
INFORMATION AS A KEY INSTRUMENT TO INFLUENCE THE DECISIONS OF FINANCIAL INSTITUTIONS' CLIENTS IN THE AREA OF PENSION SAVINGS

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Annotation. The article aims on the system of pension savings, mainly on the information provided to the client, before concluding a contract. The area of pension savings includes in Slovakia the sector of retirement pension saving and also the sector of supplementary pension saving. The first part of the article deals with information before the conclusion of the contract and information existing during the validity of contract. The second part deals with the idea whether the sector of retirement pension saving should be influenced by the sector of supplementary pension saving, because there had been some changes introduced in it. Their goal is to provide information in a truthful and comprehensible manner to the supplementary pension asset management companies' clients. Facing the fact that saving for retirement is one of the most essential decisions in a life on an individual the products offered must reveal more information.

Keywords: financial institution, client, pension savings.

INTRODUCTION

The increasing age of population within Europe represents a fact which needs to be tackled with within various areas of society. One of these is the legislation which has to secure an income that enables a reasonable standard of living of the population after retirement. Although the regulations of the retirement pension saving and supplementary pension saving belong almost exclusively to the national legislation, we face in the current era the interest of European Commission in this topic. The European Commission sees a way of increasing the income in post-productive age by the extension of pension products offered by the private sector. To realize this idea the European Commission has turned to EIOPA seeking technical assistance in the process of creation of a single market for personal pensions¹. The aim of this article is to show the importance of information provided to clients by using the analytical method, underlining the fact that the current literature has not yet focused on this topic.

¹ Pénzeš, P., Osobné dôchodky v Európskej únii, In *Biatec*, ročník 22, 2/2014, s. 19.

The area of pension savings (**also called second pillar**) includes the sector of retirement pension saving regulated mainly by Act No. 43/2004 Coll. on retirement pension saving as amended (hereinafter „the Act“) and also the sector of supplementary pension saving (**also called third pillar**) regulated mainly by the Act No. 650/2004 Coll. on supplementary pension saving as amended (hereinafter „Supplementary pension saving act “). **We stress the fact that the Slovakian retirement pension saving system has been created since its beginning as defined contribution².**

However, we can also meet with the concepts of zero and fourth pillar. The zero pillar includes non-contributory programmes aimed at eliminating poverty among residents at retirement age³. The concept of the fourth pillar includes informal non-financial support, social programmes as health care, housing provisions and others⁴.

At first glance, the common terminology might indicate a certain degree of affinity between these two sectors, but these segments also display certain differences. Our focus is set mainly on the current valid and effective regulation regarding the provision of information for retirement pension saving savers as well as regulation on the provision of information for those saving for supplementary pension.

THE REGULATION REGARDING THE PROVISION OF INFORMATION TO INDIVIDUALS SAVING FOR RETIREMENT PENSION

For an average natural person who is in the process of contracting a relationship with a pension asset management company, it is important to be informed about retirement pension saving. We can say that this includes two fields:

1. Information before the conclusion of the contract
2. Information existing during the validity of contract

Ad 1. An individual agrees a retirement pension saving contract with a pension asset management company. It is a contract *sui generis*, whose content is directly determined by the

² Pénzeš, P.: Aktuálne dianie v sektore dôchodkového sporenia v EÚ, In *Biatec*, ročník 20, 8/2012, s. 24.

³ Novák, M., Toma, J.: Ku klasifikácii dôchodkových systémov, In *Finančné trhy*, Odborný mesačník pre teóriu a prax finančných trhov. (online) Derivat, 2013, č. 10/October s. 3., available at <http://www.derivat.sk/index.php?PageID=2150>

⁴ Novák, M., Toma, J.: Ku klasifikácii dôchodkových systémov, In *Finančné trhy*, Odborný mesačník pre teóriu a prax finančných trhov. (online) Derivat, 2013, č. 10/October, s. 3. Available at <http://www.derivat.sk/index.php?PageID=2150>

legislator, defining what this contract should include, according to Article 64 Paragraph (6) of the Act. The retirement pension saving contract shall include mainly:

- a) The business name and registered office of the pension asset management company, its identification number, the designation of the commercial register in which it is entered and the number of its entry;
- b) The name, place of domicile, date of birth, and social security identification number of a natural person who is concluding the retirement pension saving contract;
- c) The name of the pension fund whose pension units will be recorded on the saver's personal pension account or on two saver's personal pension accounts;
- d) Other data set by the Act.

