

## Unit Value of Net Asset to Mandatory Privately Managed Pension Funds in Romania during May 2008 - December 2015

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### Abstract

*Since 1990, the public pension system in Romania has started to deal with special problems, in particular demographic. To these were added and all funds due to lower pension payments. In this context it was introduced in 2007 private pensions. In this article we propose an analysis of how it has evolved Pillar II mandatory private pensions in Romania in May 2008 - December 2015 in terms of net asset value per unit. We considered the annual returns of the net asset value per unit on which they were recorded in Pillar II pension funds during this period.*

**Key words:** mandatory private pensions, Pillar II, value of the fund unit, capacity annual

**J.E.L. Classification:** J21, J26

### 1. Introduction

The initial membership period of market participants in the mandatory private pension funds lasted four months, being carried out between 17 September 2007 - January 17 2008. Of the 18 originally approved private pension funds, four of them had less than 2,000 customers in portfolio and decided to withdraw from the private pension market until the beginning of the collection of contributions ([www.csspp.ro](http://www.csspp.ro)). It's about private pension funds MARFIN, ZEPTER, ALFA and trust services. The small numbers of customers, these funds were not too attractive for the big players in the market, their acquisition costs may be at a point higher than the portfolio that I could bring. Thus, after their withdrawal, their portfolios were divided equally among the remaining 14 funds.

During the seven years of operation, funds market of mandatory private pensions have been a number of over's, canceled, after which they disappeared from the register following funds: Pension VIVA (fund absorbed by ALICO), Interamerican (now then EUREKO and subsequently absorbed the fund VITAL) BANCPOST and KD (acquired by former fund EUREKO), OTP, FIRST PENSION and OMNIFORTE (absorbed fund BCR). ([www.cnpp.ro](http://www.cnpp.ro))

Thus, of the 14 funds that have started operating at the end of accession initial Currently, there are only seven funds: ALICO (originally called AIG and managed by the company Metropolitan Life) WINGS (managed by the company Generali), AZT FUTURE YOUR (managed by Allianz Tiriac), BCR (managed by the company BCR), BRD (BRD-run company), NN (originally called ING and managed by the company NN) and VITAL (managed by the company Aegon).

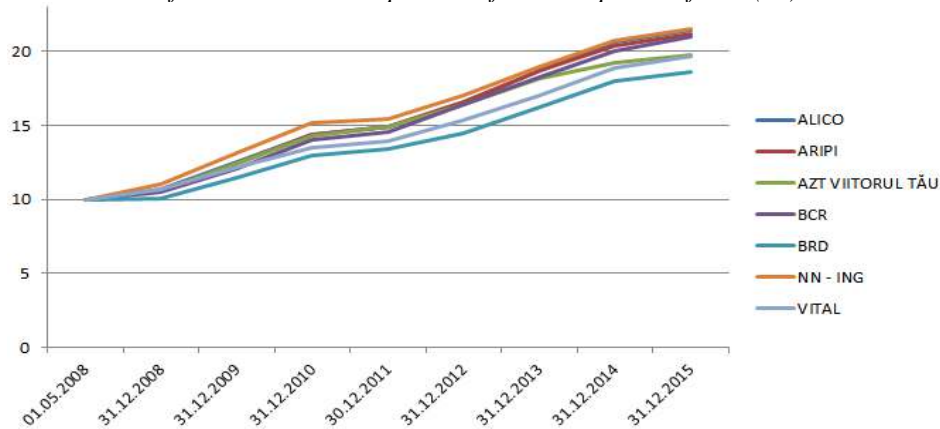
### 2. The annual change in net asset value of the unit of Pillar II pension funds

Defined as the net asset value of the pension fund at a certain date and the total number of units of the Fund at the same time, the value of net asset (NAV) can express pretty good return on a pension fund and its performance shows how as administrator, in the economic data through its investment policy reflected in the structure of the investment portfolio, managed to capitalize on the contributions of participants (Constantinescu et al, 2005, p.23-39).

