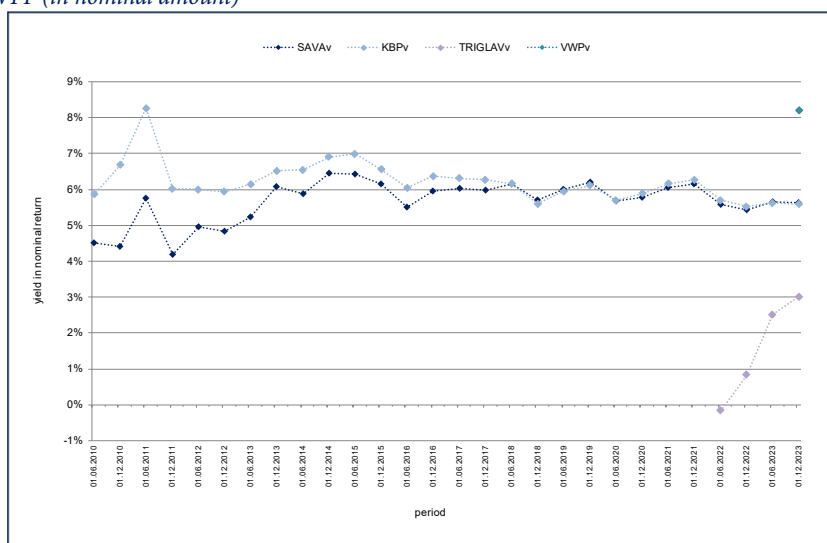
The rate of return of voluntary pension funds is calculated in the same way and according to the same formula as the rate of return of mandatory pension funds.

Considering the long-term nature of pension insurance, it is good to calculate the rate of return of the voluntary pension funds since the beginning of their existence, reduced to an annual level, which for SAVAv is 5.68% in nominal amount, i.e. 2.62% in real amount , for KBPv 5.59% in nominal amount i.e. 2.47% in real amount, for TRIGLAVv 2.90% in nominal amount i.e. -5.99% in real amount, and for VFPv 5.87% in nominal amount i.e. 2.44% in real amount.

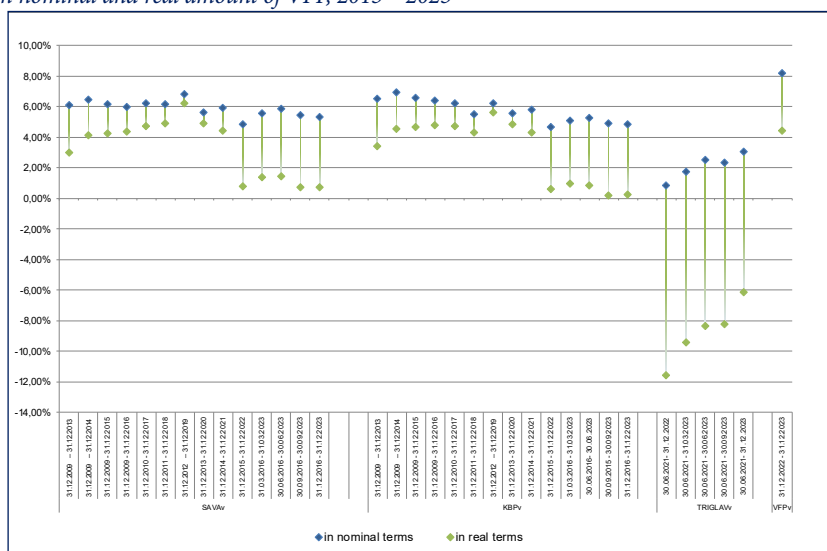
The movement of the rate of return in nominal amount, by periods, can be seen on chart 6.24., where the rates of return by periods s are shown from 31.12.2009 to 31.12.2023, by funds. At the beginning, there is an increase in rate of return, so that, at the end of the first half of 2011, high rates of return are observed for both voluntary pension funds, while at the end of 2011, there was a decline in rates of return. Then, in the following years, there is a gradual increase in rate of return until mid-2015, after which a decline in rate of return is observed, until mid-2016, and then an increase in rate of return is observed again, as of the end of 2016. In 2019, there is an increase in rate of return compared to the rate of return at the end of 2018. In 2020, lower rates of return compared to 2019 are observed for SAVAv and KBPv, mostly due to the unfavorable conditions of the financial markets in the conditions of the Corona virus pandemic. After the drop in rates of return in 2022 due to the global crisis caused by the military conflict between Ukraine and Russia, in 2023 a slight increase in rates of return is observed for SAVAv and KBPv. TRIGLAVv in the initial years of its

