Bulgaria

1. Session one: Informing on change

1.1 What do individuals know about main aspects of the pension systems that are changing? (parameters, financing, retirement age, indexation)

Pillar I (State Pension System):

Actually, there is no precise information available in National Social Security Institute (NSSI) about the extent to which people are aware of pension system changes. Usually young people are not very interested in pension matters. On the contrary, people who approach retirement age or for some reasons are afraid that they could become unemployed, look more often for information concerning eligibility conditions for retirement. Questions about indexation and possibilities for increasing pension levels are interesting mainly for people who have already become pensioners. Many present and future pensioners as well as representatives of some pensioner's organisations write letters to the Ministry of Labour and Social Policy (MLSP) and NSSI to ask questions and make requests for higher pensions, to suggest changes in social security legislation or just to share their opinion about pension matters. In order to provide information to interested persons, different kinds of newsletters, advertising materials and analyses are issued by NSSI.

The percentage of pensions indexation for next year is known in advance with announcement of the State Social Security Budget.

Pillar II and III (Supplementary pension insurance):

Supplementary pension insurance is relatively new in Bulgaria and it is necessary that society is better informed about it. Despite the serious information campaign at the beginning of the reform, most people are aware only of the basic principles of the supplementary social insurance.

1.2 What do individuals know of the different types of financial risks to which individuals are exposed and on which they can make choices (longevity, rates of returns guarantees...)?

People are aware that it matters to whom they entrust the management of their money in the II and pillar III. They know that different pension insurance companies will have different investment return. Although a mechanism for guaranteed minimum return exists in the second pillar, not all people are aware that it is based on a market benchmark rather than inflation. Actually most people are interested whether there is a guarantee against inflation or against bankruptcy of the pension insurance companies.

1.3 How are people informed about these questions and how can the efficiency of this information be assessed? What are the main tools to provide information to individuals?

No quantitative mechanism is established for the assessment of the efficiency of information.

Pillar I (State Pension System):

Before the adoption of the new social security legislation in 2000 a wide public campaign was implemented by NSSI. It comprised the main principles of the new social security system as well as eligibility conditions for acquiring pension and rights of insured persons. Periodically NSSI organises press conferences and workshops for journalists in order to inform the public about all changes in the state pension system. All mass media spread that information immediately and make it known to the population. In order to cover the individual needs of the people a hotline for pensions was established in NSSI after the new social security legislation came into force in 2000. At the end of 2002 the Hotline for pensions was transformed into a Call Centre for Social Information in the Ministry of Labour and Social Policy. Everybody who needs individual consultation can call and receive a detailed answer of their question.

In order to receive feedback information, a Consultative Board for Pension Matters was established in the Ministry of Labour, where the Pensioner's Organisations actively participate in creating new pension policies. There exists also a Public Board of the Pensioner's Organisations in NSSI. On its meetings, which are carried out twice a year, many suggestions concerning pension policy are discussed.

There exist special pensioner's newspapers, which on a regular basis inform all pensioners in Bulgaria about the changes in legislation, the new rules concerning indexation etc. They give also very detailed information about the pension rights, pension amounts and some other issues related to the persons at age before and after retirement.

Pillar II and III (Supplementary pension insurance):

The main ways to inform the insured persons about pension system changes are the following:

1. the Financial Supervision Commission's website (www.fsc.bg):
   a. news on the FSC website (often lead to publications in the media);
   b. draft laws and ordinances;
   c. legislation in force.

2. press conferences and interviews, leading to publications in the media;

3. the FSC call centre;

4. answers to written questions of the insured persons and different social organisations. The FSC seeks to engage the non-governmental organisations even in the draft preparation of the subordinate legislation – representatives of such organisations take part in expert workgroups (mainly experts from pension insurance companies and other public authorities).

5. seminars organised by the FSC, targeted at specific population groups – e.g. students, journalists;

6. publication of the legislative acts in the State Gazette;

7. pension insurance companies tend to publish a lot of information on their websites and in their information materials in order to attract customers.

