

Frequently Asked Questions and Answers on the Law on Voluntary Pensions Funds

Why was the Law enacted?

Pension system reform represents one of the major challenges of the 21st century. Many countries today have to reckon with an aging population and to redefine their pension insurance system in order to keep it at a satisfactory level and ensure its financial stability. The aim of the Law is to enable saving for old age! Pension insurance system reform also encompassed the introduction of private pension funds, so as to enable households to supplement their state pension entitlement, to diversify risks and secure income in old age.

What are the advantages of fund membership?

State pension insurance reform will lead to a decline in state pensions relative to salaries for future pensioners. In light of this, employed people, especially the young, ought to save in order to ensure additional income that will supplement their state pension. The longer one saves, the higher this supplementary pension will be. This will enable future pensioners to maintain their living standard in old age as well. Private voluntary pension funds represent one possible way of saving for pension.

Some advantages of voluntary pension funds as a form of long-term savings are:

- they are used exclusively for pension savings,
- they are completely regulated and under strict supervision of the National Bank of Serbia,
- they provide additional income in old age, plus return on investment,
- diversification and investment policy should minimize the investment risk,
- tax breaks are possible.

How are voluntary pension funds organized?

In order for a voluntary pension fund to be organized, a pension fund management company needs to obtain two licenses issued by the National Bank of Serbia: operating license and management license.

The founders of the management company have to demonstrate their reliability and capability to perform this activity. The National Bank of Serbia will issue licenses upon ascertaining that founders are reliable and have a good track record. The National Bank of Serbia reserves the right to demand additional information from founders and their related parties, and to evaluate their financial stability and track record. Equity capital of the management company stands at EUR 1 million.

How to choose a pension fund?

In the beginning, before the funds have had the chance to earn their reputation as successful in fund management, it is best to choose the fund in the same way that you choose a bank in which to save money; i.e. you should opt for a fund that you trust. It is advisable to first obtain information on the persons managing the fund and to learn more about their prior business activities. Another factor to take into account are the fees charged for the services pension funds provide, as these may differ from fund to fund. However, the ultimate success of funds will depend on a multitude of hardly predictable factors.

Once pension funds have developed their operations, the choice of the fund will depend on the return earned by a particular fund. If the rate of return is low, fund member can transfer its funds to another fund where this rate is higher free of charge, other than the actual costs of physically effecting this transfer. This freedom of choice increases the responsibility of fund managers and contributes to healthy market competition.

How to become a fund member?

The person interested in becoming a fund member ought to be well-informed.

The first step is to collect information on different pension funds for the purpose of choosing a fund. Prospectus and abbreviated prospectus, to which the National Bank of Serbia has given its approval, contain principal information about the fund and its management company. The management company updates the prospectus and is responsible for its accuracy. The prospectus is updated once a year, and each time a significant change occurs. The decision to become a member should be based on the analysis of management company's financial standing, rates of return and track record.

The second step is to sign the contract of membership and the statement on full understanding of the prospectus and all fees to be charged. By signing the contract, the member assumes the obligation to make payments. These payments cannot be lower than the prescribed minimum.

Who makes payments?

Pension contribution to the voluntary pension fund is paid by:

- natural person (who may also be unemployed) or another person for the account of the natural person,
- organizer, in its name and for the account of the employee or union member, in line with the pension scheme,
- employer, in the name and for the account of the employee, in line with the contract of membership between the voluntary pension fund member and management company.

Who sets the contribution amount?

As their name suggests, voluntary pension funds are not obligatory institutions, and the member himself/herself decides on the amount to be paid; however, every fund has the lowest limit (minimum) of contributions. The amount of payment is defined in the contract of membership.

How often are payments made?

The contract of membership defines the frequency of payments. Payments are usually made monthly.

What happens if the fund member stops paying contribution?

In case the member stops paying the contribution, his/her membership will not cease, and he/she will be able to dispose of his/her accumulated funds after turning 53 years of age.

What happens if the fund member changes employer?

If the employee was pension fund member through the pension scheme organized by his/her previous employer, two scenarios are possible. The fund member may continue to be a member of the fund that his previous employer made payments to. If the new employer has a pension scheme as well, funds from the previous pension fund can be transferred to the new employer's pension scheme. If the new employer does not have a pension scheme, the employee will be entitled to accrued pension from the previous position when he/she reaches 53 years of age. Until then, the management company will continue to invest the paid money.

What if the fund member loses job?

The fund member will remain in the fund that the former employer made payments to, i.e. his/her membership will not cease, payments will not be lost, nor will the individual account of the fund member be closed, and the management company will continue to invest money.

