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VOLUNTARY PRIVATE PENSIONS IN UKRAINE (PILLAR 3)

Volodymyr Yatsenko

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Research Objectives

- 1) Analyze the performance and operating issues of the voluntary accumulation pension system over 14 years (*since its inception*).
- 2) Justify recommendations that follow from this analysis and international best practices.
- 3) Communicate the information obtained and recommendations made as a result of research to stakeholders.

Criteria for Evaluating Private Pensions

- Supplemental retirement income for participants
- Coverage of eligible participants
- Performance (benefits paid and real return)
- Fees
- Diversification of assets
- Information disclosure
- Sound regulation

Facts about Private Pensions (Pillar 3) in 2018

14 years is a short period of time for pension savings; however, ***something*** obviously ***went wrong***:

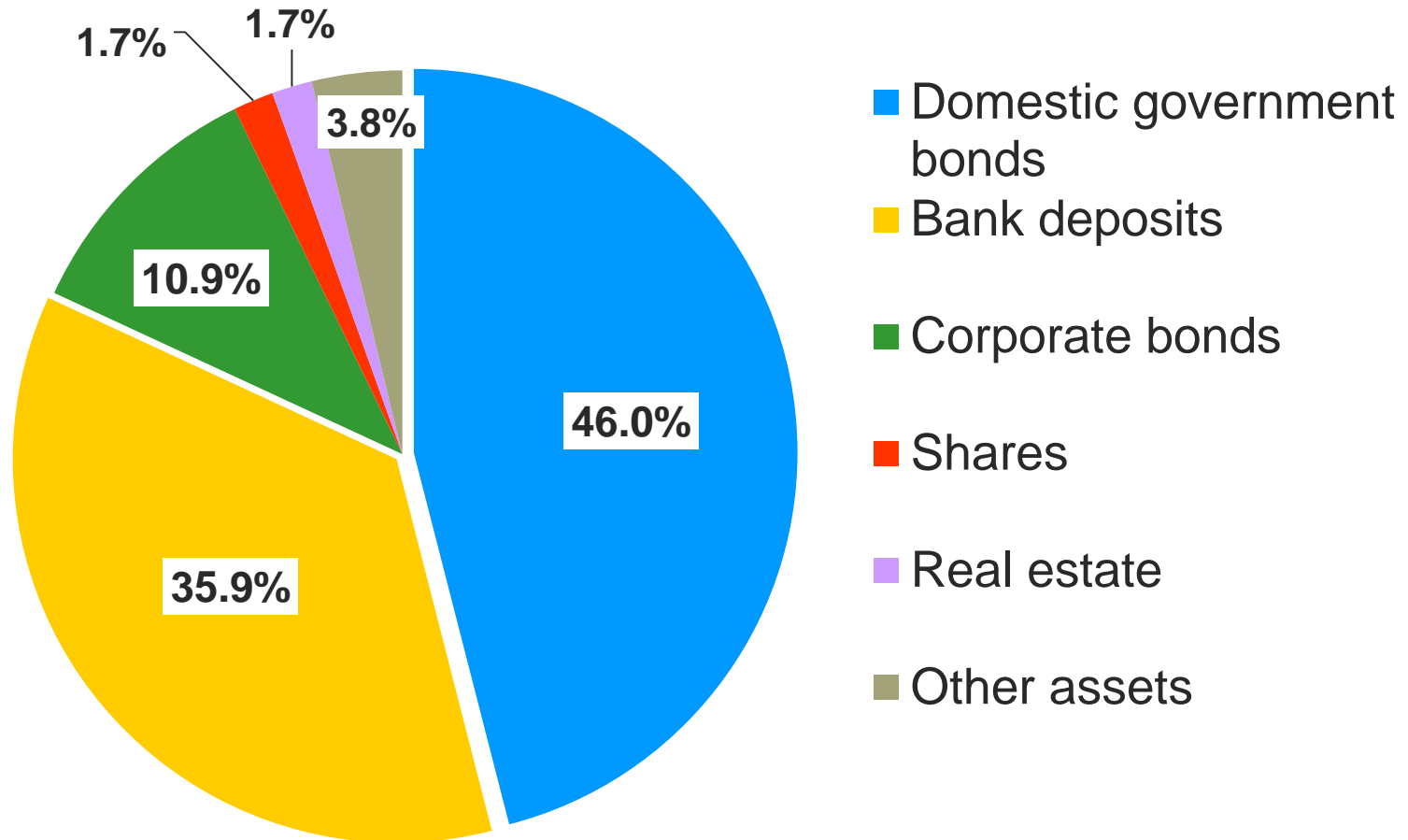
- ✓ Just 5% of Ukrainian workforce covered (855,300 persons)
- ✓ 54% of participants are concentrated in two NPFs (Magistral and Europe)
- ✓ 48,3% of Pillar 3 assets are owned by NBU NPF (UAH1.326 billion)
- ✓ 91% of contributions – from employers
- ✓ 94% of annual trading volume in the stock market – domestic government securities
- ✓ UAH 3,210 (\$115) is the average amount for one NPF participant; the calculation of the average amount includes the following data:
 - UAH118 – for one Magistral NPF participant (*326,500 participants*)
 - UAH215 – for one Europe NPF participant (*133,800 participants*)
- ✓ 94% - lump-sum payments