²²TRIGLAVd and VFPd are included in the comparative rate of return analyzes with calculated rate of return for the respective periods, according to the regulation, because they exist longer than 12 months but shorter than 84 months.

Graph 6.24. Return of the VPF (in nominal amount)



Graph 6.25. Rate of return in nominal and real amount of VPF, 2013 – 2023



operation and in exceptional circumstances due to the unfavorable conditions of the financial markets recorded a rate of return in a nominal amount less than zero, which was compensated already in the next period and in 2023 an increase in the rate of return compared to 2022 is observed. In the first year of its operation, VFPv recorded a high rate of return.

The movement of the return in nominal and real amount, in the period from 2013 to 2023 (on an annual level) and in 2023 (on a quarterly level), after appropriate legally defined periods, converted into an equivalent annual rate of return, by voluntary pension fund, can be seen on graph 6.25. This graph also shows the movement of the rate of return in nominal and real amount of TRIGLAVv and VFPv, for the respective periods according to the regulation because they exist longer than 12 months but shorter than 84 months. After the growth of the rate of return in the first quarter of 2023 in relation to 2022, in 2023 the rate of return in both nominal and real amounts also recorded a decrease in SAVAv (from 5.53% to 5.32% in nominal and from 1.34% to 0.71% in real amount) and at KBPv (from 5.09% to 4.81% in nominal amount and from 0.92% to 0.22% in real amount). At the same time, the lowest amount of rate of return in nominal amount and in real amount was recorded in the fourth quarter for pension funds that have been in existence for more than seven years. In contrast to the rates of return of SAVAv and KBPv, the rate of return of the third voluntary pension fund, which began operating in March 2021, in 2023 recorded growth in nominal terms (from 1.73% to 3.01% and in real terms from -9.43% to -6.16%). The fourth voluntary pension fund at the end of 2023 achieved a return in nominal amount of 8.20% and in real amount of 4.42%. In the considered period (2013 - 2023), the change in the level of the cost of living in the calculation periods, reduced to an annual level, until 2019, recorded a decrease, which affects the gradual approach of returns in real amount to returns in nominal amount, while in the period after 2019 (especially in 2022) there is an increase that affects the gradual distancing of returns in real amount from returns in nominal amount.

The seven-year return at the level of voluntary fully funded pension insurance for the period 31.12.2016 - 31.12.2023, calculated through the change of the weighted average²³ of the accounting units of the voluntary pension funds, reduced to an annual level, is 4.89% in nominal amount, that is, 0.30% in real amount.

²³The average value is calculated as a weighted average of the accounting units of the voluntary pension funds in relation to the net assets of the voluntary pension funds.

6.7 Fees in voluntary pension funds

For performing their functions for managing the assets of the voluntary pension fund, assessing the assets, membership registration, keeping voluntary individual and professional accounts of the members and for reporting to the members, as well as for paying the fees for MAPAS and for the property custodian, the companies, in accordance with the Law on Voluntary Fully Funded Pension Insurance, charge a contribution fee, a fund fee and a transfer fee.

