

PRESS RELEASE

BETTER FINANCE corrects PensionsEurope’s mudslinging allegations on Bulgarian pension returns

20 November 2020 - On 25 September 2020, BETTER FINANCE released the eighth edition of its research report on the [Real Return of Long-Term and Pension Savings](#). More than a month later, on 5 November, PensionsEurope (PE), the lobbyist for the European Pensions Industry, issued a [press release](#) levelling unwarranted and unsubstantiated criticism against the findings in the Bulgarian Country Case of the report.

PE and the Bulgarian Association of Supplementary Pension Security Companies (BASPSC) pretended to “correct” the pension returns presented in the Bulgarian country case of the 2020 BETTER FINANCE Research Report on the real returns of long-term and pension savings, and accused the author¹ of the case of “*skilfully work(ing) with statistics, creating manipulatively his thesis based on some facts, half-truths, wrong calculations and open speculative statements*”. However, whereas neither the author of the Bulgarian country case, nor BETTER FINANCE “manipulate figures and statements”, PE, on the contrary, did just that in its 5 November press release, as the table below clearly shows.

PE disclosed different figures in their PR published two days after the BASPSC member had already publicly validated BETTER FINANCE’s results:

Bulgarian Pension Returns over the last 10 and 18 years		
Money-Weighted Returns for Bulgarian UPFs (10 years)		
BETTER FINANCE Report (released 25/9/2020)	BASPSC Public Presentation (3/11/2020) ²	PE/BASPSC “corrections” (5/11/2020 press release)
Nominal Returns (gross)		
3.8%	3.75%	4.4%
Nominal Returns (net)		
2.2%	2.16%	2.7%
Real returns (after inflation and fees)		
1%	0.84%	1.6%
Money-Weighted Returns for Bulgarian UPFs (18 years)		
BETTER FINANCE Report (released 25/9/2020)	BASPSC Public Presentation (3/11/2020)	PE/BASPSC “corrections” (5/11/2020 press release)
Nominal Returns (gross)		
3.7%	3.69%	4.2%
Nominal Returns (net)		
1.9%	1.95%	2.4%
Real returns (after inflation and fees)		
0.3%	0.25%	0.9%

Sources: PensionsEurope Press Release, BASPSC Presentation (public event), BETTER FINANCE 2020 Pensions Report

The returns published by BETTER FINANCE in the Bulgarian country case are actually correct according to a public document from PE’s Bulgarian affiliate itself. Yet, the industry lobby chose to publish entirely different and far higher Bulgarian returns in their PR.

In addition, the incorrect figures used by PE in its press release supposedly come from undisclosed, non-public data.

¹ About the author of the Bulgarian report: Lubomir Christoff, PhD, ChFC is co-founder and former Chairman of the Institute of Certified Financial Consultants (ICFC) in Bulgaria, the only non-governmental body in Bulgaria granting financial planning certification to individuals. Christoff is a member of the Securities Markets Stakeholder Group of ESMA (the European Securities & Markets Authority). Previously he has served as an Advisor to the Executive Director of the World Bank and Chief Economist of the Bulgarian National Bank.

² Presentation by BASPSC Management Board Member at the public online conference hosted by CFA Society Bulgaria, (<https://www.youtube.com/watch?v=ldaORCBssil&feature=youtu.be>) on 3/11/2020. Copy of the slide in the Annex.)

BETTER FINANCE's research uses only **publicly available data**, including data from national pension industry organisations when available, and all these sources are clearly disclosed.

As if this was not enough, PE misrepresented the functioning of the Bulgarian and Estonian pension systems by alleging that BETTER FINANCE contradicted the policy recommendations of the author of the Bulgarian country case with a BETTER FINANCE Press Release regarding a pensions reform in Estonia.

More detailed responses to PE's unwarranted allegations are attached in the Annex.

BETTER FINANCE enjoys a constructive and positive dialogue with the other financial industry organisations. This mudslinging press release from the pension industry lobby is all the more unfortunate as it comes more than a month after the release of the report without any attempt at dialogue or prior interaction with the European Federation of Investors and Financial Services Users. Moreover, the lobby group challenges the correctness of **publicly available data** based - supposedly - on their **own, undisclosed data**. This is not the first time this lobby makes accusations against BETTER FINANCE. Those were also [repudiated by BETTER FINANCE](#) back then.

In the past BETTER FINANCE has repeatedly asked for help from, and cooperation with, the pensions industry lobby to **enhance the transparency on long-term real returns for European pension savers**. It is disappointing to see that, instead of constructive cooperation, unwarranted criticism is the only response that the representatives of European pension savers have received so far.