2. Session two: Informing on choices

2.1 What are the actual main choices available to individuals (including portfolio profiles, etc...)? What are the choices of financial products individuals have: in the mandatory system (i.e. opt-out to the employers scheme), in the second and third pillars?

Pillar I (State Pension System):

People can choose to continue working after reaching the statutory retirement age. In this case they will get a higher pension, as the relative weight of each year additional working life is higher than the weight of each year obligatory length of service.

Pillar II and III (Supplementary pension insurance):

People born after 31 December 1959 are obliged to participate both in the Public Pension System (Pillar I), which operates on PAYG Defined Benefit principle, and in the Supplementary Mandatory Pension Insurance (Pillar II), which operates on fully funded DC principle. The individual has the opportunity to choose in which pension company to be insured. The pension insurance company may be changed once per year or after amendments to the Rules of organisation and operation of the pension fund that has not been imposed by a change in the legislative framework. People working under heavy and harmful conditions are mandatorily insured in Professional Pension Funds, where their employers pay contributions of 7% or 12 % of the worker's gross wage.

The main choice the insured person has to make is, in which pension company to be insured. One normally considers the average return, stockholders and managers of the companies, their reputation, etc.

The insured persons born after 31 December 1959 are not allowed to participate only in the pillar I or only in the pillar II. They cannot transfer their resources from a pillar II pension fund to a pillar III fund nor vice versa.

The legislation in force does not allow the introduction of different investment portfolios within the same fund. A draft law is being prepared about the introduction of 3 different investment portfolios within the voluntary pension fund - aggressive, balanced, conservative.

2.2 What are the actual choices people take regarding their pensions (deferred pension, partial pension, different types of annuities, share of lump-sum...)?

In the Universal pension fund (UPF, the general mandatory supplementary pension fund) the insured persons are entitled only to a life-time pension.

In the Professional pension fund (mandatory pension fund for workers in heavy and dangerous conditions) the insured persons are entitled only to a fixed-period pension for early retirement. In case the insured person does not meet the requirements for such pension, he/she may transfer her resources to a UPF or withdraw them.

In the voluntary pension fund the insured persons may choose from fixed-period pension, life-time pension, lump-sum payment or programmed withdrawal.

In the Voluntary pension fund under occupational schemes the insured person may choose from a fixed period pension, lump sum payment or programmed withdrawal.

2.3 What is the population's ability to understand financial notions related to pensions? (for instance compound interests, ...)

This ability greatly varies according to the individual's educational and occupational status. Supplementary pension insurance is relatively new in Bulgaria and it is necessary that society is better informed about it.

2.4 What are the main tools to provide information to individuals?

Pillar I (State Pension System):

Please see the answer to question 1.3. In general, the main tools are the following:

1. the NSSI web-site (www.nssi.bg) - legislation in force, general useful information;
2. call centre;
3. individual consultations from NSSI employees;
4. press conferences, workshops, publications in the media, pensioner newspapers;
5. publication of the legislative acts in the State Gazette.

Pillar II and III (Supplementary pension insurance):

1. On conclusion of the social insurance contract, the insured person is entitled to receive a copy of the Rules of organisation and operation of the fund. The social insurance contract and the pension contract themselves contain information, regarding the benefits and the other rights of the insured persons

2. Within a week after the deputy chairperson of the FSC has approved the amendment to the Rules of the organisation and operation of the pension fund, the pension insurance company is obliged to inform the insured persons of these amendments either personally or by a publication in 2 central newspapers.

3. The insured persons are informed about their individual account – accumulated resources, deductions made, etc. Annually an excerpt is sent to each insured person free of charge. The pension insurance company provides such information also any time on request. Most companies have also introduced online access for insured persons to monitor their individual account.

