# INVESTMENT PORTFOLIO MANAGEMENT PECULIARITIES OF NON-STATE PENSION FUNDS

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*Non-state pension fund is a institution of social security, the primary purpose of which is the payment of pensions to members of the system of private pension provision. The insurance and pension funds in Republic of Moldova is just beginning. In this regard, a study was conducted in different countries on experience with non-state pension insurance. The results, being generalized, can be used in Republic of Moldova. Non-state pension fund has a multiple core: financial institution, fund, social institution, insurer and institutional investor. Non-governmental pension funds were highly integrated in public policy in most countries around the world aimed at expanding the supplementary pension insurance. Therefore, it becomes very important to solve the issue of formation and investment portfolio management in these financial institutions.*

***Key words:*** *non-state pension fund, non-state pension insurance, investment portfolio.*

*Fondul nestatal de pensii este o instituţie de securitate socială, scopul principal al căreia este plata pensiilor participanţilor sistemului de pensii private. Activitatea de asigurare a pensiilor private în Republica Moldova este doar la început de cale. În acest sens, a fost efectuat studiul experienţei diferitor ţări în domeniul de asigurări cu pensii nestatale. Rezultatele, fiind generalizate, pot fi utilizate în Republica Moldova. Fondul nestatal de pensii are esenţă multiplă: instituţie financiară, fond, instituţie socială, asigurator şi investitor instituţional. În multe ţări fondurile nestatale de pensii au fost extrem de integrate în politicile publice, care vizează extinderea asigurărilor cu pensii suplimentare. De aceea, devine foarte importantă soluţionarea problematicii formării şi gestiunii portofoliului de investiţii în cadrul acestor instituţii financiare.*

***Cuvinte cheie****: fond nestatal de pensii, asigurare nestatală cu pensii, portofoliu de investiţii.*

*Негосударственный пенсионный фонд – это учреждение социальной защиты, основной целью которого является выплата пенсий членам системы негосударственного пенсионного страхования. Деятельность по обеспечению частных пенсий в Республике Молдова находится в начале пути. В данном контексте, было проведено исследование опыта разных стран в сфере негосударственных пенсий. Результаты, после обобщения, могут быть использованы в Республике Молдова. Негосударственный пенсионный фонд имеет несколько значений: финансового учреждения, фонда, социального учреждения, страховщика и институционального инвестора. В большинстве стран негосударственные пенсионные фонды высоко интегрированы в государственную политику, направленную на расширение дополнительного пенсионного страхования. Таким образом, приобретает большое значение решение проблем создания и управления инвестиционным портфелем в этих финансовых учреждениях.*

***Ключевые слова****: негосударственный пенсионный фонд, негосударственное пенсионное страхование, инвестиционный фонд.*

***JEL Classification: G23; G28.***

**Introduction.** In many countries non-state pension funds have become important elements in the system of voluntary and non-government pension obligation of citizens. Being specific financial institutions, they tend not only to make profits, which distributes them among the founders (owners), but to provide over distribution of revenues from customer accounts after deduct amounts running costs.

The activity of non-state pension funds becomes particularly important, taking into account demographic processes in some countries. For example, the European Union takes place gradually reducing the number of people aged 15 to 64 years and the drastic increase of the population aged over 65 years [4].

Also, non-state pension funds are particularly important in countries where the level and rhythms of economic development do not allow the massive systems maintenance of public welfare and pension insurance, and ensure pensioners a decent living.

All this requires studying experience of industrialized countries in the concerned field, which may be useful for countries where reforms are undertaken to water obsolete retirement systems and radical economic, demographic and socio-demographic changes.

**2. Basic characteristics of non-governmental pension funds.** Pension funds are funds that pools employees' pension benefits and hold them so that they can be paid at retirement [1].

They can be open and closed. Open pension funds support at least one pension plan with no restriction on membership while closed pension funds support only pension plans that are limited to certain employees [3].

The literature distinguishes public and non-state (private) pension funds.

A *public pension fund* is one that is regulated under public sector law while a private pension fund is regulated under private sector law [3].

