

Private Pensions in Romania. Management - Marketing - Effects and Expectations

Elena ENACHE

„Constantin Brâncoveanu” University, Pitești
elena.enache@univcb.ro

Sorin ENACHE

„Constantin Brâncoveanu” University, Pitești
enache_sorin_2005@yahoo.com

Abstract. *After Romania's admission into the European Union, Romanian started to reformulate its policies and operation rules in its trial to be more flexible, to have a more consistent budget, to better answer the people's needs. One of the action directions is the one referring to the distribution of social responsibilities with private sector, as an administrator of pension funds. The paper proposes radiography of how this action of adhesion to a pension fund developed, whose top time was recorded during September-December 2008 and currently evolution of this approach.*

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REL Codes: 13C, 13J.

For the moment, the Romanian state does not have the capacity to support the pressure for payment of decent pension. Decrease of the number of participants to the social security budget has increased its interest for the partial division of the responsibilities with the private sector, as the pension fund administrator. Thus, since 2007 has started a new activity whose results are beginning to be seen.

Management issues of the privately administered pension funds

Romania has worked for over a decade to elaborate the private administrated pension law. The difficult appearance of these documents and thus putting the system into operation was due to a sustained and concerted opposition of several actors:

- *prospective beneficiaries*, the citizens of Romania, who either did not have the necessary background to understand what is was prepared for them, or they had lost trust in any possibility to accumulate money due to the resounding failures of investment funds (National Investment Fund or Caritas);
- *unions*, arguing that the state has obligations on employees that it no longer wishes to assume;
- *politicians*, who until 2007 had not felt the devastating effect of lack of money in the budget public pension and not were far too sensitive in the face of ridiculous pensions of many citizens living;
- *IMF and World Bank* which have done their best to maintain the role of dominant actor of the state.

Legislative support

In 2004 it was passed the Law no. 411/2004 on private pension funds. Later appeared the Law no. 313/2005 for approval of the Government Emergency Ordinance no. 50/2005 on the establishment, organization and function of the Commission of Private Pension System Supervision (hereinafter CSSPP). It followed the Law no. 698/2005 on voluntary pensions (www.csspp.ro/legislation).

In 2008 it was issued Law no. 201 for approval the Government Emergency Ordinance no. 112/2007 on amending and supplementing the Laws no. 411/2004 and no. 204/2006.

The laws will certainly be modified and supplemented in the future because it is expected the promised Romanian pension system reform.

Commission of Private Pension System Supervisory

CPPSS is the body designated by the Parliament of Romania, under whose control it is, as an autonomous administrative authority to regulate and prudential by supervise the private pension system. Its mission is fulfilled in three directions:

regulatory, continuous surveillance and enforcement of financial reserves to cover the temporary absence of returns of a fund (www.pensieprivata.info).

A council of five members, appointed by the Parliament, and an executive management ensure the fulfillment of these activities:

- regulating, coordinating, monitoring and control of the private pension system activity;
- protect the interests of participants and beneficiaries, by ensuring the effective functioning of the private pension system and information on it.

