

Pension System in the Slovak Republic

OECD Core Principles and Recommendations



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OECD/IOPS GLOBAL FORUM

- **Slovak Pension System**
- **Pension Reform**
- **Legislation Changes in Second Pillar**
- **Main Requirements for Pension Savings Entities**
- **Národná banka Slovenska – Competent Authority**
- **Important Legislation Changes 2023**
- **Information Obligation and Education**
- **ESG Factors**

Slovak Pension System

I. Pillar

Pension Insurance

- ongoing contributions (PAYG) to the Social Insurance Agency

II. Pillar

Old-Age Pension Scheme

- funded defined contribution scheme
- mandatory scheme with automatic participation
- managed by pension fund management companies

III. Pillar

Supplementary Pension Scheme

- voluntary funded defined contribution scheme
- collection of contributions from participants and employers
- managed by supplementary pension management companies

PEPP

Pan-European Personal Pension Product

- new EU-wide voluntary personal pension scheme
- regulated by Regulation (EU) 2019/1238 of 20 June 2019 on PEPP and national Act No 129/2022 Coll.



Private Pension Schemes
OECD Core Principles
supervised by Národná banka Slovenska (NBS)

supervised
by NBS and EIOPA

Introduction of the 2nd pillar and the changes into the 1st pillar

- reasons:

- negative demographic outlook
- high rate of redistribution
- low retirement age
- pensions dependent largely upon the income in the last few years of employment

Transformation of the 3rd pillar - reasons:

- 1996 - the 3rd pillar pension insurance companies were established
- 2005 - 2006 - a transformation into the supplementary pension management companies
- voluntary participation of both employees as well as employers

- reasons:

- improvement of the legislation, separation of the provider's own funds from the assets in the funds under its management

II. Pillar

since 2004 – establishment II. pillar – in accordance with OECD Core Principles

Positive changes

since 2012

- possibility establish index funds
- automatic first participation, temporarily open
- guarantees remain only for bond pension fund - new form

since 2013

- possibility pay voluntary contributions
- voluntary participation
- changes in guarantees form

since 2015

- establish decumulation phases (3 forms)

since 2023

- individual guarantee
- new remuneration structure
- automatic participation
- default investment strategy (DIS)
- mandatory creation of the index fund
- changes in decumulation phase (pensions, inheritance)



Negative changes

since 2012

- reduced rate of contributions from 9% to 4%

since 2013

- shall establish one bond guaranteed pension fund and one non-guaranteed pension fund
- clients statement about staying in other then bond guaranteed pension fund

General

- political impact
- very frequent changes

the most important changes in 2023 – better reflect on OECD Core Principles and Recommendations

OECD Core Principles

Core Principle 1. Conditions for effective regulation

Core Principle 2. Establishment of pension plans, pension funds, and pension entities

Core Principle 3. Governance

Core Principle 4. Investment and risk management

Core Principle 5. Plan design, pension benefits, disclosure, and redress

Core Principle 6. Supervision

Principles Specific to Occupational Plans

Core Principle 7. Occupational pension plan liabilities, funding rules, winding up, and insurance

Core Principle 8. Access, cost-efficiency, vesting, and portability of occupational pension plans

Principles Specific to Personal Pension Plans

Core Principle 9. Funding of personal pension plans, wind-up and insolvency

Core Principle 10. Equitable treatment, business conduct, competition and portability of personal pension plans

II. Pillar

pension fund management companies

- bond guaranteed pension fund
- non-guaranteed index pension fund

III. Pillar

supplementary pension management companies

- accumulation supplementary pension fund
- one decumulation supplementary pension fund

Main requirements for pension savings entities

- only authorized and supervised entities by NBS
- capital adequacy
- organization and management of entities
- conflict of interests
- separation of client assets in pension funds
- investment and risk management
- professional care, best interests and protection of clients
- client participation
- accumulation and decumulation phases
- internal control system
- depository control system
- prior approvals process
 - personal changes - management board, supervisory board, internal control function, risk management function, internal audit function, key functions
 - change the depository
 - amend the rules of a pension fund - investment strategy, investment policy, asset allocation, risk-spreading rules
 - establish a new pension fund, merge pension funds



OECD Core Principles:

Core Principle 1. Conditions for effective regulation

Core Principle 2. Establishment of pension plans, pension funds, and pension entities

Core Principle 3. Governance

Core Principle 5. Plan design, pension benefits, disclosure, and redress

Core Principle 6. Supervision

competent authority - integrated supervision of the financial market (since 2006) and **financial consumer protection** (since 2015)

Main tasks

Licensing

- issuing authorisations
- licenses

Supervision

- prior approvals
- risk based supervision
- on-site inspection
- off-site inspection