4. In insurance under occupational schemes the following information is also provided:

   1) annual information regarding:
      a. any change in the scheme arising from amendments in the statutory framework or the rules of organisation and operation of the fund;
      b. the amount of resources accrued, the types of payments and the manners of receiving the said payments upon acquisition of entitlement to the relevant type of pension;
      c. the risks associated with the investment and the management of the occupational scheme and the persons who assume the said risks;

   2) upon request:
      a. the annual financial statement and the annual report regarding the management of the respective scheme;
      b. information regarding the investment policy of the fund and the structure of the investment portfolio;
      c. information regarding the procedure and manner of transfer of the resources accrued in their individual accounts to a fund managed by another retirement insurance company, upon discontinuance of the activity, on the basis of which the persons are insured.
      d. information regarding the level which retirement benefits must reach according to the conditions of the relevant occupational scheme: in case of work on a cross-border basis;
      e. the amount of payments upon termination of the insurance according to the conditions of the relevant occupational scheme: in case of work on a cross-border basis.

5. The website of the Financial Supervision Commission gives access to the legislative framework on supplementary social insurance and to general useful information;

6. The FSC has also organised a call centre for the information of the insured persons.

7. The FSC also gives internet access to its registry, in which valuable information is entered – e.g. licensed pension insurance companies, major shareholders, managers, imposed sanctions, etc.

8. The FSC has organised seminars for education in supplementary social insurance, targeted at different social groups \ e.g. students, journalists – they tend to pass on knowledge to a lot of people.
9. The pension insurance companies tend to publish a lot of information on their websites and in their advertising materials. Their social insurance intermediaries also inform the insured persons when trying to convince them to conclude a contract with the company they are working for. The Deputy Chairperson of the FSC has approved Requirements, regarding the

advertising and information materials of the pension insurance companies and their websites. Fines have been imposed for non-compliance with these requirements.

3. Session three: Informing on rights

3.1 What do individuals know of their already accrued pensions including statutory pensions (unfunded and funded tiers)?

Pillar I (State Pension System):

In July every year the NSSI sends personal information to all pensioners about the main parameters of their pensions and the size they get after the latest indexation. The indexation coefficient is fixed in the State Social Security Budget and becomes known to the public at the end of previous year.

All regional offices of the NSSI provide individual consultations for pensioners and insured persons.

Pillar II and III (Supplementary pension insurance):

The insured persons are informed about their individual account – accumulated resources, deductions made, etc. Annually an excerpt is sent to each insured person free of charge. The pension insurance company provides such information also any time on request. Most companies have also introduced online access for insured persons to monitor their individual account.

3.2 What do people know of the impact of different decisions on retirement age and transition from work to retirement on their potential future benefits?

Pillar I (State Pension System):

People know that if they work longer they will get a higher pension. In order to stimulate people to work longer and to postpone their retirement an amendment in the pension formula has recently been made. The weight of each year additional service after reaching the statutory retirement age is three times higher than the weight of each year obligatory service.

People know also that if they do not pay social security contributions on their actual incomes they will get lower pensions. Unfortunately most people start thinking about their pensions only when they approach the retirement age.

In 2002 NSSI began to send out individual information to participants about incomes on which they pay social security contributions and their length of service. It has developed a web-site (www.nssi.bg) where individuals can get on-line services and detailed information about their rights and duties as well as about any new aspects of the social security legislation. A very useful information tool is also implemented – “Social insurance status by Identity Number (IN) and Personal Identification Code (PIC)”, which is accessible in the web site of the National Social Security Institute and through the Kiosk-terminals in the reception rooms of the territorial units of the National Social Security Institute. A new Internet service - pension calculator will be developed by the end of 2008, which will provide the people with the opportunity to calculate the level of their pensions according to their incomes and the contributions they pay to the State pension system.

Pillar II and III (Supplementary pension insurance):

Both in the second and third pillar the insured persons may retire 5 years earlier than the statutory retirement age. Earlier retirement normally leads to a smaller pension, because the amount of the pension depends on the resources accrued in the individual account. The insured persons are aware of this basic principle of insurance in the supplementary pension funds.