The contribution fee is charged as a percentage of each contribution paid to a voluntary pension fund, before its conversion into accounting units. The company collects this fee in the same percentage from all members of the voluntary pension fund, except in the case of members who are participants in a professional pension scheme or in the case of multi-year membership. The monthly asset fee is a percentage of the value of the net assets of the voluntary pension fund, which is calculated on each valuation date of the assets of the voluntary pension fund (in accordance with the applicable by-laws, the valuation date is every day) and is charged once monthly. The transition fee is charged in the case of a transition of a member from one voluntary pension fund to another voluntary pension fund, provided that the transitioning member has been a member of the existing voluntary pension fund for less than one year.

The law determines the maximum amounts, and it is the freedom of the companies to determine the amounts of the separate types of compensation within the legal maximum.

The fees charged by the companies that manage the voluntary pension funds in RSM, for 2023, are shown in Table 6.7.

Table 6.7. Fees charged by companies managing voluntary pension funds in 2023

Type of fee	SAVA	KB First	TRIGLAV	VFP
Fee from contributions*	2,50% ²⁴	2,50% ²⁵	2,90%	2,90%
Monthly fee from the assets of the voluntary pension fund	0,075% ²⁶	0,075% ²⁷	0,075%	0,075%
Transfer fee				
Number of days**	Amount of transfer fee	Amount of transfer fee	Amount of transfer fee	Amount of transfer fee
number of days ≤ 360	10 Euros	10 Euros	10 Euros	10 Euros
number of days > 360	Transfer fee not charged	Transfer fee not charged	Transfer fee not charged	Transfer fee not charged

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

** 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, as of 2023, is shown in a Table 6.8.

Since the beginning of the operation of the voluntary pension funds, the pension companies SAVA and KB First reduced the compensation from contributions three times. The compensation from assets since the beginning of the operation of the third pillar amounted to 0.15% per month of the value of the net assets of the voluntary pension fund. Also, in 2011, both companies reduced the compensation from assets to 0.100% at SAVA and to 0.075% at KB First. In 2021, SAVA once again reduced the fee from assets and now it amounts to 0.075%.

The collection of fees (in thousands of denars), by the companies that manage the voluntary pension funds, during the year 2023, by month and by type of fee, is given in a Table 6.9.

²⁴ As of 1 May 2021 (previously it was 2,90%).

²⁵ As of January 2023 (previously 2,90%).

²⁶ As of 1 May 2021 (previously it was 0,100%).

²⁷ As of 1 January 2011 (previously was 0,15%).

Table 6.8. Amount of contribution fees charged by pension companies in the third pillar

Pension company	Amount	Date of application
SAVA	5,25%	From the initial operation of the fund (July 15, 2009)
	3,80%	From March 1, 2011
	2,90%	From January 1, 2017
	2,50%	From 1 May 2021
KB First	5,50%	From the initial operation of the fund (December 1, 2009)
	4,00%	From April 24, 2010
	2,90%	From June 1, 2013
	2,50%	From January 1, 2023
TRIGLAV	2,90%	From March 1, 2021
VFP	2,90%	From the initial operation of the fund (18 October 2022)

Table 6.9. Collection of fees by the companies in 2023 (in thousands of denars)

	Jan.	Feb.	March	April.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Total
SAVAd- total	1.400	1.403	1.403	1.511	1.526	1.730	1.503	1.516	1.703	1.705	2.003	2.095	19.499
From contributions	263	245	245	341	349	524	288	295	470	469	749	798	5.035
From assets	1.137	1.158	1.158	1.170	1.177	1.206	1.216	1.221	1.233	1.236	1.254	1.297	14.464
KBPd-total	1.338	1.562	1.406	1.428	1.509	1.509	1.589	1.476	1.483	1.698	1.779	2.492	19.269
From contributions	175	386	233	248	321	307	377	258	254	465	524	1.213	4.763
From assets	1.163	1.176	1.172	1.180	1.188	1.202	1.212	1.219	1.229	1.233	1.255	1.279	14.506
TRIGLAVd - total	10	13	10	11	14	17	14	12	15	14	15	42	188
From contributions	4	6	4	5	7	9	6	4	7	6	6	33	95
From assets	7	7	7	7	8	8	8	8	8	8	9	9	93
VFPd - total	22	37	30	38	29	41	71	46	47	80	62	183	687
From contributions	5	19	11	16	5	16	42	16	14	42	19	136	453
From assets	18	19	19	22	24	25	29	30	33	38	43	48	362