The offer to help - already publicised years ago by PE - never materialised. BETTER FINANCE will try one more time, and therefore **kindly requests PE to follow up on its offer to provide us with its detailed excel file**: *"Please note all data and calculations provided in the tables are included in a detailed excel file, generated by the Pension Companies and can be provided upon request for reconciliation".* The author will carefully examine it. In the meantime, a public apology and the withdrawal of PE's mudslinging press release are in order.

As Guillaume Prache, Managing Director of BETTER FINANCE points out, *"this tactic from the industry lobby seems to be inspired from Francis Bacon's "Hurl your calumnies boldly; something is sure to stick". When deciding to try to discredit independent research, it should at the very least do it on less shaky grounds. Quite unusual and sad vis-à-vis representatives of one's own end clients."* This is all the more worrying, since the person responsible for this mudslinging press release has been selected as a top pension advisor by the European Commission³ and by the EU supervisor, EIOPA⁴.

More generally, this lobby expressed its "frustration" at "low" - but correct - numbers. If it does not like reports on the real net returns for pension savers produced by independent researchers, why doesn't it disclose this key information itself (and with the same full transparency on its sources and methods), including to the Public Supervisor, instead of letting an NGO do it all on its own and then attempt to discredit it afterwards?

Finally, PE writes that **"ensuring quality is crucial"** in its recent press release. It is indeed, as the requirement to provide fair, clear, and not misleading information to pension savers. And it is even more crucial for the pension industry since it is – like BETTER FINANCE - 100% funded by EU citizens as its end-clients.

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³ As member of the EC's "High-Level Group of Experts on Pensions", which does not include any representative of pension savers.

⁴ As member of EIOPA's Occupational Pensions Stakeholder Group.

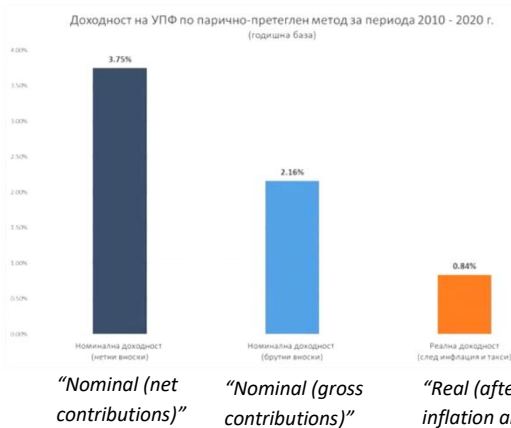
ANNEX

BETTER FINANCE lists its detailed answers to the points raised by PE and the BASPSC in the Press Release and Annex of 5 November 2020. BETTER FINANCE highlights the following:

1. **“Incorrect” Bulgarian pension return data:** BETTER FINANCE presents the evidence of contradictory returns of the BASPSC and PE below. At an online conference, streamed on Youtube, a member of the BASPSC presented the returns of Bulgarian Universal Pension Funds (UPFs) using the *money-weighted* method, the same method as the one used by the author of the Bulgarian country case.

Инвестиционни резултати “Investment results”

“Returns for UPF using the money-weighted method, 2010 - 2020”



“Returns for UPF using the money-weighted method, 2002 - 2020”



16

Source: <https://www.youtube.com/watch?v=lda0RCBssil&feature=youtu.be>, minutes 35:55 – 37:22 ;

Literal translation, courtesy of the author of the Bulgarian country case, Mr. Lubomir Christoff.

Two days later, in the Annex of the abovementioned press release, the figures changed:

Table BG9. Pension Funds and Pension Savers' Return (UPF)					
	2019	2017-2019	2013-2019	2010-2019	2001-2019
Pension Funds' Nominal Return (Gross of fees)	7.0%	3.5%	4.2%	4.4%	4.2%
Pension Savers' Nominal Return (Net of fees)	5.7%	2.2%	2.7%	2.7%	2.4%
Pension Savers' Real Return (Net of fees)	2.6%	-0.3%	1.8%	1.6%	0.9%

Source: FSC, NSI, BASPSC

Source: PensionsEurope [Press Release](#), Annex, p. 7.

