



BULGARIAN ASSOCIATION OF SUPPLEMENTARY PENSION SECURITY COMPANIES

Highlights of the Pay out Phase in Bulgaria

February 2022

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General Overview

- ❑ Following three years of intensive debate in the working group especially formed of key stakeholders such as BASPSC, MF, Labor Ministry, FSC, trade unions, employers, media and many attempts to compromise the three-pillar pension model in Bulgaria, the Bulgarian Parliament finally adopted **the changes to the Social Security Code on 18 February 2021 aimed at regulating the pay out phase.**
- ❑ The law has already been promulgated on 05 March 2021 in the State newspaper, official edition of the Republic of Bulgaria- after the Decree of the President.
- ❑ The adopted changes to the Social Security Code regulating the payment of pension products by universal pension funds have been the final step of the biggest pension reform in Bulgaria. Pension companies finally have been permitted to start pension payments from the second pillar (universal pension funds) by forming special Funds for pension payments.
- ❑ In September 2021 the private funds began to service the first women who had reached the pension age of 61 years and 8 months and had been insured in two places (for state pension and for supplementary pension insurance).
- ❑ The retiree is expected to contact the pension company and conclude personal contract stipulating the choice of the product and agreeing to a personal pension plan of future payments.

Pension Products in the pay out phase (1)

Three types of products are considered in the Social Security Code which are offered by the Pension companies, only one of which is a lifetime pension. The choice between them is mainly subject to the amount accumulated in the pension account.

1. A lifetime old-age pension will be paid when the amount of retirement savings allows the granting of a pension of at least 15% of the minimum retirement pension. According to estimates presented in recent months, a person must have at least BGN 9,000 in his account in order to receive a lifetime pension.

- **lifetime pension without additional conditions** - is granted for life in the same monthly amount and is not subject to inheritance.
- **lifetime pension with a period of guaranteed payment** - granted for life in the same monthly amount and includes a guaranteed period of 2 to 10 years (at the option of the pensioner), within which the current value of due payments is inherited until the end of the guaranteed period.
- **lifetime pension, including deferred payment** of part of the funds until reaching the age chosen by the pensioner - granted for life in the same monthly amount after the expiration of the deferred payment period; the length of the deferred payment period should be chosen by the pensioner in such a way that the monthly amount of the paid amount is not lower than BGN 45 and higher than BGN 300; the present value of the payments due until the end of the deferred payment period is inherited.

Pension Products in the pay out phase (2)

2. Deferred payment of the funds from the individual account will be possible when they are not sufficient for a lifetime pension, but exceed three times the minimum pension, i.e. more than BGN 900. In this case, the monthly payment may not be less than 15% and greater than the minimum retirement pension (BGN 45 and BGN 300 in 2021). This type of payment should apply to accounts between BGN 900 and BGN 9000.

3. A one-off payment of the funds in the individual account will be made if the amount is less than three times minimum retirement pension, i.e. less than BGN 900, it will affect mainly tiny pension accounts of insured individuals who have had ultra small contributions over the prior 20 years since the launch of the supplementary funds.

Key highlights of the pension reform for the pay out

- ❑ Establishment by the pension companies of two specialized Funds for pension payments depending on the selected product. The new funds are subject to new licensing, paying of regulatory fees, custody expenses and bank fees.
- ❑ The accumulated balance of the retiree in the universal fund is transferred to the respective new Fund for payments which is managed highly conservatively by the pension company (0.5% man. fee has been negotiated to be charged by the pension companies after heated discussions).
- ❑ At least once per annum update of the life long pensions is mandatory to be applied based on the distribution of 50% of difference between the investment yield of the payment fund and the applied technical interest rate.
- ❑ Implementation of **guarantee on the gross contributions** at retirement accumulated in the pension accounts upon retirement in favor of the insured persons form the second pillar.
- ❑ Minimum capital requirements for the private pension companies is **increased to 7.5 mln BGN**, while solvency margin is applied at 4% of the capitalized value of the pensions and projected withdrawals, but not less than 7.5 mln BGN.

Pension Products by the Universal Pension Funds – cont.'

Developments over the first months (September – January)

The first pensions started to be paid out by the local pensions funds in September 2021. Until then, many new changes in the respective Ordinances have been by the regulator Financial Supervisory Commission (FSC) in alignment with the pension industry.

- ❑ For the first couple of months from the start of the pay out phase it is typical that in case of *interest in lifelong pensions*, the persons are oriented mainly to a **lifelong pension with a period of deferred payment until reaching a certain age**.
- ❑ The main preference of the retiring persons with **insufficient pensions savings** for lifetime pension is to choose the option for Deferred payment of the funds. For 2021 they could have maximum monthly payment of BGN 300 which is increased to BGN 370 in 2022.
- ❑ The pace of conclusion of new contracts by the eligible insured persons (mainly women) who have reached the retirement age advances gradually.
- ❑ **BASPSC preliminary assessment**: c. 2500 contracts for pension payments since September 2021 which will increase at a faster pace in 2022 following the increase of the state regulated minimum pension and the improved awareness.