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

During 2023, a total of about 140 thousand denars of transaction fees were charged from SAVAv, a total of about 37 thousand denars were charged from KBPv, a total of 3 thousand denars were charged from TRIGLAVv, while 40 thousand denars of transaction fees were charged from VFP.

6.8 Payment of pension benefits from voluntary fully funded pension insurance

The conditions for acquiring the right to a pension benefit and the method of payment of the pension benefit from the third pillar are more liberal compared to the second pillar, but it should still be taken into account that they are savings for the post-retirement period. Namely, the funds can be withdrawn at the earliest ten years before the age for acquiring the right to an old-age pension, in accordance with the Law on Pension and Disability Insurance, which would currently mean at the earliest at the age of 54 for men, ie 52 for women. Also, the funds can be withdrawn in the event that the member is determined to have a general inability to work, by the Work Capability Assessment Commission, at the PDIFNM Fund, regardless of age. In the event of the death of a member of a voluntary pension fund, the funds from the member's account become part of the estate and are dealt with in accordance with the Inheritance Law.

Funds from the third pillar are used at the member's choice in the following types of pension benefits:

- single or multiple payment 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
- a 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.

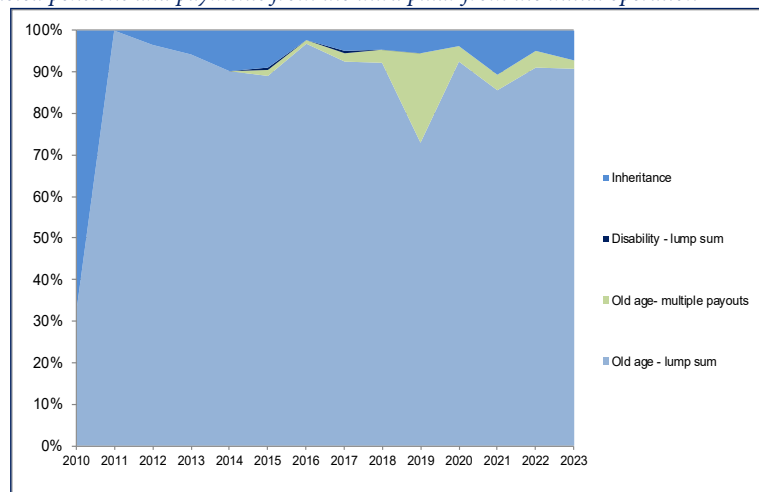
In 2023, 359 pension benefits and payments from the third pillar were made. Most of the completed pension benefits were in cases of fulfilled age criteria, and most of them as one-time payments, and a small part as multiple payments. A small proportion of the payments in the third pillar were in the event of the death of a member, with the payment of an inheritance. 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 2023, is given in Table 6.10.

Table 6.10. Completed pension benefits and payments to members of the third pillar

Type of pension benefit and payment/ Voluntary pension fund	SAVAd		KBPd		VFPd		Total
	Individual account	Professional account	Individual account	Professional account	Individual account	Professional account	
Old age - one-time payment	92	51	43	138	0	2	326
Old age - multiple payment	1	3	1	2	0	0	7
Inheritance	12	2	3	9	0	0	26
Total	105	56	47	149	0	2	359

Graph 6.25. shows the structure of completed pension benefits and payments to members of the third pillar from the beginning of the operation of the third pillar, by years, until 2023. The number of payments is low, because the system is still young and the members are relatively young persons. Most of the payments are one-time payments in case of fulfilled age criteria, followed by payments in cases of death of a member as inheritance payment. There is also a small number of one-time disability payments as well as multiple payments based on fulfilled age criteria.

