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THE PAY-OUT PHASE OF THE BULGARIAN UNIVERSAL PENSION FUNDS – INITIAL CHALLENGES AND SHORT-TERM PERSPECTIVES

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The universal pension funds in Bulgaria stepped into the distribution phase in September 2021. After months of hot discussions between the pension fund industry and the Regulator (Financial Supervisory Commission – FSC), new legislation regarding the pay-out phase appeared on the surface just weeks before the initial disbursement of pension benefits. The first insured individuals entitled to receive supplementary pension benefits were women born in 1960. A few of them applied for the envisaged additional payment in the very first days after acquiring the right. The current research encompasses three basic elements: the initial challenges that arose during the period of elaborating the normative rules concerning the distribution phase, the way these challenges were addressed and the short-term perspectives for the universal pension funds in Bulgaria. The paper is divided into two parts: the first one is dedicated to the analysis of the legislation concerning the pay-out phase; the second one is focused on the initial start of the payment of the benefits and the choices made by the insured individuals. The research is trying to shed some light on the near future of the Bulgarian pension funds, taking into consideration the initial preferences of the new pensioners towards the offered pension products and the arising new challenges for the universal pension funds. The paper concludes with some recommendations concerning additional reforms that could strengthen the second pillar of the pension system in the country.

Keywords: Bulgarian universal pension funds, pay-out phase, risks, insured individuals

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1. THE PAY-OUT PHASE OF THE UNIVERSAL PENSION FUNDS – INITIAL CHALLENGES

The universal pension funds in Bulgaria were introduced in 2002 as a classical fully funded defined contribution pension scheme. The basic idea behind the reform was to support the pay-as-you-go (PAYG) part of the system whose chronic deficits and inability to finance adequate pension benefits were widely recognized as a serious problem in the mid 1990's (Kirov, 2010, p. 9; Daneva, 2016, p. 21-22). The envisaged opportunity to save some extra resources in personal accounts was seen as an advantage of a pension system that operates in an environment of continuous population aging and a deteriorated demographic structure. The normative rules adopted in the late 1990's allowed only individuals born after 31.12.1959 to open an account in a supplementary mandatory pension fund. The logic behind this regulation was that insured individuals need a period of accumulation before they start to receive a pension benefit. It is well known that defined contribution pension schemes have two distinct phases: the accumulation period and the pay-out (distribution) period (Davis 1995, p. 11). The accumulation phase for some individuals who started to save in 2002 and were born at the beginning of 1960 finished in the fourth quarter of 2021[1]. According to Blake (2006, p. 145) the main objectives of a pension scheme are: "to provide adequate retirement income security for the remaining life of a pensioner and his or her dependents; and to eliminate the risk that the pensioner outlives his or her resources". In Bulgaria, the first goal could be modified in the following way: the pension scheme should provide income that fully compensates the reduction of the benefit due by the pay-as-you-go part of the system. The fully funded component is a supplementary element in the Bulgarian pension system. The universal pension funds were not designed to provide adequate pension income and the insured individuals were not envisaged to rely solely on this part of the system. A specific feature of the pension legislation is the reduction of the benefit due by the state with a percentage roughly equal to the ratio between the amounts of the contributions due for the second and for the first pillar[2]. According to Pandurska (2018, p. 140-141) this specific regulation raises serious concerns among the insured individuals whether to stay with their chosen universal pension fund or to transfer their resources to the pay-as-you-go part of the system – an option that was granted to the insured individuals in 2015. That was the first obstacle that had to be overcome in

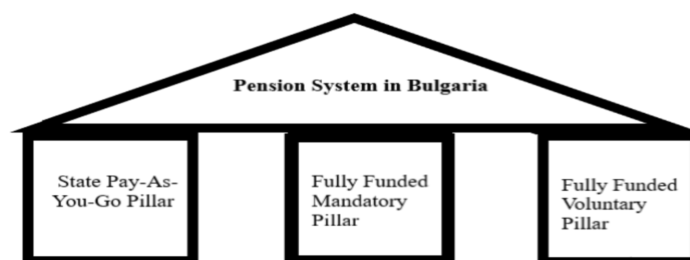
[1] According to Bulgarian legislation insured individuals in supplementary mandatory pension funds could apply for a pension benefit from their universal pension fund if they meet the requirements concerning the entitlement of a pension benefit by the first pillar of the pension system.