Based on data from (Colomeischi, 2014, p.123-167) I represented in Figure 1 the annual change in the period May 2008 - March 2012 Net asset value per unit for the seven private pension funds that still works today. The initial net asset value within each pension fund has been set by law at 10 lei.

Firstly the graph notes the improvements which had a net asset value of each of the nearly eight years of operation of the system and for all pension funds. Second it was found that permanent fund that had the highest net asset value was ING (later NN).

Figure 1 Annual evolution of the net asset value per unit of Pillar II pension funds (lei)



Source: INSSE – Anuare statistice pe anii 1990-2015

We will look further at how the net asset value for the mandatory private pension funds from their debut in 2008 and by the end of 2015.

**2008** recorded the final rule ING fund in this chapter; it recorded the highest net asset value, amounting to 10,9813 lei, followed by VITAL funds with 10.704 lei and ALICO to 10,6814 lei. On the opposite side stood AZT YOUR FUTURE funds with a net asset of 10,5529 lei, BCR 10,4931 lei, and last stood BRD fund, whose net asset value was only 10,063 lei.

In late **2009** the first position was all ING, the net asset value of 13,111085 lei (he was also the only fund that had passed the threshold of 13 lei), but was followed by ALICO with 12,478649 lei and airfoil 12,475404 lei. The last three places were VITAL net asset value of 12,128323, 12,051833 BCR and BRD with 11,462125 lei lei.

On 31 December **2010** the top three funds were in the same order as the end of 2009: ING was the first net asset value of 15,135362 lei (the first fund exceeding the threshold of 15 lei), followed by ALICO 14,413267 lei and lei 14,332213 WINGS. The last three positions were found BCR funds with net asset value of 13,993198, VITAL with 13,487383 lei and BRD with 12,963021 lei.

In late **2011**, following ING fund, which had net asset value of 15,430079 lei, was AZT YOUR FUTURE fund with 14,90037, ALICO with 14,907391 lei. The last three funds were the same as a year ago, but in different order: BCR fund had net asset value 14,527372 lei, followed by the VITAL 13,911643 and BRD with 13,443873 lei.

On 31 December **2012**, ING was still first, with net asset value amounting to 17,014648 lei, the first fund exceeded the threshold of 17 lei, while the second is fund WINGS, with the unit value 16,551539 lei net assets of the fund and the third was ALICO, with 16,49579 lei. The last three positions were the same funds: BCR net asset value of 16,384825, VITAL with 14,565294 lei and BRD with 13,830831 lei.

At the end of **2013** the first position was all ING, the net asset value of 18,935456 lei, followed by all of WINGS 18,732237 and ALICO with 18,661834 lei. The last three places were AZT YOUR FUTURE net asset value of 18,137685, VITAL with 17,054061 lei and BRD with 16,226338 lei.

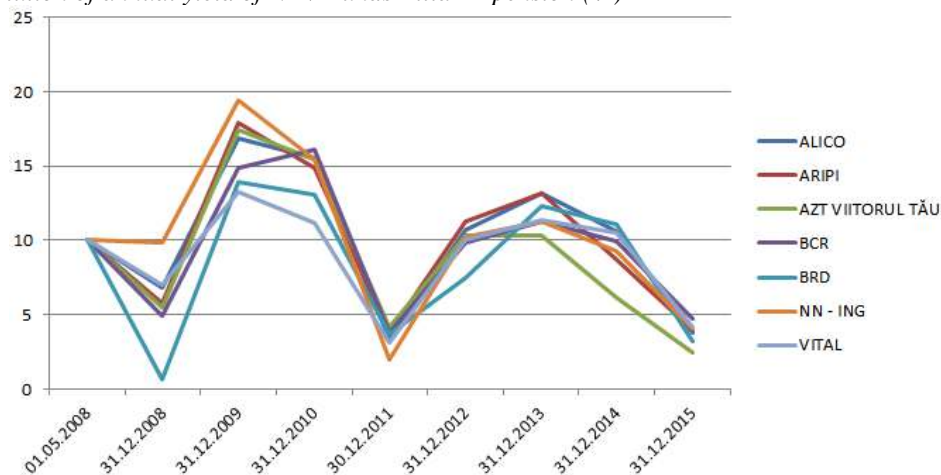
On December 31, **2014** were the top three funds in the same order as at the end of 2013: the first was NN - ING net asset value of 20,689602 lei, followed by ALICO with 20,644477 and WINGS with 20,372935 lei. The last three positions were found AZT YOUR FUTURE funds with net asset value of 19,249942, VITAL with 18,843225 lei and BRD with 18,020319 lei.