*Non-state (non-governmental or private) pension fund* (hereinafter – NSPF) is a organization, which deals with the collection and recording of financial contributions made voluntarily by individuals or legal entities or on their behalf, and provide means for increasing these additional pension payments.

Depending on domestic legislation, NSPF can be non-commercial organization or pension company in the form of joint stock companies and limited liability companies.

NSPF is intended to bring together contributions relating to pension plans established by employers, unions or other organizations to provide pensions to employees or members. In many countries pension funds are some of the biggest investors and dominate stock markets in which they invest. If are managed by professional fund managers, they are considered institutional investors with insurance companies and investment funds. Usually, pension funds are exempt from capital gains tax and profits from investment portfolios or are taxed deferred, or tax free [2].

The literature demonstrates multilateral aspects of functioning of NSPF:

❖ NSPF is a *separate legal entity*, operating from their own means (a part of the proceeds from the placement of reserves and accruals and heritage to ensure statutory activity), means depositors or account founders, which finances its statutory activity [12, p. 70].

❖ NSPF is a *specialized fund* created to perform the non-state pension insurance. The particularity of his work lies in the fact that in many countries it does not distribute profits among the founders, even if they are available. NSPF founders are interested exclusively in increasing the volume of attracted funds as long-term investment resources [11].

❖ NSPF is a *social institution* that assumes certain commitments to participants and insured individuals. To this end they are formed in the structure of assets and reserves retirement pension accumulations [12, p. 70].

❖ NSPF is a *special institution of social insurance*; its exclusive activities have the following basic forms [7], [8]:

- Non-state pension insurance with voluntary contractual basis;
- Activity as an insurer under the compulsory retirement insurance;
- Activity as an insurer in professional retirement insurance.

❖ NSPF is a *specialized institutional investor*, which is different from other financial market intermediaries that assume the commitments of payment of income on invested funds [5, p. 64].

Proceeding from the above, it can make a certain generalization of the essence NSPF:

1. The accumulation of deposits under voluntary retirement of insured persons;
2. Investing and bookkeeping of individual retirement accumulation means;
3. Establishing and non-state pension payments to beneficiaries;
4. The accumulation of funds on a contractual basis with the individual: the accumulation of funds in the system of compulsory pension and payments to those insured;
5. Making additional professional retirement insurance of individuals.

International experience indicates the existence of several types of NSPF [9], [13]:

- *Captive funds* – which primarily develops corporate retirement programs of founding companies and affiliated individuals. In their portfolios of assets under management, typically, the amount of reserves accumulation is higher than retirement.

• *Corporate and sector funds*, which provide additional insurance and voluntary professional retirement to workers of large corporations or branches with special working conditions and greater economic dynamics.

• *Collective or public pension funds*, which are created by the type of mutual investment funds and similarly operating on financial markets.

• *Private pension funds* that are created similarly to other private companies working with the same purpose as any other enterprise: to provide the owners or management of a profit at a level not lower than the market average.

• *Territorial funds*, which mainly operates within a specific region or territory. In most cases the funds are created at the initiative of the local government.

• *Trusts (universal funds)* – in most cases are independent of large financial and industrial groups and operates on the basis of serving a wide maximum number of individuals and businesses. In their current retirement accumulations predominate.

International experience shows that private pension funds are not in the top positions. In most countries primary role have collective or public pension funds, and the second are corporate and sector funds [10]. At the same time a great popularity in many countries enjoy NSPF created by patrons of large enterprises [11].

**3. Investment portfolio management particularities of non-governmental pension funds**

Financial mechanisms NSPF are apparently simple.

In accordance with pension agreement depositors undertake to pay NSPF retirement contributions, which fund invest and get additional income, which increases the amount accrued in the accounts of the fund participants (beneficiaries of pension). The payment of pensions under pension contracts can be performed during certain periods of life or existence of the pension base. If the participant’s death until early all-state pension funds in the account will belong to the heirs. Usually, NSPF depositor is entitled to terminate the pension during the accumulation and receive the redemption amount or to transfer to another fund.