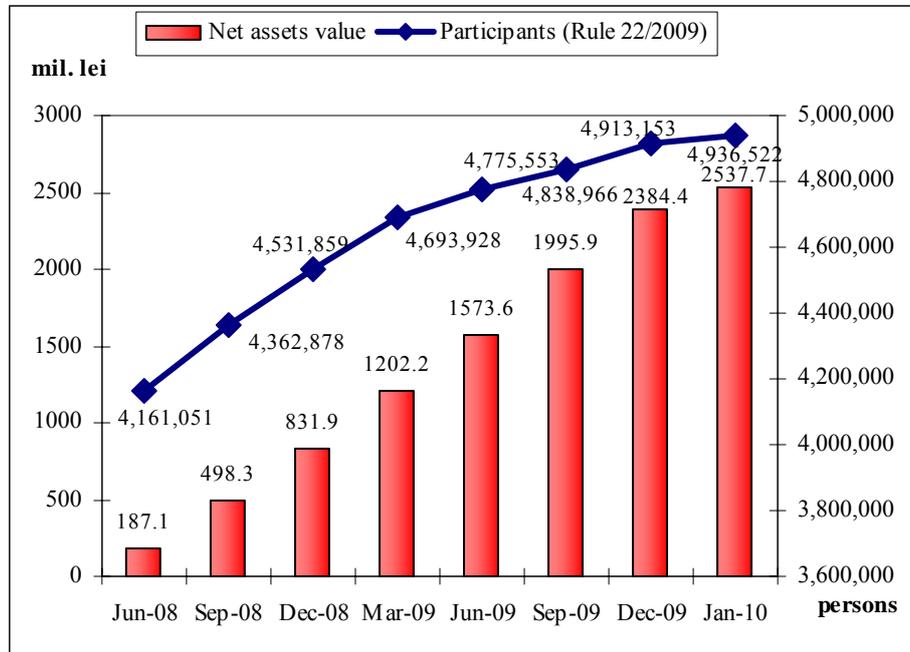
Funds

CPPSS authorized in 2007, operating a total of 18 funds that met the required conditions for pillar II. They were, in the order of CPPSS site, which corresponds to the order in which they were authorized, the following:

1. ING Pension Fund;
2. Allianz - Tiriac Private Pensions;
3. Aviva Pensions;
4. Omniasig Pensions;
5. Interamerican;
6. AIG Pension Fund;
7. BTAegon Pension Fund;
8. Generali Pension Fund;
9. First Pension, Pension Fund;
10. BRD Pension Fund;
11. OTP Pension Fund;
12. BCR Pension Fund;
13. AG2R Pension Fund;
14. Bancpost Pension Fund;
15. Marfin Pension Fund;
16. Romexterra MKB Pension Fund;
17. KD Pension Fund;
18. Zepter Pension Fund.

We mention that only BTAegon Pension Fund is established in the country, in Cluj-Napoca, all others are based in Bucharest.

The evolution of these funds was different, some of them even could not resist in the original version because they did not find the necessary audience and merged with other more powerful, so today there are only twelve, whose situation is as follows:



Source: www.csspp.ro.

Figure 1. Evolutions of the number of participants and of the net assets in the privately administered pension funds system

Table 1

Leading indicators of the privately administered pension funds (Pillar II) on January 31, 2010

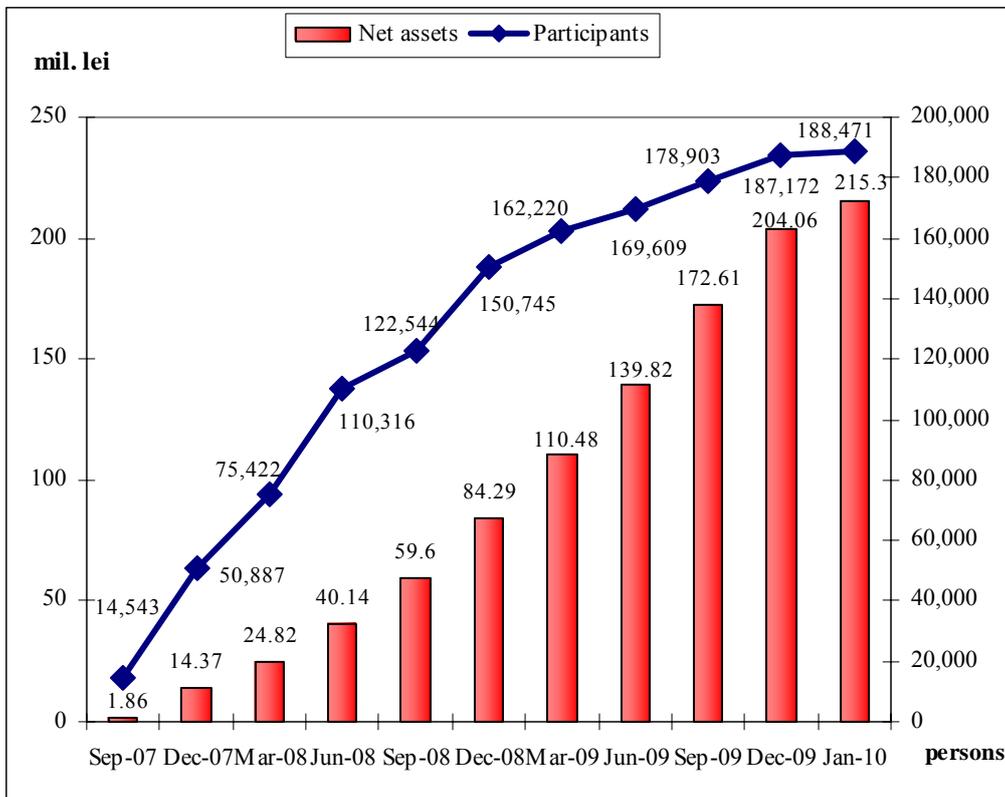
No.	Fund	Total Assets Value	Net Assets Value	Net Assets Unit Value	Participants (Rule 22/2009)
1.	EUREKO	134,945,176.50	134,861,071.13	12.377588	336,711
2.	PENSIA VIVA	166,409,955.38	166,330,190.06	11.950199	359,671
3.	BCR	110,424,320.81	110,343,067.38	12.451062	256,917
4.	KD	3,356,891.79	3,355,374.97	11.423087	8,408
5.	AZT VIITORUL TĂU	588,017,796.90	587,694,418.98	12.537271	1,257,083
6.	ING	1,002,358,729.27	1,001,875,936.78	13.447733	1,629,133
7.	ARIPI	206,425,698.55	206,285,029.76	12.808742	469,241
8.	VITAL	68,280,204.82	68,248,897.25	12.515646	153,947
9.	PRIMA PENSIE	6,870,250.72	6,831,413.29	11.445637	22,327
10.	OTP	9,539,973.10	9,493,635.25	11.316434	22,741
11.	BRD	62,250,003.29	62,194,519.16	11.829521	116,088
12.	AIG	180,261,275.28	180,162,820.44	12.786271	304,255
	TOTAL	2,539,140,275	2,537,676,374		4,936,522