NPF's Net Nominal and Real Annual Returns

Period	Net nominal return (average annual)	CPI (average annual)	Net real return (average annual)
1 year (for 2018)	8.36%	10.90%	-2.29%
3 years (12/2015-12/2018)	9.09%	13.06%	-3.51%
5 years (12/2013-12/2018)	9.58%	19.22%	-8.09%

Sources: FSR, State Statistics Service, author's calculations

Ukraine: NPF Pension Assets Investments as of December 31, 2018



Administrative Costs: Ukraine vs World

Country, system

% of AUM

Ukraine, Pillar 3 (42 NPFs, w/o NBU)

4.10% ($\leq 7\%$)

Ukraine, Pillar 1 (PFU)

1.65%

UK, NEST

0.48%

UK, DC-based occupational plans (max.)

$\leq 0.75\%$

Georgia (Pillar 2, starting 2019)

0.50% (0.25%)

Estonia (Pillar 3, index funds)

0.39% - 0.49%

Poland (July 1, 2019), Ireland (2022)

0.50%

USA, TSP (Pension Plan for Federal employees)

0.04%

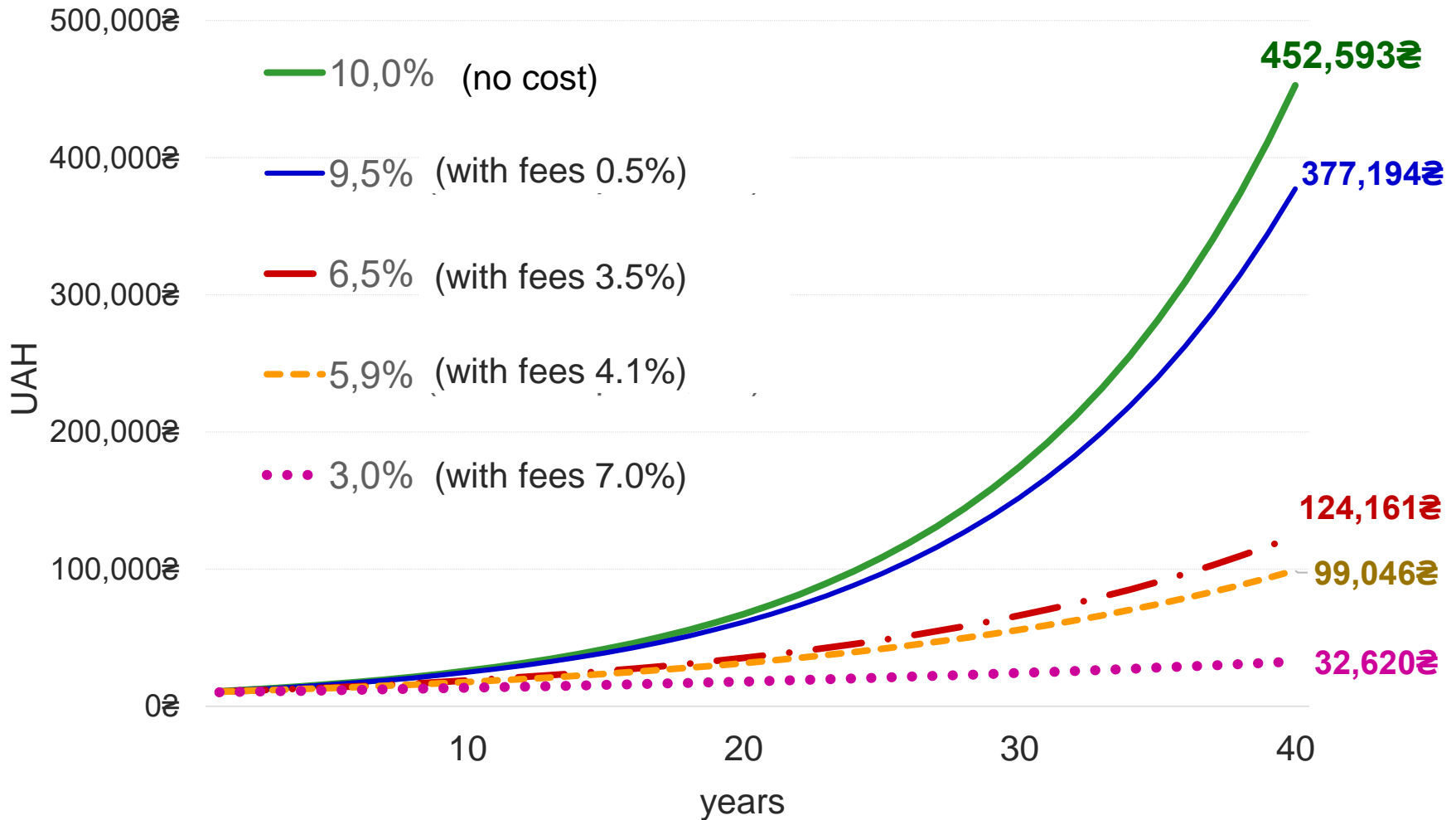
Sweden, PPM

0.33%

Fees Charged by the Largest Private Pension Funds in Ukraine (2017)

	Pension fund	Total fees in 2017		including (% of AUM)	
		in % of AUM	per participant, hryvnia	admin charges, %	asset management fees,
1	NBU Corporate NPF	0.24%	215	0%	0%
2	Ukreximbank Corporate NPF	0.94%	314	0.17%	0.56%
3	Emerit-Ukraine Open NPF	3.99%	79	1.80%	2.02%
4	PrivatFund Open NPF	4.30%	95	2.41%	1.69%
5	OTP Pension Open NPF	4.91%	147	1.55%	2.94%
6	Pharmaceutical Open NPF	4.44%	3,075	1.19%	2.97%