[2] According to the initial regulation stipulated into the Social security code in 1999 the reduction should be a weighted average of the ratios between the contribution due for the second pillar and the contribution due for the first pillar for those individuals who were born before 1960 and were by default exempted from the fully funded part of the system.

the difficult process of designing the architecture of the pay-out phase for the universal pension funds in Bulgaria. If the reduction is too severe, the insured individuals are demotivated to continue their insurance within the universal pension funds. If the reduction is too low, the pension funds would not fulfill one of the basic goals envisaged with their establishment in 2002 – to support the pay-as-you-go part of the system in the long term by relaxing part of the increasing financial burden caused by the aging of the population. Daneva (2018, p.198) and Rocha and Vittas (2010, p. 9) consider some other risks when designing the distribution phase of a defined contribution pension scheme. Among them are the longevity risk, annuitization risk and bequest risk. Szczepanski and Brzeczek (2013, p.141) mention also market liquidity of assets as a specific risk that concerns especially those countries with developing financial markets. Each of the risks must be addressed effectively in order to make the system viable in the mid and in the long term. In addition, some of the countries that introduced similar reforms experienced various difficulties stemming from the political class. Bielawska (2015) analyses some of the reversal reforms made in Central and Eastern Europe. She stresses the fact that mandatory funded pillars in these countries are highly exposed to political risk. The governments are tempted to use the accumulated funds whenever they experience difficulties in managing their fiscal deficits and public debt. In this sense are also the remarks of Casey (2013). On the other hand, Vostatek (2013, p. 97) and Sebo and Virdzek (2013, p. 109) put special attention on the investment performance of mandatory pension funds and the associated risks for the insured individuals. The research concerns the pension funds in three countries: Czech Republic, Slovakia and Poland. Hughes (2013, p. 13) also cast some doubts on whether personal retirement savings could play an important role in pension insurance as he describes the results of the accomplished pension reform in Ireland as unsatisfactory. Antolin (2008) and James and Vittas (1999) analyze the specific features and risks associated with the financial instruments used in the pay-out phase of defined contribution pension schemes. Asher and Nandy (2006) also point out some specific issues and options for the distribution phase of the pension system in India. Rocha, Vittas and Rudolph (2010) make a comparison of the design of the pay-out phase of five different countries: Australia, Chile, Denmark, Sweden and Switzerland. They stress the products offered in the pay-out phase and their importance for both the insured individuals and the pension providers for the success of any reform. In Bulgaria, each of the mentioned risks sparked a heated discussion between the pension fund industry and the regulator – the Financial Supervisory Commission. The exact design of the pay-out phase needed an agreement between the different stakeholders – the pension companies, insured individuals and the regulator. In the end, a consensus was achieved in a way that could be called "balanced", though only future results are going to show whether the interests of each of the parties were protected effectively. The current paper analyzes and assesses the initial challenges and risks associated with the pay-out phase of the Bulgarian universal pension funds and how they were addressed with the new pension

legislation in the country. For the purposes of making such an analysis, first, an assessment is made on the exact problems that faced the second pillar pension funds in the wake of the distribution phase, second, an analysis is made on the current possibilities of the insured individuals to benefit from their savings in the funds taking into account the adopted design of the pay-out phase, and third some remarks and proposals are made concerning future reforms of the system.

The universal pension funds were introduced as part of a fundamental reform recommended by the World Bank[3]. They were established as a mandatory element of the pension system by embracing defined contribution fully funded schemes. After the reform, the pension system in the country took the following form.