Source: www.csspp.ro.

Also there were initially authorized a total of six funds for Pillar III, respectively:

1. AZT Moderato
2. AZT Vivace
3. My pension
4. ING Classic
5. ING Optim
6. BCR Prudent.

Today their number is more than double, and the situation is as follows:



Source: www.csspp.ro.

Figure 2. Evolution of the number of participants and of the net assets in the voluntary pension funds system

Table 2

**The value of assets and number of participants in the scheme Pillar III
on January 31, 2010**

No.	Private pensions fund	Total Assets Value	Net Assets Value	Net Assets Unit Value	Participants
1.	ING CLASIC	32,009,077.29	31,961,012.94	13,252243	22,741
2.	AZT MODERATO	32,888,621.28	32,830,553.84	11,749298	26,693
3.	PENSIA MEA	12,838,822.22	12,809,513.54	11,360310	9,574
4.	BCR PRUDENT	44,638,587.22	44,559,617.05	11,611606	48,509
5.	AZT VIVACE	17,238,598.18	17,198,593.17	11,637014	17,582
6.	ING OPTIM	60,942,180.16	60,861,103.10	13,531133	48,057
7.	OTP STRATEG	247,743.72	246,983.72	9,024501	315
8.	RAIFFEISEN ACUMULARE	11,015,782.73	10,989,747.63	12,331373	6,718
9.	CONCORDIA MODERAT	257,537.68	257,243.09	12,599155	260
10.	EUREKO CONFORT	544,679.00	544,657.95	8,095914	2,347
11.	STABIL	382,794.15	382,179.31	10,732078	1,755
12.	BRD MEDIO	1,215,095.83	1,213,089.44	10,406991	1,409
13.	BRD PRIMO	1,443,922.52	1,441,880.20	10,431013	2,511
	TOTAL	215,663,442	215,296,175		188,471

Source: www.csspp.ro.

For whom are working all these?

Optimists estimated to the start proceedings to join a fund, according to statistical sources, that the number of potential customers will be about 3.5 - 3,6 million persons, that meaning 80% of employees who contributed in 2007 to the public pension system and who were aged under 45 years old. As in Figure 1 we can see that there are now about five million people.

We make the following clarification: people aged between 18 and 35 years old were required by the law to join a privately administered pension fund. If they have not done that until January 16, 2008, automatically and randomly, they were distributed to a fund. As for people aged between 35 and 45 years, they were not obliged to join, their choice is optional. Risk that they were exposed by non-adherence is that their pension will be much smaller than the others.

Marketing dedicated to the private pension funds

The marketing of this activity was also conducted in accordance with the CSSPP rules by authorized marketing agents. Agents were and are individuals or companies which received the opinion of the CPPSS. Individuals can be: marketing agents, insurance agents, brokerage assistants, sub-agents, which can develop marketing activities for a single administrator or for a single corporate marketing agent. Binding conditions to be met for individuals were:

- a valid contract signed with an administrator or, by case, with a corporate marketing agency;
- CPPSS authorization or opinion;
- inclusion in the marketing agency Register and payment of the opinion tax;
- holding a certificate of graduating a lecture of marketing agents for private administrated pension funds. There is no prohibition for the individual marketing agent to be engaged in any other occupation.