According to data published by the FSA, on 31 December 2015 the situation was about the same as that of a year ago: NN - ING was still first, with net asset value amounted to 21,53651 MDL No. two are ALICO fund, the net asset value of 21,428454 lei, while the third was WINGS fund with 21,17464 lei. The last three positions were the same funds AZT YOUR FUTURE with a net asset of 19,719559, VITAL 19,630261 with lei and BRD with 18,598951 lei.

### 3. Evolution of annual yield net asset value per unit

In Figure 2 is the evolution of annual yield net asset value per unit for each of the seven pension funds from Pillar II activity remaining.

Figure 2 Evolution of annual yield of NAV Funds Pillar II pension (%)



Source: INSSE – Anuare statistice pe anii 1990-2015

Looking at the chart above, we observe that 2009 was the year the most favorable in terms of yield asset value per unit net for all funds mandatory private market, with one exception, the fund BCR, which had the good progress in 2010.

In **2008**, the debut year of full operation Pillar II, yields the highest unit value of the net assets were recorded at ING funds, 9,81%, 7,04% and VITAL with ALICO to 6,81 %, while the lowest yields have had AZT YOUR FUTURE funds with 5,53%, BCR 4,93% and BRD with 0,63%, the latter fund is also about the lowest annual yield recorded any substantive period. If we compare net asset value per unit yields and inflation, only the last two funds mentioned above had lower yields in 2008 the inflation rate calculated for the period from May to December, which was around 5,15%. (INSSE – Anuare statistice pe anii 1990-2014)

And in **2009**, when almost all funds (excluding BCR) recorded the highest yield annual net asset value, the fund ING had the largest percentage increase of 19,39%, this being otherwise and the higher yield annual net asset value per unit recorded a private pension fund from 2008 to present. The following places have been WINGS funds with 17,91%, YOUR FUTURE AZT 17,48% and ALICO with 16,83%. On the opposite side stood BCR funds with a return of 14,85%, 13,9% and VITAL BRD with 13,31%. Extremely favorable evolution of net asset value per unit in 2009 is confirmed by the fact that its yields were much higher than the annual inflation rate of 5,59% (INSSE – Anuare statistice pe anii 1990-2014), where all seven funds.

Pension Fund BCR leads the hierarchy of the best returns of the net asset value per unit for **2010** to 16,11%, which is the best annual yield of the Fund since its establishment. This was largely influenced by the two over's he realized that fund in 2010. The following places ALICO funds were 15,5% and 15,44% ING. The last three were WINGS funds with an annual yield of 14,88%, VITAL with 13,09% and BRD with 11,21%. In 2010 all private pension funds achieved returns of

the net asset value per unit significantly exceeded the annual inflation rate announced by NIS level of 6,09% (INSSE – Anuare statistice pe anii 1990-2014).

