
MetLife and ING benefit from Romanian pension growth

By Kerry Pechter Thu, Nov 7, 2013

Dutch insurance giant ING, with the biggest Romanian DC fund by assets and membership, recorded the highest profit so far this year, of RON146.7m (€33.1m). As of the end of June, total profits in the second pillar grew 43% y-o-y to RON440.4m (€99.3m).

Romania's compulsory second-pillar (defined contribution) pension funds have surged in size and profitability this year, largely because of an increase in the contribution rate to 4% from 3.5% of gross wages, according to *IPE.com*.

MetLife and ING both manage collective retirement fund assets in that market, and stand to benefit from the growth. MetLife bought the Romanian insurer Alico from AIG in 2010 and acquired Aviva's Central and Eastern European business (CEE) in 2012. MetLife now manages about one-sixth of the Eastern European nation's second-pillar assets.

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Romania's retirement system has three components or "pillars": a tax-funded entitlement program, a mandatory employer-based program funded with individual contributions, and a voluntary workplace savings program. (In the U.S., Social Security, employer-sponsored plans and personal savings are sometimes referred to as our pillars.)

The total net asset value of the eight second-pillar funds totaled RON12.8bn (€2.9bn), a y-o-y rise of 45.6% and participation grew to 5.95 million, a 3.2% increase, according to the country's pension regulator, the Private Pension System Supervisory Commission (CSSPP).

"Out of the RON4bn increase in net assets, 73% represents the contributions directed to the second pillar, and the difference (RON1.05bn) is explained by the investment performance of the funds," said Catalin Ciocan, executive secretary of the Romanian Private Pension Funds Association.

"The total performance since the system's inception remains very strong: the funds posted a net annualized average return of 11.7%, meaning a net gain (net assets minus gross contributions) of RON2.28bn since their inception in 2008," he added.

Current legislation for the second pillar entails yearly increases in the contribution rate. Since 2008, the national DC plan has been mandatory for those up to age 35 but voluntary for those ages 35 to 45. The government has not yet finalized the 2014 budget.

"The most important action to support the continuation of these very good results would be to increase the contribution rate to 4.5%, and we are waiting for official confirmation from the government," Ciocan said.

The weighted annual average return rose over the year from 6.2% to 10%, according to CSSPP. The gain was helped by heavy investment in state bonds—an average 76% as of the end of September—whose prices rose significantly this year.

In the case of the smaller, third-pillar pension fund system, in operation since 2007, assets grew by 35.2% to RON750.1m and membership by 8% to 305,796 as of end September.

Returns for the balanced funds rose to 9.6% from 5.3%, and those for the higher-risk dynamic funds to 10.5% from 5.3%. The total profits of the 10 funds grew by 7.8% to RON22.4m as of end June.

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