The fact that in the sector of retirement pension savings elements of private and public law exist is reflected by the fact that the Social Insurance Agency operates *ex lege* the register of contracts. The entry into the register of contracts has constitutive effects, because the retirement pension saving contract becomes effective at the moment of its entry into the register of contracts⁵.

It is important to highlight that from the client's point of view, obligatory attachments to the retirement pension saving contract are created by the statute of a pension fund chosen by the saver and by the prospectus of a pension fund in which the saver has decided to save⁶. The statute of a pension fund is a key document, outlining the investment strategy⁷. And not only this, Article 77 Paragraph (4) of the Act contains an enumerative list of requirements regarding the statute of a pension fund. It contains in particular the name of the pension fund and the date of its creation, the principles for the management of the pension fund's assets and other data required by law. All of these are specifications which should clarify the costs connected with retirement pension saving and also the risks which the pension fund's assets will undertake. The statute's first version is effective as of the date when the License for the incorporation and operation of the pension asset management company issued by the National Bank of Slovakia enters into force. For every single further amendment a prior approval of the National Bank of Slovakia must be granted. Amendments to the statute are effective on the

⁵ Article 64a (2) of the Act.

⁶ Article 106 (8) of the Act.

⁷ Article 77 (4) (d) of the Act – in this part the statute of a pension fund defines the focus and objectives of the pension fund management company's investment strategy for the pension fund's assets, especially which securities and money market instruments are to be procured with the funds raised, and on which regulated markets, as well as any sectoral or territorial division of the investments, and the principles of risk spreading.

15th day of their publication on the website of a pension asset management company, if there is not a later date of effectiveness set⁸. However, it is considered that the statute of a pension fund communicates data in such a sophisticated way because it is a document which is also used by the pension asset management company itself. This document is important because it is only permitted to invest in financial instruments which are named in the statute. However, it is unfortunate that it is common practice for many pension asset management companies to communicate this information in an unnecessarily sophisticated manner.

In addition to the statute the saver is also given a prospectus of the pension fund. This is a document which should make the substance of retirement pension savings in a particular pension fund clearer to the general public. The rules for adopting changes and updates to the prospectus are laid down in the statute of the pension fund.

In accordance with Article 106 of the Act the prospectus shall contain the information necessary to enable savers to make an informed assessment of the opportunities offered by the investment and of the risks attached to such an investment. The prospectus must also contain a clear and, for ordinary savers, easily understandable explanation of the pension fund's risk profile; the prospectus can not contain false or misleading information.

In practice, the prospectus is in effect simply a copy of the statute, the only difference being a smaller number of pages. The usage of terminology from the statute of the pension fund and legal jargon therefore does not result in suitable language for an uninformed reader. The usage of the statutory terminology may lead to confusion on the part of the saver. With regard to the prospectus the legislator requires that the prospectus give “easily understandable explanation of the pension fund's risk profile”. An individual should be made aware of what kind of risks his assets will be exposed to in a particular pension fund in a clear and understandable manner. In addition, information on the strategies of the investment should be disclosed to an individual. In the case that a prospectus limits itself to the legal definitions of respective financial instruments, the merits of the pension saving will not be fully explained to a saver. We consider that it is vital that a prospectus should function as the basis for comparison of respective documents upon which the saver decides on one specific pension fund over another⁵.

⁸ Article 77 (2) of the Act.

Ad 2. During the contractual relationship, in order to inform the client about the current value of a pension unit, the pension asset management company is obliged to send the saver a statement of his/her personal pension account corresponding to the current value of his/her personal pension account as of the last calendar day. The statement of a personal pension must contain information prescribed by law⁹.

In the 21st Century, when the number of internet users is increasing, the websites of financial institutions have become an important communication tool. Therefore, the Act also regulates a wide range of information that must be accessible on the web. The pension asset management company is obliged to create a website which must contain an up-to date version prospectus. This must also include in particular:

- a) The latest versions of the information prospectuses of the pension funds managed by the pension asset management company;
- b) The latest versions of the statutes of the pension funds managed by the pension asset management company; data about the pension asset management company's share capital;
- c) The latest version of the articles of association of the pension asset management company;
- d) Other information set by law¹⁰.