Legal persons can be: companies incorporated and authorized by CPPSS with the purpose of activity only marketing of the private administrated pension fund; companies established and authorized under special laws of National Bank of Romania, of the Insurance Supervisory Commission or of the National Commission for Real Estate. More simply, these are insurance brokers, pension brokers, banks, brokerage companies on the stock exchange etc. They must:

- have a minimum of 25,000 lei as social capital;
- have a name that does not mislead the public and include mandatory words “marketing agency for private administrated pension funds”;
- be not affiliated with a manager person;
- have as object of marketing only private administrated pension fund.

Practically, it was created an army that numbered, at the start time of the action, about 100,000 marketing agents, of which 35,000 belonged to the ING company. They were virtually in a four months war and after there were passed we found out who were the winners. Four or five funds of the 18 listed above funds had real chances, and gathered a considerable and reasonable number of adherences. Then the number of active agents decreased because hot market that they have exploited is, almost exhausted.

Other instruments and marketing methods used by funds administration to create a need that customers were not aware were:

- aggressive advertising (television, radio, written press, outdoor, leaflets, posters);
- relationship systems of the managers from the insurance companies;
- a proper site for each fund, which posted the necessary information;
- retrieval of information by other profile sites such as: www.pensii-private.ro, www.epensie.ro supplementing the information network in the area.

The most visible of all forms was the television advertising. And of course, the most expensive of all, because the show costs about 18 million euros.

In July 2007, according to Alfa Cont Mediatrack (www.alfacont.ro), it was known that ING company has invested 7.9 million euros, Allianz - Tiriatic 3.8 million euros, BCR 3.6 million euros, Aviva 3.2 million euros etc.

From the marketing position we can highlight the appearance of some interpretable and unfair actions of some funds:

- about ING company agents, it was stated that they had some insistence, some aggression, evidenced by a very strong behavior on the potential customer. The company reported that across the world have 75 million customers, but it was obvious that most of them were for life insurance, but not for private pensions;
- experts noted that some funds are characterized by the manipulative advertising. For example, Aviva, offered through a public person (television star) strongly insurances about three aspects: value, safety and growth, in fact, none of them was neither actually any safely. Moreover, it was slipped a lie about their 300 years of experience. It is true that the roots of the group are in 1696 when it was created the first insurance company in the world (Hand in Hand), but certainly not a pension fund, where experience only dates from 1998;
- another example is Generali Group, whose affective-emotional message was obviously for a marketing specialist. The slogan "Your Future under the lion wings", which offers safety, actually belonged to the only fund of the high risk category. We note, in addition, the mixture between pension and insurance.

Effects – Expectations

The first immediate effect was moving some important groups of persons for two different purposes: some sold, others bought. The purchase was done at a greater rate informed choice, because being about retirement money, people have a special sensitivity. They hoped that being informed; they will not be fooled or manipulated.

Report released on October 15 showed that in a month from the onset of the action were 1.16 million adherence. It was a good result, there were about 30% of the approximately 4 million. Their distribution was as follows:

- 501,000 - 40.4%, ING Company,
- 242,000 - 20.5% Allianz – Tiriatic,
- 100,000 - 10% Aviva,
- 100,000 - 10% Generali.

Other funds were still far from expected results (Enache, E., Enache, S., 2008, p. 30). Thus, AIG, Interamerican, BRD, BTAegon, BCR recorded

percents between 1 to 7% and there have been enough funds with insignificant percentages, under 1%.

Of the total number of the validate signatories the first month shows that about 52% were women, confirming their concern for family, household, future.

The race of the second month was even fiercer. In early November the adherence number had increased with other 640,000, registering a total of 1.8 million adhesions.