Graph 6.25. Structure of completed pensions and payments from the third pillar from the initial operation



Marketing and agents of pension companies

7



7. Marketing and agents of pension companies

In order to protect the interests of existing, future members and retired members of 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 by-laws.

During 2023, an exam for agents was organized and conducted in five exam sessions, with 53% of the candidates present passing the exam. Also, the registration and the annual renewal of the registration of the agents were currently being carried out, and some of the agents had their status as agents terminated.

The increase in the average number of concluded contracts per agent continues in 2023, mostly due to the increase in the average number of concluded contracts per agent in TRIGLAV. Regarding the number of agents who concluded contracts in 2023, there is a slight increase in SAVA and KB Prvo, and a decrease in TRIGLAV.

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

Marketing activities imply all activities aimed at advertising the pension companies and the mandatory and voluntary pension funds and provision of information and conclusion of membership agreements 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 operation of pension companies and the pension funds they manage, provision of information about the characteristics of mandatory and voluntary fully funded pension insurance, provision of information about fees and transaction fees, provision of information about the returns of mandatory and voluntary pension funds, provision of information about the investment portfolios of the mandatory and voluntary pension funds, provision of information about 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 to another, conclusion of agreements for programmed withdrawals, agreements on one-time payment and agreements on multiple payments and other activities for the purpose of advertising and provision of 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). The marketing premises must meet certain legally prescribed 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. In the event when MAPAS considers that an advertisement, or other written material, may be misleading, it may adopt a decision to prohibit further publication, or distribution, and order the publication of an amendment to that material, within a period that it will determine.

A person who works on marketing, i.e., agent, may be a person employed in a pension company or another person who is contractually engaged by a pension company. The agent may perform marketing activities of pension funds and/or conclude membership or payment agreements, only for pension funds managed by the pension company where he is employed or contractually engaged. The agent must be present at the conclusion of the membership agreement of the pension fund, 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 personally make all contacts with the member, the retired member or the persons who have the right to become members and retired members of a pension fund, personally and must not conclude agreements through another person. The agent also 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 offers on projected future pensions of the member who submitted a request for listing, with a detailed explanation of the characteristics and the used assumptions 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 2023, an exam for agents was organized in five exam sessions and out of a total of 244 present candidates, registered to take the exam, 129 or 53% of the present candidates passed. In table 7.1. detailed data is given for the present candidates who took the agent exam in 2023, by pension company.

During 2023, a total of 149 agents were registered, of which 43 were agents of SAVA, 25 agents of KB First, 46 agents of TRIGLAV and 35 agents of VFP. Re-registration²⁸ was carried out for a total of 3 agents, of which 1 agent of TRIGLAV and 2 agents of VFP. Also, the annual renewal of the registration²⁹ of agents was carried out, for a total of 909 agents, of which 349 of SAVA, 269 of KB Prvo, 221 of TRIGLAV and 70 of VFP agents. During 2023, a total of 9 agents had their agent status terminated, of which 3 agents of SAVA, 4 agents of KB Prvo and 2 agents of TRIGLAV. An overview of the number and average values of registered, renewed and terminated agent statuses from 2019 to 2023 per pension company is given in Graph 7.1. It can be noted that the number of registered agents at all pension companies in 2023 is lower compared to 2022.

²⁸Re-registration of an agent for a pension company is performed for an agent who was previously an active agent of another pension company.

