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ANALYSIS OF VOLUNTARY PENSION FUNDS IN SERBIA IN 2022

INFORMATIVE PAPER

Abstract

The topic of this paper is the analysis of voluntary pension funds in Serbia in 2022 with the emphasis on the return rate.

Introduction of private voluntary pension funds together with the state pension fund is the essence of the pension system reform, and that reform process began in 2005.

Generally accepted pension system is a three-pillar system, but introduction of the second pension pillar in our country will not happen anytime soon, and the question is whether it will be introduced at all.

The third pillar of the pension system is voluntary and this is its greatest advantage. Voluntary pension system consists of three interconnected processes: payments to the voluntary pension fund, investment of free funds, and programmed payments – pensions.

In order to form a valid investment portfolio and achieve a long-term and good return from investments there must be a stable inflow into voluntary pension funds.

Key words: *pension system, voluntary pension funds*

There are currently two pension pillars in the Republic of Serbia – compulsory and voluntary.

The first pillar – PAY-AS-YOU-GO – is the compulsory pension insurance system. Average pension for April 2023 was 37,807.00 RSD. (Data was published on May 25, 2023).²

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² <http://www.pio.rs/sr/aktuelnosti/prosechna-penzija>, viewed on June 22, 2023 at 15.25.

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It is expected that average pension at the end of 2023 would be 387€, in 2024 between 424€ and 434€, and at the end of 2025 at least 450€.³

Voluntary pension funds are **fully funded financing systems** – the third pillar – that is often called a system of capital accumulation or a system of capitalized funds. The amount of private pension depends on the amount of accumulated funds in the personal account of a fund member and the return on invested funds.⁴

Fund members can withdraw funds from the age of 53 or 58, depending on the date they joined the fund.

Pension funds in the Republic of Serbia function according to the principle of capitalized savings, where the fund members are not guaranteed in advance the level of return that the fund would realise.

Payments of 7,529.00 RSD per employee per month by an employer are exempt from personal income tax and social security contributions.

In 2005, the Republic of Serbia regulated voluntary private pension funds. Implementation of laws began on April 1, 2006, while its first amendment was made on May 7, 2011 – legal framework for the third pension pillar was set, with the aim of providing additional income in old age, in addition to the state system, which remains the main source of pension. Voluntary pensions are completely independent of state pensions and are based on the principle of the fund member's personal accounts.

Assets of the private pension fund are invested in financial instruments that ensure portfolio optimization, i.e. they provide the best ratio of investment risk and rate of return. Voluntary pension funds are invested in accordance with the following investment principles stipulated by law:

- 1) **principle of security**, the voluntary pension fund portfolio shall contain securities of issuers with high credit rating;
- 2) **principle of portfolio diversification**, the voluntary pension fund portfolio shall contain securities that differ by type, issuer and other elements.
- 3) **principle of maintaining adequate liquidity**, the voluntary pension fund portfolio shall contain securities that may be bought and sold quickly and efficiently at relatively uniform and stable process. The aim of the fund is to have a sufficient percentage of liquid financial instruments in the portfolio in order to meet its obligations at any time.⁵

According to the website of the National Bank of Serbia, there are four voluntary pension fund management companies in the Republic of Serbia:

³ <https://www.politika.rs/scc/clanak/546727/Vucic-Prosecna-penzija-do-kraja-godine-bice-387-evra>, viewed on June 22, 2023 at 15.42.

⁴ Jelena Kočović, Predrag Šulejić, Tatjana Rakonjac Antić, Osiguranje, Centar za izdavačku delatnost, Ekonomski fakultet u Beogradu, Beograd 2010, page 493.

⁵ Dr Ivan D. Radojković, Boban Gajić, Razvijenost dobrovoljnih penzijskih fondova u Srbiji, *Insurance Trends*, 4/2017, page 35.

I. Radojković: Analysis of Voluntary Pension Funds in Serbia in 2022

1. GENERALI
2. RAIFFEISEN FUTURE
3. DDOR-GARANT
4. DUNAV⁶

Currently there are seven voluntary pension funds in the Republic of Serbia.

Table 1 Rate of return of voluntary pension funds in Serbia

Fund	Rate of return in 2022	Five-year return rate (2018–2022)
DUNAV ⁷	0,91%	3,194%
GENERALI BASIC ⁸	-2,44%	2,774%
GENERALI INDEX ⁹	-4,99%	2,266%
DDOR GARANT EKVILIBRIO ¹⁰	-7,37%	1,128%
DDOR GARANT ŠTEDNJA ¹¹	-9,43%	1.098%
RAIFFEISEN FUTURE ¹²	-6,42%	1,05%
RAIFFEISEN FUTURE EURO ¹³	-0,42%	1,26%

Source: Table composed by the author based on different sources

The table above shows that only one fund had a positive rate of return in 2022 while other funds had a negative rate of return in that year.

If a yield rate of 6% per year doubled savings in 12 years,¹⁴ then fund members could not be satisfied with the achieved annual rate of return.

Pension funds must invest in safe forms of capital. At the end of the fourth quarter of 2022, the asset investment structure of funds has not changed significantly compared to previous years. The largest share was held by government bonds, which accounted for 76.6% of total assets. Assets in custody accounts and bank time deposits accounted for 12.6%, and investment in shares accounted for 10.9%.¹⁵

⁶ https://www.nbs.rs/sr_RS/finansijske-institucije/penzijski-fondovi/dpf/, viewed on July 1, 2023 at 00.07

⁷ http://www.mojnovac.rs/fondovi/penzijski_fondovi/dunav_fond.30.html, viewed on July 1, 2023 at 23.36

⁸ http://www.mojnovac.rs/fondovi/penzijski_fondovi/generali_basic.34.html, viewed on July 2, 2023 at 19.12

⁹ http://www.mojnovac.rs/fondovi/penzijski_fondovi/generali_index.31.html, viewed on July 2, 2023 at 19.14

¹⁰ http://www.mojnovac.rs/fondovi/penzijski_fondovi/ddor_garant_ekvilibrio.35.html, viewed on July 2, 2023 at 19.17

¹¹ http://www.mojnovac.rs/fondovi/penzijski_fondovi/ddor_garant_stednja.139.html, viewed on July 2, 2023 at 19.19

¹² <https://www.raiffeisenfuture.rs/wp-content/uploads/Ostvareni-rezultati-DPF-Raiffeisen-Future-31.12.2022.pdf>, viewed on July 1, 2023 at 23.32

¹³ <https://www.raiffeisenfuture.rs/wp-content/uploads/Ostvareni-rezultati-DPF-Raiffeisen-Euro-Future-31.12.2022.pdf>, viewed on July 1, 2023 at 23.30

¹⁴ Investicija za budućnost, *Politika*, 6. 6.2023, p. 4.

¹⁵ Investicija za budućnost, *Politika*, 6. 6.2023, p. 13.

According to the half-year rate of return in 2023, an increase in the rate of return is recorded, e.g. "Dunav DPF", on July 7, 2023, recorded the rate of return since the beginning of the year of 7,91%,¹⁶ so we can expect better returns at the end of the year.

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¹⁶ http://www.mojnovac.rs/fondovi/penzijski_fondovi/dunav_fond.30.html, viewed on July 10, 2023 at 23.37