Graph 1. The pension system structure in Bulgaria after the reforms introduced in early 2000's

Although there are opinions against pension insurance based on individual savings (Orzag and Stigliz, 1999), the reform allowed insured individuals to open personal accounts and to redirect part of the contribution due for the first pillar of the system into the second one. The main focus of the new structure of the pension system was to raise the replacement ratio, thus making pension benefits in Bulgaria comparable to the pre-retirement income (Gochev, Manov, 2003, p. 359-360). At the same time, the trend of population aging which became more observable at the beginning of the1990's meant that the financial pressure on the traditional pay-as-you-go part of the system was expected to increase in the foreseeable future. So, the architects of the reform introduced the fully funded component not just as an additional element into the pension system, but as a structure that allows part of the burden falling on the state pension system to be relaxed in the midterm. In order to fulfill this aim, they redirected part of the contribution due for the first pillar of the pension system into the second one. This allowed them to not raise the total tax burden on insured individuals and their employers. At the same time, they adopted regulations that required the state pension system to grant pension benefits in a reduced amount for those individuals insured into a private pension fund (Social

[3] World Bank. 1994. Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth. New York, N.Y.: Oxford University Press.

security code, 1999). The reduction was expected to be compensated by the benefits granted by the fully funded part of the system. The initial idea supposed an estimation of a specific coefficient which reflects the ratio between the amount of the contribution due for the second pillar of the system and that for the first pillar. It is interesting to note that a specific regulation was kept in the pension legislation until the adoption of the exact norms concerning the pay-out phase of the pension funds in 2021, though there were at least two important factors that were suggesting a change of this rule much earlier. The change regards especially those insured individuals who were expected first to be granted a pension benefit by a private pension fund. First: a reduction coefficient equal to the ratio between contributions due for the second and for the first pillar of the pension system implicitly assumes that the whole amount of the pension benefits paid by the pay-as-you-go part of the system is fully financed by the collected contributions via the first pillar. In other words, it is suggested that redirecting some part of the resources into the second pillar is going to hinder the possibility of the state to finance the promised benefits from the first pillar of the system. An inference which is true, but not to the extent witnessed by the figures concerning the deficit of the budget of the state pension system.

Table 1. Budget deficit of the pension fund of the state social security institute

Year	**Deficit**	**Year**	**Deficit**
2002	30.14%	2012	57.89%
2003	22.76%	2013	56,04%
2004	27.11%	2014	56,63%
2005	36.48%	2015	56,51%
2006	44.23%	2016	54,54%
2007	42.56%	2017	49,10%
2008	39.92%	2018	43.95%
2009	46.64%	2019	39.87%
2010	61.32%	2020	42.37%
2011	54.19%	2021	44.92%

Source: www.noi.bg; own calculations.

The above table shows expenditures that exceed revenues by more than 50% for some of the years. This means that the implicit contribution rate for the first pillar (the rate that allows the collection of resources to be equal to covering all expenditures) is much higher than the one actually charged. But if that “real” contribution is higher, it is reasonable to expect the “true” reduction coefficient to be much lower (Milev, 2019, p. 6).

The second factor that suggests the reduction coefficient is unreasonably high, comes from the fact that those insured who first are expected to be granted pension benefit from the second pillar are those born in 1960. All these individuals were in their 40's in 2002 which means that a significant part of their insurable period had been elapsed prior to the period of paying contributions into the second pillar. It is undoubtedly fair to recognize this period as an insurable period without paid contributions, so that the reduction coefficient is not affected by it.

After serious discussions, an agreement was reached that follows the logic behind the second mentioned factor but does not reflect the one behind the first. It's worth mentioning, that even though the reduction coefficient was not lowered to the extent that fully satisfies pension insurance companies in Bulgaria, the adopted change in legislation made it possible for universal pension funds to stay viable and to continue their business. If policymakers had neglected this comparatively minor obstacle, the existence of the domestic pension funds would have been exposed to a significant risk. All insured individuals would have had a strong incentive to close their accounts and to transfer all their resources into the state pay-as-you-go system.