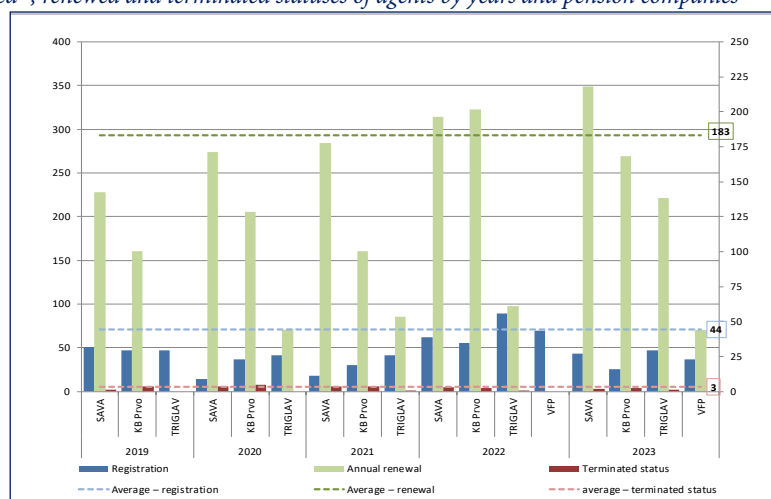
²⁹As of December 2023, the obligation for the pension company to carry out an annual renewal of the registration of agents is abolished.

Table 7.1. Present candidates who took the exam for agents by Pension Company

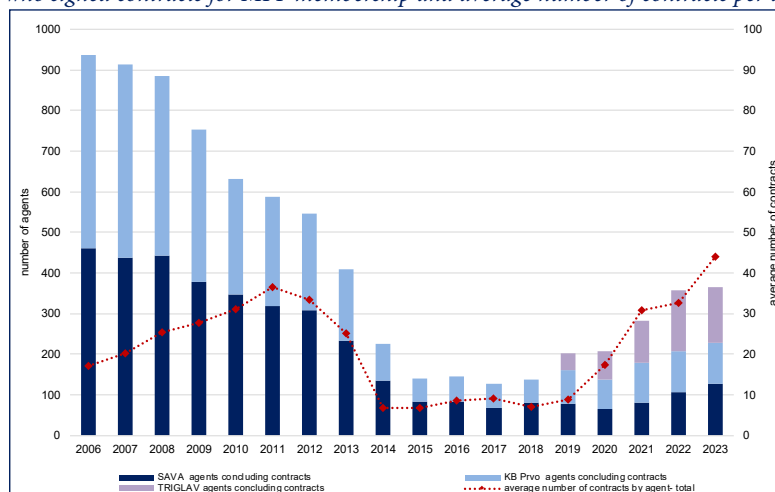
Pension company	Present	Passed	Passed (in %)
SAVA	99	59	60%
KB First	71	21	30%
TRIGLAV	51	32	63%
VFP	23	17	74%
Total	244	129	53%

Regarding the number of contracts for membership in the mandatory pension funds, which the agents conclude since the beginning of the system's operation, from Graph 7.2. it can be noted that the most agents, who on average concluded the most membership contracts, were in 2005, given that it was the beginning of the system, and until 31.12.2005, was the deadline for voluntary members to choose whether they would join the two-pillar system and sign an agreement. In the following years, the number of agents, who conclude contracts, continuously decreases from year to year, and at the same time, the average number of concluded contracts per agent grows, until 2011. Then, by 2014, the average number of signed contracts per agent drops significantly. In the following years, the number of agents who concluded contracts and the average number of concluded contracts per agent remain at an approximately similar level. In 2019, when the third pension company started working, an increase in the number of agents who concluded contracts was again observed, as well as a minimal increase in the average number of contracts concluded per agent compared to 2018. The increase in the average number of concluded contracts per agent continues in the next four years, mostly due to the increase in the average number of concluded contracts per agent at TRIGLAV. Regarding the number of agents who concluded contracts in 2023, there is a slight increase in SAVA and KB First, and a decrease in TRIGLAV.

Graph 7.1. Number of registered³⁰, renewed and terminated statuses of agents by years and pension companies



Graph 7.2. Number of agents who signed contracts for MPF membership and average number of contracts per agent



³⁰The number of re-registered agents is included in the number of registered agents.