The size of this amount in any case is not less than the total amount of deposits made and guaranteed calculated investment income. Therefore, termination may not cause noticeable essential loss for customers.

To reduce the economic rationality of unbundling contracts by depositors of pension funds usually stipulates that in case they lose this additional investment income. And some funds even impose harsher captive sanctions, by providing that certain penalties.

If the participant receives a pension over a certain period of time, the proceeds from the individual pension account also are included in the inheritance. If non-state pension payment for life after early retirement payments, proceeds from the participant’s account cannot be withdrawn from the fund and are not included in the amount of inheritance, but remain in the special reserve fund.

Analyzing literary sources, it should be noted that in the world there are two basic kinds of regulation of investment activity: direct quantitative restrictions on the structure of the investment portfolio and the rules "prudent management", or "reasonable (sensible)" control. The first type is a placing restriction on certain categories of assets, mainly in instruments with significant volatility of their market prices and low liquidity. In the case of pension funds also is limited the volume of investment in the assets of the employer in order to prevent the risk of insolvency, as well as avoidance of conflict of interest. The second type of regulation of investment activity is a definite requirement for "reasonable" management of assets, it is only such an attitude to transactions with trusted asset that could be relatively own property interests [6].

Known models of quantitative restrictions clearly tested investment category, the class of assets and investment yields, especially relating to the part of the composition of the portfolio, which is placed in instruments with relatively unstable in the nominal yield, low liquidity, significant credit risk (stocks, venture capital or non-quoted stocks and real estate) even under the conditions that the average yield on them is considered to be relatively high.

The placement of retirement reserves usually is strictly regulated. For example, the following restrictions are set in Russia [8]:

• The amount of pension reserves placed in one object of investment does not exceed 15% of the total retirement reserves;

- The amount of pension reserves placed in securities that have not recognized quotation does not exceed 20% of the total retirement reserves;
- The amount of pension reserves placed securities, which were issued by the founders and fund depositors, does not exceed 30% of the total retirement reserves, except when these securities are included in the first level Listing on the stock exchange;
- The amount of pension reserves placed in State securities does not exceed 50% of the total retirement reserves.
- The amount of pension reserves placed in securities of local public bodies does not exceed 50% of the total retirement reserves.
- The amount of pension reserves placed in shares and corporate bonds does not exceed 70% of the total retirement reserves.
- The amount of pension reserves placed in bank deposits and real estate does not exceed 80% of the total retirement reserves.

To prevent conflicts of interest between members and founders of pension funds legislation of all countries with developed economies necessarily contain restrictions on investment by pension funds in the assets of their founders, in particular employers. An important way is also limited in most of the investment activities of pension funds in the unorganized market. At the same time, almost all countries have restrictions on investing in securities issued by national government; on the contrary, in some countries the law set the minimum level of investment. For example, in the Austrian pension funds are required to invest at least 35% of its total assets in mortgage bonds, government bonds and debt securities denominated in Euros. In France, pension funds must invest at least 50% of assets in debt securities of government [6].

In most countries, restrictions on the use of pension funds of foreign instruments through direct asset allocation limits or rules of currency alignment. For example, in Denmark, Germany, Portugal and Finland for at least 80% of pension obligations must be provided of assets denominated in the domestic currency.

The proportion of stocks and bonds – the two main asset classes – gives an idea of the quality characteristics of the investment management process in each country.

According to international statistics, shares are among the most profitable financial market instruments, arithmetic average and geometric average of the total yield of ordinary shares in some sectors of the market exceeds the corresponding figures of bonds in three or four times. But in terms of variability of yield stocks are much more risky financial market instruments, as three to four times higher than bonds in terms of the standard deviation. [6]

**4. Conclusions.** NSPF in most countries is a multilateral activity institution, which consists of the accumulation of funds from the population for their subsequent placement in various sectors of the economy further use for beneficiaries of pension payments. An important factor in the normal functioning of the system based on NSPF is prudent management of the investment portfolios of those institutions. Study and implementation of the best international experience in this area can contribute to improving NSPF activity in Republic of Moldova.

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