Which costs are borne by the fund member?

The Law limits the fee charged at the time of payment of pension contributions to a maximum of 3% of the value of payment and the annual fee for fund management to a maximum of 2% of net assets of the fund.

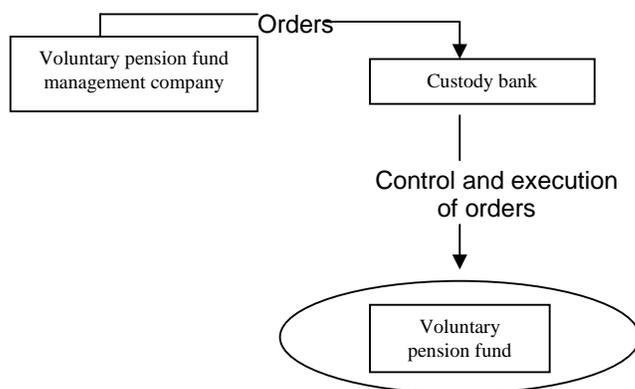
How are funds protected?

The assets of a voluntary pension fund are separated from the assets of the fund management company. If bankruptcy proceedings are instituted in respect of the management company, the assets of the pension fund cannot become the subject of enforced execution or pledge. These assets cannot become part of liquidation or bankruptcy estate of the management company, custody bank or other entities, nor can they be used for the settlement of obligations of the voluntary pension fund member or other persons to third parties. Regular reporting is one of the key elements of protection of pension fund members. Financial statements are prepared and submitted to the National Bank of Serbia on a monthly, semi-annual and annual basis. By analyzing these statements, the National Bank of Serbia controls whether fund assets are invested in line with limitations prescribed by the Law, secondary legislation and fund prospectus.

What is custody bank?

Custody bank is the bank that maintains the account of the voluntary pension fund and performs other custody services for the account of the fund; with respect to fund assets, the bank acts exclusively in line with the orders of the management company, in conformity with the law and the fund's prospectus. Assets of a voluntary pension fund are not and cannot be the assets of the custody bank, nor can they become part of the bank's bankruptcy estate if the bank goes under. In that case, total assets of the fund will be transferred to another custody bank.

Schematic Outline of the Management Company/Custody Bank Relationship



What are net asset value and investment unit?

Management companies are obliged to calculate the net asset value of their funds daily. The net asset value of a pension fund equals the difference between total assets and liabilities of the fund. Pension contributions are converted into investment units on the date of payment. A fund's net asset value is obtained by multiplying the number of investment units and the value of the investment unit. The value

of the investment unit reflects trends in return on investments, i.e. the results of investments made by the management company.

How to check the value of the investment unit?

In order to achieve highest standards of availability and transparency of information, management companies are obliged to publish the value of the investment unit daily, in at least one newspaper sold in the entire territory of Serbia, with the circulation of at least 100,000 copies, as well posting this information on its website.

What are the risks of saving in pension funds?

Fund members bear the investment risk! However, this risk should be low, as pension contributions are invested in the most liquid and best quality domestic and foreign securities and other financial instruments and domestic real estate. The Law stipulates investment limitations with the aim of diversification, whereas the National Bank of Serbia prescribes additional conditions and manner of investing so as to limit the risk exposure of pension funds.

Is there a possibility of early withdrawal of money?

In the event of serious illness or permanent work disability, the fund member may withdraw the accumulated amount if he/she submits evidence of a serious health condition.

What happens in the event of death of a fund member?

All money accumulated in the individual account of the pension fund will be transferred to the person designated by the deceased fund member. If the member did not designate such person, his/her account balance becomes part of his/her legacy.

Who is entitled to accumulated funds in the event that the contract of voluntary pension insurance is terminated in the process of bringing the operations of voluntary pension insurance companies in compliance with the new law?

In the event that the employer terminates a contract of voluntary pension insurance, funds accumulated in individual accounts, calculated subject to the conditions under which the contract was concluded, will be paid to insured employees, regardless of their age.

Who makes sure that everything functions as it ought to?

As already mentioned, the National Bank of Serbia is in charge of monitoring, regulating and supervising the activities of voluntary pension funds. The National Bank will supervise the operations of management companies by analyzing financial and other statements, on-sight supervision and pronouncement of measures.

Why so many institutions?

The main reason for this is maximum protection of account balances. The fund is separated from the management company - if the company goes bankrupt, fund assets will remain intact. Custody bank is also an independent institution so that fund's assets are separated from the assets of the management company, which ensures greater security of the fund's assets and realistic, i.e. market, valuation of the fund's assets, while at the same time precluding the possibility of abuse.