It is obvious from the regulation that the pension asset management company is obliged to provide information which is connected with its scope of its business, which is the creation and management of pension funds. Under these circumstances it is essential to inform the saver about the effectiveness of the investment strategies used in practice, as set out in the statute. The pension asset management company therefore publishes monthly reports on the development in the investment of the pension funds' assets on its website¹¹. These reports contain in particular the current value of a pension unit as at the date of the monthly report and information about the net asset value of the pension fund. It also must include data about the market risk of the pension fund and data about the currency exchange rate risk. It is a package of information which offers a complex view to allow the saver to know whether in a current month the growth of the assets in a pension fund has been reached.

However, it cannot be presumed that every individual has access to the website of the pension asset management company and the legal framework is aware of this fact and

⁹ Article 94 (7) of the Act.

¹⁰ Article 107 of the Act.

¹¹ Article 107 (3) of the Act.

therefore forces the company to publish the relevant information at least once in seven days in a periodical publication with nationwide circulation. These include:

- a) The current value of the pension unit in each of the pension funds under its management;
- b) The net asset value of each of the pension funds under its management.

A pension asset management company shall at least once a month publish in a periodical publication with nationwide circulation the level of its fee under Article 63¹². That data are for the saver of elementary character.

The pension asset management company shall create a document covering the annual report for the previous calendar year concerning the pension funds' assets; this should include the audited annual financial statements for the previous calendar year, not later than three months after the end of the accounting period;

Savers can find information about relevant facts also in the registered office and branches of the pension asset management company. The annual report concerning its own assets, including the audited annual financial statements for the previous calendar year, not later than three months after the end of the accounting period and also other data defined by law can be found in this document¹³.

SHOULD REGULATION IMPLEMENTED IN OTHER SECTORS OF THE FINANCIAL MARKET BE ADOPTED INTO RETIREMENT PENSION SAVINGS?

A legislation procedure had been passed through the Parliament of the Slovak Republic, which involves an amendment to the Supplementary pension saving Act. The aim is to introduce a legal framework for the availability of information provision with regard to supplementary pension saving for the public. The amendment calculates with the incorporation of articles about so called „**key information**“. We see this as a welcoming gesture towards the supplementary pension asset management companies' clients. The newly adopted articles explicitly impose that the key information must be created without the usage of terminology. Further the document must be truthful, comprehensible, in accordance with

¹² Namely a fee for the management of the pension fund, a fee for maintaining a personal pension account, a fee for evaluation of the assets in a pension fund.

¹³ Article 105 (3) of the Act.

a client's contract and the particular parts of the supplementary pension fund's statute. The key information cannot be misleading.

This regulation¹⁴ being incorporated into the Supplementary pension saving act, creates for all supplementary pension asset management companies the duty to create key information for every managed contributory supplementary pension fund¹⁵.

Furthermore an obligation to provide key information for free to a person interested in supplementary pension saving will exist, this in a sufficient advances prior to the conclusion of a participant's contract.

The currently valid and effective legal frame¹⁶ states, that the information prospectus has to include information, which are necessary for the participants and beneficiaries to create a correct judgment about the offered investment possibility and also about the risks related to such an investment, as well as a clear and comprehensive explanation of the risk profile of the supplementary pension fund and it also can not contain false or misleading information¹⁷.

Again in practice we can see a trend of copying articles from the statutes into the information prospectus. By the use of a special terminology, natural persons cannot have a clear idea about the information strategy, investments instruments and about the risk profile of a supplementary pension fund. We can say on one hand, that the law has been fulfilled by the provision of information in which asset investments can be made, on the other hand it is questionable if in this case the document really can use the term „informative“, if the receiver of it does not fully understand it. Therefore we would like to point out again, that the added value of the future regulation will be represented by an explicit ban of the usage of specialized terminology.

We suggest that it would be appropriate to explain in a simple and describing manner the essence of investing and risk connected to the investment instruments. Furthermore it is also necessary to state the amount of remuneration for the supplementary pension asset management company. Here we refer that according to the Article 35 of the Supplementary pension saving act, the supplementary pension asset management company has the right to

¹⁴ Effective from 1st January 2014.

¹⁵ The regulation anticipates that the content, structure, form, conditions, the way of continuous updating and the terms for publishing of the key information will be set by a decree, which would be issued by the Ministry of Labour, Social Affairs and Family of the Slovak Republic after an agreement with the National bank of Slovakia; the decree would be announced by publishing in the Collection of Laws of the Slovak Republic.