Another important issue that appeared on the surface on the verge of the distribution phase was the way the longevity risk is addressed. During the accumulation period all insured individuals have individual accounts and the existing practice in the field of voluntary pension insurance is the accounts to be preserved also in the pay-out phase. A significant detail is that although voluntary pension funds offer as an option life-long pension benefits, most of the insured individuals choose to receive their accumulated resources as a programmed withdrawal. In this way the longevity risk to which the third pillar pension funds are exposed is comparatively small. The universal pension funds on the other hand are supposed to supplement the pension income of the insured until they die. Although there were arguments that if insured individuals are given the option to withdraw their funds for a short period of time, they would choose exactly this option, the opinion that universal pension funds should pay mostly life-long pension benefits prevailed. In this sense, the longevity risk that is expected to face pension funds had to be mitigated and the pension legislation needed a change in this direction. It is well known that this type of risk is managed more effectively if the individual account is closed at the date of retirement and the accumulated resources of all retired individuals go into a common pool. The basic reason for this is that the average life expectancy is a known figure. Although it has been growing in the past decades, pension funds manage longevity risk far better in this way than in the case of keeping the individual account open after retirement.

Another issue closely related to the chosen option of managing longevity risk concerns the so-called bequest risk. The second pillar pension funds in Bulgaria have a significant history of distinguishing themselves by stressing the fact that resources accumulated in the individual account are inheritable. In this sense, insured individuals are used to the idea that if for whatever reason they die and still have some funds in their accounts, these funds would go to their heirs. But if an individual account is closed at the date of retirement with the aim of managing in this way the

longevity risk, then insured individuals must be convinced that this is in their own interest. The right approach to this issue was crucial for the public image of the pension funds. So, the pension fund industry and the legislators desperately needed a sort of flexibility on it.

The last issue that arose in the process of elaborating the pay-out phase of universal pension funds in Bulgaria concerns the so-called annuitization risk or the way pension funds are going to index the already granted pension benefits. There were three basic problems – first: what technical interest rate would be used for estimating the pension benefits, second: how would already granted pension benefits be indexed and how often and third: would there be any guaranteed minimum under which the granted pension benefits cannot go.

2. THE CURRENT DESIGN OF THE PAY-OUT PHASE FOR THE UNIVERSAL PENSION FUNDS IN BULGARIA AND SHORT-TERM PERSPECTIVES

The exact regulations concerning the pay-out phase of the universal pension funds in Bulgaria were adopted just weeks before the first insured individuals were to retire and to apply for a pension benefit from their chosen fund. The discussions in many aspects were "hot" and the reached agreements were fragile. The architects of the pay-out phase were trying to develop a system which is as flexible as possible thus responding to the interests of both pension insurance companies and their clients. The first obstacle that had to be overcome was related to the reduction coefficient applied to the pension received by the pay-as-you-go pillar. As was mentioned earlier, an agreement was reached on how exactly to treat the period for which the insured individuals were not able to contribute into the second pillar of the system just because this part of the pension system still didn't exist. For the first insured who qualify for a pension benefit from a private pension fund this meant that their PAYG pension amount was expected to decrease roughly by 9% and not the envisaged 20%. That was a solution which allowed the pension industry in its current form to continue its activity and to try to elaborate on the other specifics of the distribution phase that are also important for insured individuals. Otherwise, the economic sense for the insured individuals to stay in their pension fund would have been lost. The strong incentive to transfer the accumulated resources into the first pillar would have made most if not all of the insured to officially express their will in this direction. However, there are still many suggestions that the reduction coefficient should further decline in order to reflect the obvious fact that a significant part of the resources financing the PAYG pension benefits comes as a subsidy from the state budget.

