COUNTRY REPORT
CEE

KEY POINTS

- **Government reforms aim to align pensions with contributions**
- **The full impact of pension reform is likely to be felt in 2025**
- **Fitch has raised questions around fiscal sustainability**
- **Private pension taxation will also change from 2024**

Bulgaria's pension funds look to Europe

BULGARIA
LUIGI SERENELLI

The country's pension sector is seeking greater flexibility in investment fund options

Back in 1997, Bulgaria pegged its currency to the deutschmark, as it experienced severe economic turbulence, a banking crisis and hyperinflation, with pricing spiking by 2,000%, according to the IMF.

In the years of the transition to democracy and market economy, the country's pension system experienced structural reforms, such as the introduction of the three-pillar system in 2000, when the currency was anchored to the euro.

Now, the country is trying to meet all criteria set by the EU to finally join the euro-zone. "We, the industry association of the Bulgarian supplementary pension companies, have been invited and actively participated since 2022 in the working group, consulting and actively discussing, giving proposals and opinions related to the national plan for the introduction of the euro, and the law on the introduction of the euro," says Evelilna Miltenova, chair of the Bulgarian Association of Supplementary Pension Security Companies (BASPSC).

Companies managing the pension funds consider the euro-zone as their home market since the country joined the EU in 2007. "We do not expect significant change or expansion of the investment alternatives," she adds.

Most of the investments of the pension funds in Bulgaria are in euro-denominated financial instruments and the rest in Bulgaria lev. The largest share of foreign investments by the schemes is conducted in euros, and only a minor part in US dollars.

Bulgaria's pension system experienced structural reforms since its transition to a market economy

Bulgaria's supplementary pension system, consisting of Universal Pension Funds (UPFs) and Professional Pension Funds (PPFs) in the second pillar, and Supplementary Voluntary pension insurance in the third pillar, counts close to €11bn in assets, that have been increasing exponentially over the last 20 years, with some 4.96m members.

Ten pension companies manage funds in the second pillar, with a contribution rate of 5% this year, and 10 operate in the third pillar. In the first pillar, contributions are by law set at 14.8%.

The BASPSC supports increasing contributions in the second pillar from 5% to at least 10% to ensure sufficient additional pensions. "Increasing the level of contributions is another important point to tackle to increase pension savings and pension pay-outs. Twenty years of saving is not enough to have a decent pension; the minimum is 30-35 years of savings," Miltenova says.

Moreover, the classic 60/40 portfolio is starting to represent a limit for the pension industry, as the system is no longer in its early stages. One of the issues on the table relates to the lack of multi funds, giving access to sub-funds investment, in line with European standards, and giving leeway to design an investment portfolio according to age and life cycle mode.

Multi-fund options are by default incorporated in the PEPP Regulation and most of the other EU pension systems provide for this approach.

"Twenty years of saving is not enough to have a decent pension"
Evelilna Miltenova

Croatia is the closest example, according to Miltenova.

"Pension funds now are not allowed to change the portfolio, for example by being more aggressive in the initial saving phase and becoming more conservative at the end of the saving life cycle. The proposal to introduce multi funds has been discussed in Bulgaria over the past years, and it is now likely that the topic will be raised again at the political level in 2024," she says.