Sanctions

- conducting proceedings
- imposing sanctions or remedial measures

Regulation

EU legislation

- cooperation with ESAs, OECD, IOPS

National legislation

- cooperation with the Slovak Ministry of Finance and the Slovak Ministry of Labour, Social Affairs and Family - drafting laws and other generally binding legal regulations
- issuing decisions, methodological guidelines, opinions and recommendations

Education

- to explain the application of laws
- organisation workshops, seminars
- „5 peňazí“ – increasing the level of financial literacy
- cooperation with institutions, foundations, schools



OECD Core Principles:

OECD Core Principle 2: Establishment of pension plans, pension funds, and pension entities

OECD Core Principle 5: Plan design, pension benefits, disclosure, and redress

Recommendations for the Good design of DC plans:

Recommendation 2. Make DC systems as inclusive as possible

Recommendation 5. Promote low-cost and cost-efficient retirement arrangements in both the accumulation and pay-out phases

Important changes – 2023

automatic participation and lower costs

OECD Core Principle 2 a 5

Recommendations 2 and 5 for the Good design of DC plans:

2. Make DC systems as inclusive as possible

- **automatic participation** - first participation for every natural person - establish after 1 May 2023 and no more than 40 years old
- **non mandatory participation** - saver may leave from this system till two years from the establishment of the first participation and at the same time has right to re-enrol (however a saver may only once leave and re-enrol)
- **Social Insurance Agency** - informs everybody who automatic participation about his rights and obligations related to his participation
- **new individual guarantee** - apply to all mandatory contributions and penalties in bond guaranteed pension fund, and all amounts credited to that account for any reason

5. Promote low-cost and cost-efficient retirement arrangements in both the accumulation and pay-out phases

- **remuneration for the management of the pension fund** - in the maximum amount of 0.45% of the average annual preliminary net value of the assets in the pension fund in 2023, in the amount of 0.425% in 2024 and in the amount of 0.4% from 2025

OECD Core Principles:

OECD Core Principle 5: Plan design, pension benefits, disclosure, and redress

Recommendations for the Good design of DC plans:

Recommendation 6. Ensure that all individuals have access to appropriate investment strategies and a well-designed default

Important changes - 2023

Default Investment Strategy (DIS)

OECD Core Principle 5

Recommendation 6 for the Good design of DC plans:

6. Ensure that all individuals have access to appropriate and sustainable investment strategies and a well-designed default, where applicable

- **effective from 1.5.2023**
- **reaction to negative legislation changes in 2013** - clients statement about staying in other then bond guaranteed pension fund
- **automatic for all those savers who do not decide otherwise**
- **automatic machine based on the age attained**
 - adjusting the distribution of assets individually for each saver taking into account the risks and with the potential benefit of a higher yield in the long term
 - i.e., assets will be invested partly in an index non-guaranteed pension fund and partly in a bond-guaranteed pension fund depending on the age attained of the saver (decreased and increased by four percentage points when the saver attains the prescribed age and every subsequent year of age)
- **asset transfer started on 1.7.2023 and will last until 31.12.2025**

over 721 000
savers



3.78 billion € of
assets from bond-
guaranteed
pension funds



OECD Core Principles:

OECD Core Principle 5: Plan design, pension benefits, disclosure, and redress

Recommendations for the Good design of DC plans:

Recommendation 9. Ensure effective, personalised, regular, consistent and unbiased communication to members

Recommendation 10. Promote awareness and support financial education about retirement and pensions

Information Obligation and Education for Clients

OECD Core Principle 5

Recommendations 9 and 10 for the Good design of DC plans

9. Ensure effective, personalised, regular, consistent and unbiased communication to members

10. Promote awareness and support financial education about retirement and pensions

Information obligation

- key information
- rules of pension fund
- monthly report of pension fund
- personal pension account statement
- website information
- Information in special application
- Orange envelope



Oranžová obálka

Education

- „5 peňazí“ – increasing the level of financial literacy



- pension calculation calculator
- seminars, workshops
- cooperation with schools

OECD Core Principle 4: Investment and risk management

revised - ESG factors

Investment and Risk Management

ESG Factors

OECD Core Principle 4: revised - ESG Factors

- **Regulation EU 2019/2088** on sustainability-related disclosures in the financial services sector (**SFDR**) – ESG factors
- **IOPS supervisory guidelines on the integration of ESG factors** in the investment and risk management of pension funds
- **NBS recommendation** on own-risk assessment and statement of investment policy principles (**including ESG factors**)
- **all supervised entities in the field of pension savings in Slovakia apply SFDR regulation and ESG factors** – disclosed information on websites and invest to green financial instruments
- **2 new green pension funds** (established from november 2021 and from june 2022)
- **Challenge** for competent authorities and supervised entities – define and specify **proportion and criteria** for **green financial instruments** – **fulfill ESG factors**



THANK YOU!