On the next stage, issues concerning the exact payments from the second pillar were brought into discussion. First, an agreement was reached that those individuals

who don't have enough resources to fund life-long pension benefits would be allowed to receive their funds as a lump sum payment or as a programmed withdrawal for a predefined period of time. A specific threshold was fixed to differentiate between the two options. Those insured whose accumulated resources are below three times the monthly amount of the national minimum wage[4] have the right to receive their funds as a lump sum payment. Those insured who were able to accumulate funds that exceed three times the amount of the national minimum wage but not enough to finance at least 15% of the minimum national pension benefit[5] as a life-long pension are allowed to get their resources as a periodic payment. At the time of the reform this meant that insured individuals with accumulated funds between 900 levs (450 euro) and 9000 levs (4 500 euros) qualify for a programmed withdrawal from their universal pension fund. It is interesting to note that amounts that exceed 9 000 levs are accumulated if an insured individual doesn't have missing periods in his/her insurable record for all of the years between 2002 and 2022 and has contributed an average insurable income for the whole period. Therefore, most of the insured individuals who first applied for a pension benefit from their universal pension fund were expected to qualify only for a periodic payment.

Table 2. Insured individuals granted with life-long pension benefits and benefits as a periodic payment for the period 01.01.2022 – 31.03.2022

Type of pension benefit	Number of individuals
Life-long pension benefit	463
Periodic payments	3 445

Source: www.fsc.bg (Financial supervisory commission).

It's worth noting that insured individuals were not given the option to choose by themselves whether to receive a lump sum payment, periodic payment or lifelong pension benefit. The exact type depends solely on the amount accumulated in their individual account. The lifelong pension benefits which were thought as the basic payments from the universal pension funds should cover at least 15% of the minimum amount of the length of service and old age pension benefit due by the first pillar of the pension system. It's a quite controversial issue, whether the right to receive a lifelong pension benefit should be bound with the minimum amount of the PAYG type state pension benefit. The last is determined mostly administratively and does not depend on the economic conditions, let alone the paid contributions during

[4] The monthly amount of the national minimum wage in Bulgaria at the time of adopting these regulations was 610 levs (at around 300 euros)

[5] The monthly amount of the national minimum pension benefit for length of service and old age at the time of the reform was 300 levs (approx. 150 euros).

the years. Only in the past two years this type of pension benefit was raised significantly mostly on populist grounds.

Table 3. Minimum amount of length of service and old age pension benefit due by the state pay-as-you-go pension system

Period	**Min. amount of length of service and old age pension benefit (in levs)**	**Min. amount of length of service and old age pension benefit (in euro)**	**Rise**
01.07.2020 – 31.12.2020	250	127.82	13.95%
01.01.2021 – 24.12.2021	300	153.39	20.00%
25.12.2021 – 01.07.2022	370	189.18	23.33%
01.07.2022	467	238.77	26.22%

Source: ww.noi.bg (National Social Security Institute).

Since the beginning of the pay-out phase (September 2021) the minimum amount of the PAYG pension benefit has been raised three times. So initially, pension funds were required to pay at least 45 levs ($0.15 \cdot 300$) as a lifelong pension benefit, then the amount was raised to 55.50 levs and since the beginning of July 2022 they are expected to pay 70.05 levs[6]. As a result, insured individuals with almost identical funds accumulated during the years were not able to qualify for one and the same payment from their fund if they retired in different months within one calendar year.

On the next step, discussions started on the exact payment scheme of lifelong pension benefits. Three basic issues arose at this stage: first, how the bequest risk is addressed or in what cases the accumulated resources are going to be inherited by the heirs of deceased pensioners, second, what technical interest rate is applied for estimating the initial amount of the benefit and third, how already granted benefits are going to be indexed in the future. The way the bequest risk is addressed, directly corresponds to the variant of managing the longevity risk. As it was mentioned earlier, the idea of closing the individual account on the date of retirement and collecting the resources of the insured individuals into a common pool was highly unpopular. The exact solution to this issue required a dose of flexibility so that all parties participating in the discussions were satisfied, at least partially. So, an agreement was reached where the pension fund industry offers three types of lifelong pension benefits:

1. Lifelong pension benefit without additional conditions
2. Lifelong pension benefit with a guaranteed period of payment

[6] These are the amounts of the so called pension benefit without extra terms.