3.3 What are the main tools to provide information to individuals?

For details please see also the answers above, the main tools are as following:

Pillar I (State Pension System):
1. personal information by mail;
2. internet;
3. call centre.

Pillar II and III (Supplementary pension insurance):
4. the Rules of organisation and operation of the fund and the information for their amendments;
5. the social insurance contract and the pension contract;
6. the FSC website, call centre and electronic registry;
7. educational seminars;
8. information published by pension insurance companies and their intermediaries.

Background Information:
The Bulgarian Pension System

The pension system in Bulgaria has undergone substantial reforms during the last decade. The previous system of pay-as-you-go first pillar was transformed by the introduction of a mandatory fully funded component. The traditional first pillar of the p-a-y-g type was supplemented by the establishment of a three-pillar pension model with the introduction of compulsory and voluntary fully funded component. The separation of the state social insurance budget from the state budget, the establishment of specialized funds on social risks and the introduction of the tripartite management of the state social insurance system are other aspects of the pension reform.

The Bulgarian pension reform started on 1 January 2000 with the adoption of new social insurance legislation, as the Mandatory Social Insurance code (MSIC) came into force (since 2003 it has been renamed to Social Insurance Code (SIC). Thus Bulgaria introduced the so-called three-pillar system, following a model proposed by the World Bank.

The pension policy is being formulated and conducted by the Ministry of Labour and Social Policy. The pay-as-you-go component of the first pillar is being run by the National Social Security Institute, which is responsible for the calculation and payment of the pensions and other social insurance benefits, such as incapacity to work, maternity, unemployment benefits, etc. The second and third pillars are managed by licensed pension insurance companies, under the supervision of the Financial Supervision Commission.

Pillar I is the Public pension system. This is standard pay-as-you-go system under which the working population pays contributions for the pensions of the retired. . It includes the pensions paid out by funds financed through insurance contributions and/or transfers from the national budget. It is administered by the National Social Security Institute.

Pillar II is the supplementary mandatory pension insurance. It is based on a defined contribution fully funded principle, which means that each individual pension is determined on the basis of the amount accumulated in the individual account. It includes pensions paid out by funds that are capitalized in universal and/or professional pension funds managed by licensed pension insurance companies. Their financing comes from the social insurance contributions made by employers and employees. The value of the assets in the individual accounts is formed by the paid contributions and the return of there investment. Participation in pillar II funds is mandatory.

Pillar III – the supplementary voluntary pension insurance is similar to pillar II but participation is voluntary. The schemes in this pillar are supplementary, voluntary, fully funded. It includes pensions paid out by funds capitalised in voluntary pension funds as managed by licensed pension insurance companies. Their financing comes from the social insurance contributions as specified by will of the parties. It contains schemes on the basis of collective labour contracts and schemes on the basis of each individual's personal wish.

The main objective of the pension reform in Bulgaria was to stabilize the existing public insurance system (Pillar I) and to allow the Bulgarian population to receive higher income after retirement through participation in Pillar II and Pillar III.

State public insurance (Pillar I) is mandatory and covers all individuals hired by employers, as well as self-insured, farmers, individuals working without a formal labour contract and other, near

30 insured types. It is PAYG scheme. National Social Security Institute administers the PAYG system's benefits on the basis of a very well developed information system with its own personal register for insurers and insured persons.

A differentiation between the categories of insured persons are carried out according to the number and the types of the risks against which the insured persons are obliged to be insured as well as according to the legal nature of the primary legal relations which precede the insurance relations.

Public social insurance resources are allocated in five types of funds:

1. a Pensions Fund - the resources for which are raised from: social insurance contributions and revenue as provided for by other laws for social insurance against disablement by general sickness, old age and death; amounts from the state budget; fees, as determined by a rate schedule by the Council of Ministers; interest and dividends. The resources of the Pensions Fund are disbursed on: payment of contributory-service and retirement-age pensions, general-sickness invalidity pensions, survivor pensions and supplements thereto; updating, indexation and compensation of pensions under Item 1; other expenditures related to retirement insurance; health insurance contributions for pensioners.