7	Energy Sector Trade Unions of Ukraine Professional NPF	5.66%	262	2.15%	2.77%
8	VSI [ALL] Open NPF	6.28%	67	2.08%	3.41%
9	Dynasty Open NPF	2.89%	28	1.27%	1.21%
10	Ukraine Open NPF	5.04%	568	0.36%	4.44%
11	Ukrainian Pension Fund Open NPF	4.77%	4,171	3.46%	0.49%
12	Social Standard Open NPF	4.41%	339	1.57%	2.21%

The effect of compounding returns and the destructive power of compounding costs: growth of UAH10,000 UAH over 40 years



Example* of low fees charged by financial intermediaries

Foreign investment in passive moderate risk portfolio: 50% Vanguard S&P 500 ETF (VOO) / 50% iShares, 20+ Year US Treasury Bond ETF (TLT)

	Invested amount (one time)		
	\$10,000	\$50,000	\$100,000
Average annual TER** in percent of AUM	1.20%	0.31%	0.09%

* Information from the InteractiveBrokers site (www.interactivebrokers.co.uk/) was used for calculations

** Includes annual management and brokerage fees.

Key Recommendations

- New business model for voluntary retirement savings, phase out NPFs and distribute benefits to participants
- Focus on Pillar 2 implementation
 - New laws, regulations, disclosure
 - New financial instruments
 - New practices – automatic enrollment, escalation of contributions, incentives
 - Lifestyle funds
- Introduce low-cost IRA-type saving/investment products at banks
- Promote retirement savings
 - Information
 - Trust