**2011**, with two exceptions, AZT YOUR FUTURE funds and BRD, brought all pension funds from Pillar II, the weakest annual returns of the net asset value per unit during the period under review. In 2011 the best yield was only 4,19%, the fund achieved YOUR FUTURE AZT, then followed BCR 3,82% and 3,8% WITH WINGS. The lowest yields for net asset values of the funds were ALICO by 3,38%, VITAL 3,15% and ING 1,95%. 2011 saw a modest evolution of the net asset value per unit, as confirmed by the fact that the annual inflation rate of 5,79% (INSSE – Anuare statistice pe anii 1990-2014) was superior to all annual returns of Pillar II funds.

The highest yields annual net asset value per unit in **2012** they had WINGS funds with 11,26%, with 10,71% followed by ALICO and AZT YOUR FUTURE 10,3%, while increases in the weak VITAL funds have registered 10,06%, BCR 9,87% and BCR with 7,47%. In 2012 the annual returns of the net asset value per unit for all funds exceeded the annual inflation rate of 3,33% (INSSE – Anuare statistice pe anii 1990-2014).

The first three funds that yield annual net asset value per unit in **2013** were WINGS with 13,18%, BRD 13,13% and ALICO with 12,3%. The lowest yields were recorded at BCR funds by 11,3%, ING 11,29% and YOUR FUTURE AZT with 10,32%. 2013 annual returns and unit value of the net assets of all funds far exceeded the annual inflation rate of 3,98% (INSSE – Anuare statistice pe anii 1990-2014).

**2014** brought the best returns for funds BRD with 11,06%, followed by ALICO with 10,62% and 10,49% VITAL. The last three funds have had returns NN – 9,26%, WINGS – 8,76% and AZT YOUR FUTURE – 6,13%. As in other years we analyzed, and 2014 annual returns of all funds Pillar II were higher than the annual inflation rate, equal to around 1,07% (INSSE – Anuare statistice pe anii 1990-2014).

Last year analyzed **2015** recorded annual returns rather low for all funds under Pillar II, the first being BCR with 4,73%, NN 4,18% and VITAL 4,09%, while the smallest increases were ALICO – 3,8%, BRD – 3,21% and AZT YOUR FUTURE – 2,44%. The year 2015 brought the worst annual return net asset value per unit of the fund AZT YOUR FUTURE. Despite these annual yields quite low, however we can say that in 2015 the mandatory private pension funds had a positive development if we consider that last year registered a negative annual inflation rate of – 0,59% (INSSE – Anuare statistice pe anii 1990-2014). If we follow the total yields of the net asset value per unit for the mandatory pension funds, the entire period from May 2008 until December 2015 order of the seven funds was as follows: 1. NN – 115,37%; 2. ALICO – 114,28%; 3. WINGS – 111,75%; 4. BCR – 109,93%; 5. YOUR FUTURE AZT – 97,2% 6. VITAL – 96,3%; 7. BRD - 85,99%. The calculation of these returns have taken into account the net asset value at the start of Pillar II was 10 RON for all pension funds.

#### 4. Conclusions

During the seven and a half considered, one can notice the improvements which had a net asset value each year of operation of the system and all pension funds. Second it was found that permanent fund that had the highest net asset value was ING, later NN. Second it was found that permanent fund that had the highest net asset value was ING, later NN.

Analyzing developments that have had annual returns of the net asset value per unit is noted that 2009 was the most favorable year for all mandatory private funds in the market, with one exception, the Fund BCR. This latter fund had the best evolution in 2010, primarily due to the two absorption that has achieved this year, FIRST PENSION funds being absorbed and OTP.

That mandatory private pension funds had an overall positive trend is supported by the comparison of yields annual net asset value per unit and the annual inflation rate. With the exception of 2011, when the inflation rate exceeded the annual returns of all funds, and 2008, when the two funds had yields lower annual inflation in all other years all funds Pillar II had annualized returns above inflation.

Delayed more than ten years of private pension savings is a financial instrument with tradition in mature markets, but with no history in Romania. According to estimates at the time of interested companies, private pension business will become the next few decades, a market that quickly reached one billion euro in the first three years and is expected to reach ten billion in the first ten years.

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