2. a Non-Work-Contingent Pensions Fund - the resources for which are raised from transfers from the executive budget for: payment of pensions for which social insurance contributions are not due and for indexation, compensations and supplements thereto; supplements to pensions of war veterans; supplements for the surviving spouse; supplements to pensions determined by the Political and Civil Rehabilitation of Repressed Persons Act .

3. an Employment Injury and Occupational Disease Fund - the resources for which are raised from social insurance contributions; amounts from the state budget for social insurance of civil servants; interest and dividends; donations and bequests. The resources of the Employment Injury and Occupational Disease Fund are disbursed for: payment of cash benefits, pensions and allowances; updating, indexation and compensation of cash benefits, pensions and allowances; technical aids related to the impairment; other expenditures related to social insurance against employment injury and occupational disease.

4. a General Sickness and Maternity Fund - the resources for which are raised from social insurance contributions and amounts from the state budget for social insurance of civil servants.
   The resources of the General Sickness and Maternity Fund are disbursed for: payment of cash benefits and allowances; financing of activities for reduction of the incidence of general sicknesses; provision of technical aids; other expenditures related to social insurance against general sickness and maternity.

5. The revenues of the Unemployment Fund are raised from: social insurance contributions; interest and dividends; donations and bequests. The resources of the Unemployment Fund are disbursed for payment of unemployment benefits, benefits under Article 233 of the Defence and Armed Forces of the Republic of Bulgaria Act and health insurance contributions for the unemployed.

Mainly three types of pension benefits exist in Bulgaria: old age pensions, disability pensions and survival pensions. All pensions are exempted from tax and some pensioners receive more than one pension and different supplements to it.

Together with the pensions based on insurance participation we have so-called social pensions. These pensions are financed entirely by the state budget. They are granted to poor old people without sufficient length of participation in the system or orphans, whose deceased parent does not have enough length of participation to make his children eligible for a survival pension.

The social pension is the minimum pension level. Together with that there is a ceiling on pensions, as the maximum pension may not exceed 35% of the maximum insurable income.

Before year 2000 an old age pension could be acquired at age 55 for women and 20 years length of service. For men the requirements were 60 years minimum age and 25 years length of service.

According to the new legislation, an old age pension is acquired on the basis of a point system. The number of points is the sum of the person's age and his or her years of participation in the system. Minimum retirement age is increased by six months every calendar year starting from 2000. This process finished in year 2005 for men, when minimum 63 years of age and 100 points were required. For women the increasing of the retirement age will continue until year 2009 when 60 years and 94 points will be required.

Persons who do not meet the requirements for receiving old age pension become eligible for this type of pension at age 65 (for both men and women) and at least 15 years of participation in the system.

The new legislation introduced also a new benefit formula. All pensions had been recalculated applying the following formula:

Old Age Pension = Contribution period * 1%
* Individual coefficient
* Average monthly insurable income from previous 12 months

The pension formula does not contain directly the replacement rate. The pension level depends on the following three elements:

1. Length of participation in the system (each year of participation brings 1 per sent of the average monthly insurable income, as this per sent is higher for workers with hazardous occupations and varies from 1.25% to 3%). We hope that the presence of such an element will be incentive for longer participation in the insurance process as each year of service has direct influence on the amount of the pension.

2. The pensioner's individual coefficient – a ratio between the individual insurable income and the average insurable income for the country. This coefficient is a quantitative indicator for person's contribution in the insurance system and would stimulate the employee to require that their employers make social contributions on their real salary and not only on the

minimum wage established for the country (which is a practice in private business). When calculating the individual coefficient we take three permanent years out of the last 15 years of service, before 31 December 1996, selected by the person. The period after 31 December 1996 until the moment of retirement is included compulsory, because since the beginning of 1997 we have the so-called personal register where all data about insured persons are being collected.

3. The average monthly insurable income for the previous 12 months before retirement. This is an element, which creates a link between pension levels and the financial possibilities of the system.