They reported significant side effects by providing information:

- the first which react were the persons over 45 years old, who have completed voluntary pension and 60% of them have opted for Allianz-Țiriac. Moreover, for the voluntary pensions were originally only 6 funds, as we have shown above;
- while, it was a growing number of life insurance policies, proof that the agents had extended the benefits of personal protection (pensions and insurance);
- there were expected some increases in the number of work books, so a reduction in the phenomenon of undeclared work, workers, through their adhesion, thus forcing employers to find reliable;
- according to a study published at that time (www.capital.ro/finante.html), a lot of persons expected explanatory information from the employer (manager). From this, many managers agreed directly or indirectly, that they can make good money and become agents, or they have got a part of the money from the agents they worked with. By law, it was not permitted to provide collateral benefits to participants

Other main effects that we can identify are:

- eliminating the pressure on state social insurance budget;
- stimulate economic growth by investing amounts accumulated to pension funds;
- capital market development;
- creation of jobs, thus reducing unemployment;
- establishment of joint - ventures between funds.

There were also irregularities

- Nearly 2% of the adhesions were double and it had to be taken a correct decision to intervene.
- CPPSS announced the withdrawal of the approval for a number of marketing staff of a fund, as penalty for violation of the law. Opinions have been withdrawn at the request of the fund itself, ING Company, for various frauds: falsifying the accession documents, pressure on a

part of the customers or acts of accession signed by the participants in the presence of a third part, not authorized to do so.

It was not known from the beginning which could be the yield that it will be required by CPPSS to the administrators. In reality we can not know either how much money will return to future pensioners by entering into payment. Currently there are few indicators that we have available for documentation:

- *Degree of risk* - average for all funds, raised for the General;
- *Low-risk Investments (upper limit)* between 85 - 90%:
 - *government bonds in Romania and European Union* from 55 to 67.5%;
 - *government bonds in the USA, Japan, Canada* between 1 to 11%;
 - *Foreign private debt* between 1.5 - 5%;
- *High-risk placements* between 25 - 45%;
- *Listed shares (maximum amount)* between 25.5 to 50%;
- *Commission for administration of the contribution (initially)* - 2.5%;
- *Commission for the permanent management of assets* - 0.05%.

Each person will see in a closer or further future how much it meant the choice made today. The fact is that people have followed those funds with brand and experience in their home countries or on various markets.

Performances of the funds were already possible to be seen in 2008, when yields were positive, except Bancpost and First pension funds, which have had a slightly negative trend, inducing a cold shiver of concern, each person hoping, obviously, at least one return to cover the losses from inflation and fees charged by administrators.

Year 2009 has "benefited" from the effects of financial and economic crisis: lower number of employees, increase the number of registered unemployed, lower gross wages, lower gross domestic product estimated for the period January-October 2009. All these have influenced, as expected, the development of private administrated pension funds, but not in the same proportion of other countries with more developed private pension systems (pension funds in Romania were in the first months of operation). Moreover, the private pension system in Romania focuses on the safety of the participants and the most important security features of its derived from the protection that the law provides to the participant. Through the organization of the system, through the separation of the assets of pension funds from those of the administrators, participants' contributions are deviced from the difficulties that they can move at a time the private pension fund administrators or their shareholders.

Today, there is a recovery in investment and earnings, development of the funds can be analyzed at any time on the CPPSS site (www.csspp.ro).

Here are some general considerations on the evolution of the private pension system in Romania in 2009 as there were published (www.csspp.ro). The overall conclusion found is that the private pensions market, located in the accumulation stage, has a positive development, even in unfavorable conditions above and in maintenance the contribution at 2%.

Thus, the main indicators of the private pension system, that the number of participants and the net assets of pension funds, have maintained an upward trend, registering monthly increases further during 2009, but distinguishing in the second part of the year, when they were significantly smaller than in the first half.

According to data reported by CPPSS, at the end of 2009, the number of participants to the private pension funds was 4.75 million people, up with 13% compared to December 2008; the value of net assets of private pension funds was 2588,43 million lei (612.18 million euros - NRB currency la 31.12.2009: 4.2282), registering an three times increase from early 2009.

To the private pension funds, that of pillar II, at the end of 2009, the number of participants was 4,565,116 persons, up 13% over December 2008 and up 43% over the first month of collection, that May 2008; the value of net assets of private administrated pension funds was 2.384.39 million lei (564 million euros), registering a three times increase from early 2009.

At the voluntary pension funds, that of pillar III, the end of 2009, the number was 187,172 people participants, with 24% more than in December 2008; the net assets value reached 204.04 million lei (48 million euros), increasing 2.4 times from early 2009 (National Institute of Statistics, 2009; National Forecast Commission, 2009).