¹⁶ Valid until 31st December 2013.

¹⁷ Article 66 of the Supplementary pension saving act.

charge: a remuneration for the management of the supplementary pension fund, a remuneration for the evaluation of assets of the supplementary pension fund, a remuneration for the transfer of a participant to another supplementary pension asset management company and a remuneration for a termination settlement.

Novela taktiež z dôvodu zabezpečenia udržateľnosti verejných financií, od 1. septembra 2012 znížila sadzbu príspevkov na starobné dôchodkové sporenie z pôvodných 9% na 4% z vymeriavacieho základu, pričom od roku 2017 do roku 2024 sa sadzba príspevkov na starobné dôchodkové sporenie bude zvyšovať za každý kalendárny rok o 0,25% z vymeriavacieho základu na úroveň 6%¹⁸. V súvislosti s novou štruktúrou príspevkov na starobné dôchodkové sporenie boli zavedené dobrovoľné príspevky na starobné dôchodkové sporenie¹⁹.

CONCLUSIONS

On a European level, the regulation of personal pensions is being discussed, so that they provide a solid life standard in older age. All these efforts lead to the fact, that the citizens start to realize since their first job, how their income in post productive age will be. In connection to this, they should choose a financial service, which offers them in future such performance, that their costs of living will be fully covered. If we want to „educate“ natural persons towards a responsible pension saving, the products offered to them should also have a comprehensive form and content. As we discuss, the regulation in this area displays some deficits and it opens therefore room for improvement.

In order to ensure the sustainability of public finances, changes of the Act that have become effective from September 1, 2012 have reduced the rate of contributions to retirement pension saving from the original 9% to 4%²⁰ of the assessment base²¹. The contributions of 4% of the assesment base remained compulsory. In connection with the

¹⁸ Kolesárová, J. - Dobrovič, V.: Kľúčové zmeny v dôchodkovom systéme. Rozhovor. In *Finančný manažér*, roč. 13, 2013, č. 02, s. 5.

¹⁹ Valicová, V.: Dobrovoľné príspevky na starobné dôchodkové sporenie. In *Dane a účtovníctvo*, 2014, č. 01, s. 2-4.

²⁰ While from 2017 to 2024, the rate of contributions will increase each calendar year by 0.25% from the base to the level of 6%.

²¹ Kolesárová, J. - Dobrovič, V.: Kľúčové zmeny v dôchodkovom systéme. Rozhovor. In *Finančný manažér*, roč. 13, 2013, č. 02, s. 5.

new structure of contributions voluntary contributions had been introduced²². This evolution creates even more need for information towards clients.

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INFORMACIJA KAIP ESMINIS ĮRANKIS, DARANTIS ĮTAKĄ FINANSŲ INSTITUCIJŲ KLIENTŲ SPRENDIMAMS DĖL PENSIJŲ KAUPIMO

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Santrauka

Straipsniu siekiama atskleisti pensijų taupymo sistemą, didžiausią dėmesį skiriant informacijai, kuri pateikiama klientui prieš sudarant sutartį. Pensijų taupymo sistema Slovakijoje apima pagrindinės pensijų taupymą ir papildomą pensijų taupymą. Pirmojoje straipsnio dalyje analizuojamas informacijos pateikimas prieš sudarant sutartį ir informacijos pateikimas sutarties galiojimo laiku. Antrojoje dalyje analizuojama, ar pagrindinės pensijos taupymo sistemai turėtų daryti įtaką papildomas pensijų kaupimas, atsižvelgiant į paskutinius pakeitimus šioje sistemoje. Šių pokyčių tikslas – užtikrinti, kad informacija būtų pateikiama teisingai ir suprantamai papildomos pensijos aktyvus valdančios įmonės klientams. Atsižvelgiant į tai, kad kaupimas pensijai yra vienas iš reikšmingiausių sprendimų asmens gyvenime, autorių nuomone, minėtais atvejais turėtų būti suteikiama daugiau informacijos apie pateikiamus produktus.

Pagrindinės sąvokos: finansinė institucija, klientas, pensijų kaupimas

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²² Valicová, V.: Dobrovoľné príspevky na starobné dôchodkové sporenie. In *Dane a účtovníctvo*, 2014, č. 01, s. 2-4.