One of the objectives of the new benefit formula is to create a link between the contribution to the system (as a combination of the duration of the insurance participation and the amount of the insurable income) and the level of the benefit.

Up to 2006 incl. every year all pensions were updated using a coefficient, which may not be smaller than the consumer price index (CPI) for the previous year and may not exceed the index of increase of the average monthly insurable income. Usually this coefficient was 75:25 of the above mentioned indicators. Starting from 2007 the coefficient is calculated as 50% of consumer price index (CPI) for the previous year and 50% of the index of increase of the average monthly insurable income.

The mandatory funded component (II-d pillar) is a scheme with defined contributions, which are allotted to individual accounts run by licensed pension insurance companies (nine licensed pension insurance companies managing the two types of funds – compulsory universal and compulsory professional), regulated by the state – the Financial Supervision Commission.

The coverage of the universal funds is general for all the insured persons born after 1959. Benefits payable from the universal funds are received from the date of entitlement to a pension for insurance and age or 5 years earlier under specific terms and conditions. Benefits are taken as a supplementary life-long pension calculated at the time of retirement, or as a lump sum / phased withdrawal when the amount is relatively small (less than 20% of the social old age pension). Accrued funds are fully inheritable at any point, by spouses, parents and children.

The professional funds cover workers in first and second category of labour (miners, metallurgists, etc. – some 191 000 insured persons). These funds allow for the receipt of pension eight years earlier than the standard retirement age for workers under the terms and conditions specific for first category and three years earlier for workers under the terms and conditions specific for second category. The professional fund is financed by additional contributions paid solely by employers (12% 1st category and 7% 2nd category).

The supplementary voluntary pension insurance (III-d pillar) provides for the opportunity that persons save on the bases of individually set contributions, deposited in private pension funds run by licensed pension insurance companies. The contributions are made by the person, by the employer or other natural persons or legal entities. Contributions (within limits) to the funds are tax advantaged. Payments can be done in the form of pensions for old-age or disability – life-long or term-defined, as well as survivors' pensions and in the form of lump sums or phased withdrawal. As from 1 January 2007, within this pillar, the professional and individual schemes have been differentiated in 2 types of funds - voluntary pension insurance funds and voluntary pension insurance funds under occupational schemes. The assets accumulated in these 2 types of funds have e different regime, especially regarding the possibilities for withdrawal or transfer, depending on the source of contributions – employers', employees' or personal contributions and on the type of the fund itself.

The p-a-y-g and the mandatory funded components of the pension system (First and Second Pillars) are financed through contributions made by the employees and the employers. The amount of the contributions for pensions from the p-a-y-g component was decreased from 29 % of the insurable income to 22 % in 2007. The contribution rates for the first pillar are determined on an annual basis as a percentage of the dross wage for workers, between minimum insurable income by branches and professions and maximum insurable income. Self-insured individuals are obliged to pay percent on monthly income selected by them, between minimum and maximum insurable income. For individuals born after 31 December1959, as of 1/01/2007, 5 % are diverted to the universal funds of the mandatory funded component of the statutory pillar. The contributions are divided between employers and employees in a ratio 60:40, but this ratio is gradually changing to reach 50:50 in 2010 for both statutory components. The professional funds of the mandatory funded component (offering early retirement to workers working at harmful and specific work environment) shall be financed by additional contributions, paid solely by the employers (12 % for first category of labour (miners, underwater divers, pilots, etc.) and 7 % for second category of labour (metallurgists, etc). The contributions cover all the contributory pensions (for age, for accident at work or occupational disease, for disability due to general illness, as well as survivors' pensions). The contributions for pensions for accident at work and occupational disease are payable entirely by the employers. Another financial source for the pension system is the national state budget which covers the expenditures for pensions not related to contributions, for work experience without social insurance contributions, etc., as settled by law.

As of 1 January 2006 all public receivables /taxes and contributions/ are collected by the National Revenue Agency /NRA/. Further, the NRA transfers the contributions to the NSSI and to the relevant pension insurance company.