When referring to the portfolio at the end of 2009 was stated:

About private administrated pension funds the situation was:

- government bonds: 64.70% of total assets,
- non-debt foreign bodies: 3.82% of total assets,
- municipal-bonds: 1.28% of total assets,
- corporate-bonds: 13.23% of total assets,
- bank deposits: 4.90% of total assets,
- shares: 9.34% of total assets,
- equities: 0.91% of total assets,
- hedging instruments were -0.02% of total assets,
- current-sum settlement for purchase / sale assets and / or availability in the current account: 1.81%.

In the case of voluntary pension funds, pension funds portfolio was as follows:

- government bonds: 68.91% of total assets,

- non-debt foreign bodies: 1.5% of assets,
- municipal-bonds: 3.43% of total assets,
- corporate-bonds: 6.89% of total assets,
- bank deposits: 6.09% of total assets,
- shares: 12.61% of total assets,
- equities 0.54% of total assets,
- current-sum settlement for purchase / sale assets and / or availability in the current account: 0.04%.

Considering its role and regulatory, supervision and control powers of the private pension system in Romania, during this period of turbulences on the financial markets, to protect the assets of participants of the pension funds, the Commission for Monitoring Private Pension System took some regulatory measures, that were developed, approved and subsequently published in the Official Gazette the legislation with the specific rules.

Conclusions

Romania will remove from the people mentality the idea that the private pensions destroy the state pension system. Private pensions work complementary to the state pension, diversifying the sources of income in retirement, ensuring aggregate, a decent living.

The evolution of private administrated pension funds is a subject on which will be directed more vigilant looks, beginning with the state and ending with the each and every citizen who hopes that over the years to live better than he does himself or the pensioners today. Not just the hope for a better life improves attention, but also a series of damaging experiences many Romanian lived, who had not the skills necessary to multiply their financial reserves and were not protected in any way by the State, which is guilty of that, especially that it had handy tools.

The need for a coherent pension system, anchored in the realities of the European Union, compared with developed countries, has recently been discussed with the officials of the International Monetary Fund, resulting in recommendations in the "Romania-Financial Sector Stability Assessment" (www.amosnews.ro). They are:

1. *The contributions level* transferred to the mandatory private pension funds should increase further in accordance with the original schedule of contributions; according to that, the contribution for 2010 would have to be 3%, but is only 2.5% and therefore, the recommendation IMF is to respect the commitment to reach 6% by 2016;

2. *Guarantee inflation* for mandatory private pension funds should be rejected, because now the financial market in Romania does not provide

sufficient tools to cover the risk of inflation; we talk about the legislative proposal to impose a yield at least equal to inflation rate, which according to foreign officials must be abandoned because it will generate losses for pension funds.

3. Encourage the development of *long-term investment strategies* for private pension funds by:

- preparation of a CPPSS secondary legislation, which should provide that the security of the net contributions should be given to the participants only at the stage of pensions payment, not to the transfer between two mandatory private pension funds;
- swift adoption of the CPPSS Rule for detailing the minimum return guaranteed mechanism for mandatory pension funds;
- transferring the direct costs of administration from the administrators in charge of mandatory private pension funds.

4. *Review the level of the management fees* charged by the administrators of the private pension funds in Romania, because they are the lowest in Central and Eastern Europe and it will affect the small administrators;

5. The authorities need to *harmonize the tax treatment of marketing expenditure* made by the pension fund administrators with the European Union practice in that field; the regulation of the Public Finance Ministry that administrators must immediately recognize the marketing expenses incurred by initial accession campaign, resulted in record of losses by them and extension the payback period with one year;

6. Adoption of legislation to establish the payment methods of the private pensions, *with an emphasis on annuities (lifetime pensions)*, ensuring protection against longevity risk;

7. Introduction of the *multifond model* and allowed outsourcing the activities of investment assets of the private pension funds; called lifecycle or lifestyle funds, this model has some features, such as: a company can manage not one but three pension funds and risk profile and different investment strategies, according to participant age (young people will be allocated to the dynamic fund, with high investment risk and investment primarily in shares, the average age will be allocated to the fund with a moderate risk profile and investment in balance and those close to the retirement age will be allocated to conservative fund);

8. The law should provide clear *methods to avoid conflicts of interest* if the pension fund administrators dealing with entities from the financial group they belong;

9. Improve *the CPPSS rules for evaluation assets* of the private pension funds, especially for fixed income instruments for which there is not an active and liquid trading market.

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