3. Lifelong pension benefit with differing payments of part of the accumulated resources.

The insured individuals have freedom to choose from three options. The first type is an “ordinary” type of pension benefit where insured individuals are granted a lifelong benefit and correspondingly, all their resources go into a common pool at the date of retirement. So, by choosing this option insured individuals may face significant bequest risk. The funds accumulated into the individual account cannot be inherited even if the pensioner dies during the initial months of receiving this type of pension benefit. At the same time, the longevity risk is addressed effectively as all resources of the pensioners are put together and the risk is dispersed among many individuals within the insured population. It’s worth noting that this type of lifelong pension benefit has a higher amount than the other two types of pension benefits. The second type is the lifelong pension benefit with guaranteed period of payment. This is a lifelong pension benefit which gives the insured individuals an option to manage partially the bequest risk. The guaranteed period of payment means that if a pensioner dies during that period his/her successors have the right to inherit all of the resources due until the end of the guaranteed period. However, this additional option is not costless. If the insured individuals choose it, they also assume a lower amount of pension benefit – lower than the alternative amount offered as lifelong pension benefit without additional conditions. The guaranteed period of payment varies between 2 and 10 years. The longer the period the higher the cost. The third type of benefit is lifelong pension benefit combined with a differed payment of part of the accumulated resources. This type of benefit also addresses both the bequest risk and the longevity risk. First, if the insured individual dies during the differed payment period, the resources destined to finance that payment and those still available in one’s individual account are inherited by his/her heirs. Second, after the completion of the differed payment period, the payment is transformed into a lifelong pension benefit. In this way, the insured individual could rely on a payment until the end of his/her life, thus effectively addressing the longevity risk. There is a specific requirement about the lifelong part of the benefit – it should be at least 15% of the minimum amount of the pension benefit due by the first pillar of the pension system. This type of benefit is attractive to those individuals who wish to receive a larger amount of their accumulated resources at the beginning of their retirement period. It is worth noting that for the last four months of 2021 and for the first quarter of 2022 the number of individuals who chose to receive the last type of pension benefit is the highest.

The observed trend for the first insured individuals granted with lifelong pension benefits is their explicit wish to receive as much of their accumulated funds as possible for the shortest period available. This is explained easily by looking at the amount of the granted pension benefits. The amounts are comparatively small due to the small accumulations in the individual accounts of these first cohorts of insured individuals, born at the beginning of the 1960’s.

Table 4. Number of lifelong pension benefits by type granted by the universal pension funds in Bulgaria for the period 01.09.2021 – 31.12.2021 and 01.01.2022 – 31.03.2022

Type of pension benefit	Granted pensions for the period 01.09.2021 – 31.12.2021	Granted pensions for the period 01.01.2022 – 31.03.2022
Pension benefits without additional conditions	8	14
Pension benefits with guaranteed period of payment	45	164
Pension benefits with differed payment of part of the resources	186	659

Source: www.fsc.bg (Financial Supervisory Commission).

Table 5. Average amounts of granted pension benefits for the period 01.09.2021 – 31.12.2021 and for the period 01.01.2022 – 31.03.2022

Type of pension benefit	Average amount of granted pensions for the period 01.09.2021 – 31.12.2021 (in levs)[7]	Average amount of granted pensions for the period 01.01.2022 – 31.03.2022
Pension benefits without additional conditions	56.05	63.33
Pension benefits with guaranteed period of payment	58.82	63.07
Pension benefits with differed payment of part of the resources	224.54	233.95

Source: www.fsc.bg (Financial Supervisory Commission).

The figures in the table above show that those individuals who wish to receive a larger amount of the accumulated resources at the beginning of the retirement period choose pension benefit with differed payment of part of the funds. The received amount as differed payment is several times higher than the amount offered as a pension benefit without additional conditions and the pension benefit with guaranteed period of payment. It deserves noting that the amount granted as a lifelong pension benefit from the second pillar, regardless of the exact conditions, constitutes a relatively small part of the entire pension benefit, received both from

[7] 1 lev = 0.51 euro.

the first and from the second pillar of the pension system (at around 9%). In this case, the insured individuals are not so worried about longevity risk, and they obviously prefer to receive as much as possible of the funds at the beginning of their retirement. This is caused by the relatively small replacement rates of the pension benefits in Bulgaria as a whole (35%-40%) which means that retired individuals are among those exposed to a significant risk of poverty.

