Pension fund industry in Lithuania

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Pension: multi-pillar system

**Multipillar Structure**
(World Bank Classification)

- **Pillar 0**
  - Public
  - Redistributive
  - (Tax Financed)

- **Pillar 1**
  - Public
  - Earnings-Related
  - (Contributory PAYG)

- **Pillar 2**
  - Mandatory
  - Private
  - Funded

- **Pillar 3**
  - Voluntary
  - Private
  - Funded

- **Pillar 4**
  - Housing, Reverse
  - Mortgages
## II pillar system parameters, 2012 10 31

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total AuM, EUR bn</td>
<td>1.36</td>
</tr>
<tr>
<td>Contributions from State, EUR bn</td>
<td>1.23</td>
</tr>
<tr>
<td>Total number of participants, million</td>
<td>1.053</td>
</tr>
<tr>
<td>Penetration rate</td>
<td>~82%</td>
</tr>
</tbody>
</table>
## II pillar system parameters

<table>
<thead>
<tr>
<th>Year</th>
<th>`04</th>
<th>`05</th>
<th>`06</th>
<th>`07</th>
<th>`08</th>
<th>`09</th>
<th>`10</th>
<th>`11</th>
<th>`12</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average annual return, %</td>
<td>11,6</td>
<td>10,6</td>
<td>5,34</td>
<td>3,7</td>
<td>-19,7</td>
<td>17,3</td>
<td>8,8</td>
<td>-2,9</td>
<td>9,3</td>
<td>4,8</td>
</tr>
<tr>
<td>Inflation, %</td>
<td>2,9</td>
<td>3</td>
<td>4,5</td>
<td>8,1</td>
<td>8,5</td>
<td>1,3</td>
<td>3</td>
<td>3,4</td>
<td>3,1</td>
<td>4,2</td>
</tr>
</tbody>
</table>
Recent developments

- From 2009 01 01 contribution rate down from 5.5% to 3 %;
- From 2009 07 01 contribution rate down from 3% to 2 %;
- From 2012 01 01 contribution rate down from 2% to 1.5 %;

New legislation:

- 2013 - 2.5%
- From 2014: 2%+(1%+1%) from average salary (~600 EUR);
- From 2016: 2%+(2%+2%) from average salary
- From 2020: 3.5%+(2%+2%) from average salary
Recent developments

- Window to state social system (accrued amount is left in the personal fund account). Window period from 2013 04 01 to 2013 09 01;

- There should be one more chance to return to cumulative system;

- 1+1 (2+2) – is a default-out, meaning you are not in, if not applied for that. New system participants from 2013 01 01 should automatically enroll into this financing scheme.

- Gone requirement to stay within management company for the first 3 years – it can be changed any time from the first installment was received;

- Fee levels for funds management is reduced. From 2013 01 01 subscription fee cap is 2%, and annually decreasing at 0,5% until 0%. Annual management fee for so called conservative pension funds will be caped at 0,65%, for others 1%.
Retirement framework

Additional pension + Additional pension + Pension, accrued in the fund = Total retirement benefit

Start of career | Joining the private fund | Age of retirement
Short overview of II pillar

- Total 30 funds;
- Total 9 companies:
  - 7 asset management companies and 2 life insurance companies

**PF Asset Allocation by Strategy**

- Equity
- Balanced
- Moderate Risk
- Conservative

Source: Bank of Lithuania
Investment style and asset allocation in Lithuanian pension funds

Tactical asset allocation investment style is dominant

Source: Bank of Lithuania

Third party active & passive investment vehicles accounts for the biggest share of investments

Allocation by Asset Type

- Equity & Equity funds: 38%
- Bond funds & Gov. Bonds: 57%
- Deposits & Cash: 5%
- 0%

Investments by Investment Vehicle

- Bond funds & Gov. Bonds: 57%
- Equity funds; 33,70%
- Individual stocks, 0.86%
- Cash & Deposits, 5.36%
- Other CIF, 1.47%
- 0%

Source: Bank of Lithuania
Pension fund asset allocation for selected investment categories, 2010

Source: OECD Global Pension Statistics
Investments structure by country

- Investments in Lithuania are mostly related with investing in government bonds
- Luxemburg and Ireland are mostly targeted for the investments funds
- Germany and France mostly targeted for ETFs

Source: Bank of Lithuania
Investments structure by currency

Currency risk is minor:

- LTL is pegged to EUR at 3.4528;
- The main currency is EUR or LTL, over 81 %;
- 15 % USD is mostly related with investment funds;
- Other currencies – slightly over 3 %;
- Derivatives are used for hedging purposes only;
- The main risk is EUR sustainability in the long run.

Source: Bank of Lithuania
Constraints in diversification and growth oriented investment

• Diversification rules are set forth in the respective legislative acts (compliant to UCITS principles)

• The benchmarks in II pillar are obligatory, but are chosen voluntarily within the fund (methodology aligned with regulatory body)

• In general investment strategies are quite liberal. There is no limitations or special requirements towards local market (in line with general diversification rules)

• Due to political tensions, fund managers are more keen to providing attractive short-medium term results vs long term (also due to free movements across funds)
Current investment approaches (policies) of pension funds

• Based on the relevantly low fee levels and requirements to cover all fund costs from these fees, funds are using more passive investment strategies, usually no big moves for rebalancing the portfolios;

• While the assets are relatively low, rebalancing is performed partly along with new inflows from periodic contributions;

• In general fund managers are free to choose their own investment approach, the stress being made on correct communication to clients, general competitive environment;

• Due to investments mainly into (mainly global) collective investment undertakings, no usage of derivatives and quite narrow array of currencies used, the general investment risks in pension funds is quite balanced.
Possible further developments

• On agenda is introduction of life cycle approach (in cooperation with World Bank);

• However due to political instability and quite low contribution rate, this approach and all the mechanical details are not yet revealed for public discussions;

• Possibility to establish state pension fund(s) is also not foregone;

• Increasing willingness to promote employer financed pension funds (law is active, but no market players so far due to lack of labor unions interest, high general taxation level)
THANK YOU

ANY QUESTIONS?