Some other details concerning pension benefits from the second pillar are related to the way the technical interest rate is determined and the types of guarantees insured individuals have about the amount of the granted benefit. The extremely low interest rates in the last years raise enormously the so called annuitization risk. The individuals who retire in such an environment are at risk to receive much lower pension benefits than individuals who retire during high market interest rates. Bulgarian universal pension funds were given the option to determine by themselves the interest rate they apply for the estimation of the life-long pension benefit. In this way the regulator was trying to raise the competition among pension funds during the pay-out phase. Insured individuals are allowed to change their pension fund at the date of retirement and to transfer their resources into another fund which takes the responsibility for the payment of the benefit. Those of the funds that apply higher technical interest rates correspondingly offer a higher pension amount. The technical interest rate accepted by the pension fund is approved by the regulator as well. Another important rule concerns the exact procedure of raising the granted pension benefits in the future. The legislator minimizes the annuitization risk by obligating pension funds to accomplish specific indexation each year by taking into account the realized yield for the year. The rule requires pension benefits to be raised by a minimum of 50% of the achieved yield above the approved technical interest rate. In this way insured individuals must choose whether to receive a higher amount as a pension benefit initially by transferring their resources into a fund that offers a high technical interest rate or to stay with the fund that proposes a comparatively low technical interest rate but has a perspective of accomplishing higher indexation in the next years. It’s worth noting that the granted pension benefit is lowered only in specific cases mostly when a pension fund realizes a yield below the technical interest rate. However, the reduction is expected to be in certain limits. It cannot be more than the guaranteed amount of the pension benefit. The last could be estimated in two different ways. The first one requires estimation of the pension benefit by taking into account only the gross contributions paid by the insured individuals during the accumulation period. The second one considers a pension benefit estimated by taking into account the gross contributions paid during the accumulation period plus the yield realized during these years. However, if the insured individual chooses the second option the granted pension benefit is estimated by applying a specific risk coefficient that reduces the initial pension amount. This means that the higher amount of the guaranteed pension benefit comes at the cost of a lower pension amount.

All these specific issues concerning the pay-out phase influence the choice of the insured individuals and the short-term perspectives of the second pillar pension funds in Bulgaria. It's worth noting that insured individuals continue to be not very well informed about the options they have. In theory, the adopted regulations give a variety of choices to the insured individuals. In practice, however, due to the relatively small accumulations of the first retirees, the insured individuals hardly differentiate among them. The first obvious trend seen in the first months from the start of the distribution phase is the wish of the insured to withdraw their funds as soon as possible. They are not given the option to receive their money as a lump sum payment except in the case of very low accumulations. However, if they were allowed, they would certainly have opted for it. The first cohorts of insured do not have a full period of paid contributions into a pension fund – an important reason for the registered small accumulations. It is expected the next generation of retirees to have higher amounts of savings due to the longer period they participate in the scheme. But the pension amount granted by the pension fund would continue to be a small portion of the benefit received from the first pillar of the system. As a consequence, the insured individuals are not concerned about longevity risk and annuitization risk because the amount they receive is less than a tenth of their whole benefit. The only risk they are worried about is bequest risk or the possibility for their resources to be inherited by their relatives. So, in the foreseeable future if pension funds in Bulgaria wish to have the public on their side, they should try to keep the option of inheriting as long as possible.

The adopted changes in the normative rules oblige pension funds to structure another portfolio of assets for those individuals who retire and start to receive pension benefits. The portfolio of assets for the pay-out phase is envisaged to be more conservative than the one managed during the accumulation phase. That is reasonable and it proved to be effective at the beginning of 2022, when stock markets reacted nervously after the invasion of Russia into Ukraine. However, the stress on the stock exchanges clearly showed that pension funds need the option to structure different portfolios of assets with a different risk profile still in the accumulation period. In the short term, it is crucial to keep the value of savings of those insured individuals whose retirement is in the next few months or even in the following 3-5 years.

The last issue that deserves mentioning concerns the inflation which rose strongly in the first half of 2022. It is well known that inflation risk is one of the most important types of risk for fully funded pension schemes. Large inflation could be disastrous for pension funds because they cannot afford to index pension benefits in the way the state can. The minimum pension benefit due from the pay-as-you-go part of the system in Bulgaria was raised by more than 50% in a period of 7 months. If this trend continues in the next years, it would be the worst case scenario for the pension funds, because all of the insured would obtain strong stimulus to transfer their resources into the first pillar of the system and to receive their pension only from the state.

3. CONCLUSION

Bulgarian universal pension funds entered the pay-out phase in 2021. The process of elaborating the exact rules that regulate the payment of different types of pension benefits was long and complicated. All parties that participated in the discussions had to make certain compromises to bring the procedure to a successful end. The insured individuals started to receive pension benefits from their pension funds, and in this way the opinion of many sceptics who have been assessing the pension reform in Bulgaria as a failure was refuted. However, there are still plenty of changes to be made to guarantee the presence of pension funds in the foreseeable future. The right incentives for paying contributions on real wages, the options for structuring portfolios with different risk profiles and suitable tools for addressing inflation are among those issues that appeared on the surface at the very beginning of the distribution phase for the Bulgarian universal pension funds. There could be even more issues to be resolved in the next years, but the lesson until now is that the right approach requires the involvement in the discussion process of all interested parties. The opinion of all of them is important and compromise is needed at each stage of discussions in order to reach an agreement that satisfies all sides.

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FAZA WYPŁATY ŚWIADCZEŃ Z BUŁGARSKICH POWSZECHNYCH FUNDUSZY EMERYTALNYCH – POCZĄTKOWE WYZWANIA I PERSPEKTYWY KRÓTKOTERMINOWE

Streszczenie

Powszechne fundusze emerytalne w Bułgarii weszły w fazę dystrybucji we wrześniu 2021 r. Po miesiącach gorących dyskusji między sektorem funduszy emerytalnych a regulatorem (Komisją Nadzoru Finansowego – FSC), nowe przepisy dotyczące świadczeń zostały opublikowane zaledwie kilka tygodni przed ich pierwszą wypłatą. Pierwszymi ubezpieczonymi uprawnionymi do otrzymania dodatkowych świadczeń emerytalnych były kobiety urodzone w 1960 r. Niewiele z nich złożyło wniosek o przewidywaną dodatkową wypłatę już w pierwszych dniach po nabyciu omawianego prawa.

Przeprowadzone badania skupiają się na trzech podstawowych elementach: początkowych wyzwaniach, które pojawiły się w okresie opracowywania normatywnych zasad dotyczących fazy dystrybucji świadczeń, sposobie, za pomocą którego wyzwania te zostały rozwiązane, oraz na krótkoterminowych perspektywach dla powszechnych funduszy emerytalnych w Bułgarii. Artykuł podzielony jest na dwie części: pierwsza poświęcona jest analizie przepisów dotyczących fazy wypłaty świadczeń; druga skupia się na początkowym rozpoczęciu wypłaty świadczeń i wyborach dokonywanych przez ubezpieczonych. Badania rzucają światło na najbliższą przyszłość bułgarskich funduszy emerytalnych, uwzględniają analizę początkowych preferencji nowych emerytów wobec oferowanych produktów emerytalnych oraz wyzwań w zakresie powszechnych funduszy emerytalnych. Opracowanie kończy się propozycjami dodatkowych reform, które mogłyby wzmocnić drugi filar systemu emerytalnego w tym kraju.

Słowa kluczowe: bułgarskie powszechne fundusze emerytalne, faza wypłaty świadczeń, ryzyko, osoby ubezpieczone