The table published by PE and BASPSC comprises the “correct” figures for *money-weighted returns* for Universal Pension Funds (UPFs). However, the same table referred to in BETTER FINANCE’s Bulgarian Country case comprises the same figures are presented by the BASPSC during the online event:

Table BG9. Pension Funds and Pension Savers' Returns (UPF) - MWR

	2019	2017-2019	2013-2019	2010-2019	2002-2019
Pension funds' Nominal Returns (Gross of fees)	6.2%	2.8%	3.5%	3.8%	3.7%
Pension Savers' Nominal Returns (Net of fees)	5.0%	1.5%	2.0%	2.2%	1.9%
Pension Savers' Real Returns (Net of fees)	1.8%	-0.9%	1.1%	1.0%	0.3%

Source: BETTER FINANCE calculations based on data published by the Financial Supervisory Commission

2. **Data Availability:** The Bulgarian individual country case and all calculations therein are based exclusively on publicly available data. BASPSC has to either make publicly available material information it considers missing or accept the returns, calculated by the author on the basis of officially published data.
3. **Rates of Return:** In spite of publishing different figures just two days apart, points 7, 8, 11, 13 and 14 claim incorrect rates of return in the Bulgaria country case and provide alternative results. BETTER FINANCE and the author believe that criticism concerning methodology and incorrect data should be backed up, on point and precise, specifying exactly which information PE considers to be wrong. The author notes in this regard that, should an error have occurred, he would be more than happy to correct it.

In their alternative results, BASPSC refer to their own, unpublished data (points 7, 13, 14) which are misaligned with those presented at the event of the 3rd of November.

BETTER FINANCE kindly requests PensionsEurope to follow up its offer to provide us with its detailed excel file: *"Please note all data and calculations provided in the tables are included in a detailed excel file, generated by the Pension Companies and can be provided upon request for reconciliation."* The author will carefully examine it.

The main message of the author of the Bulgarian case, namely that participating in Bulgarian UPFs is detrimental to pension savers as it actually reduces their pension income and its adequacy, stands even with the higher returns claimed but not substantiated by BASPCS. This is due to the fact that Bulgarian UPF returns are much lower than the rate of growth of the average wage. Thus, a contribution to UPF yields a lower pension compared to the case of making the same contribution to the State Pension Fund.⁵

4. **Benchmark:** In point 9 BASPSC is confusing back-testing for benchmarking. It is a professional standard for every manager of clients' funds to declare his / her investment objective / benchmark in advance and to report performance against this benchmark. Since Bulgarian pension fund management companies do not follow this practice, the author was compelled to construct his own benchmark (65% European equities – 35% Eurozone sovereign bonds). The author agrees with BASPSC that this is a quite simple benchmark in that it encompasses European securities only.

And yet, it turns out that the correlation coefficient between this simple benchmark and the pension funds' performance is in the range of 0.94 - 0.96. It is statistically obvious that all pension funds in Bulgaria massively underperform capital markets on an after-fee basis over the 2004-2019 period. Besides, going forward, the benchmarks performance can be obtained with two ETFs for a 7 bp management fee, while Bulgarian pension funds charge tenfold higher at 75 bp. Thus, the undisputable fact is that Bulgarian pension savers overpay for underperformance.

Back testing refers to using historical data to calibrate new investment strategies. The author has not engaged in any back testing. BASPCS implies that the benchmark was specifically chosen to paint Bulgarian

⁵ This fact is demonstrated by the author elsewhere and is proved by the ILO in the case of contributions based on the average wage. See Christoff, Lubomir, "Pension (In)Adequacy in Bulgaria" (June 28, 2020). Available at SSRN: <https://ssrn.com/abstract=3637285> and "Reversing Pension Privatizations: Rebuilding public pension systems in Eastern Europe and Latin America / International Labour Office – Geneva: ILO, 2018 https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---soc_sec/documents/publication/wcms_648574.pdf

pension fund performance in an unfavourable light and that any other benchmark, showing different results, can easily be constructed. This is certainly not the case, and BETTER FINANCE invites the members of BASPSC to choose such a benchmark, that is representative of the investment objectives of its members, to present their historical performance against it and to use it in the future for reporting purposes.

Invoking the pension management companies' legal obligation to exceed minimum returns in this context is irrelevant since the minimum returns are calculated on the basis of averaging the performance of pension funds themselves.

BASPSC also criticises the author for not considering the Sharpe ratio of the benchmark and of pension funds' portfolios. This criticism suggests that PE and BASPSC do not like the very purpose of the BETTER FINANCE research report: to evaluate what is the long-term real return to pension savers. It is not research about how pension funds manage market risks, which are in any case captured in the comparisons throughout the Report with capital markets' long-term returns, and through our analyses of asset allocations. **"The main risk of a pension product is the risk of not reaching the individual's retirement objective"**.⁶ Reaching the retirement objective depends crucially on the real rate of return pension savers actually receive in their accounts and this is the focus of the Better Finance Report.

5. **Adequacy:** The BASPSC criticised the Introductory table of the Bulgarian country case ("*Overview of the Bulgarian Pension System*") for publishing the Eurostat aggregate pension replacement rate for Bulgaria of 37%, which the BASPSC calls "*frustratingly low*" in comparison to the net pension replacement rate published by the OECD, used in Table GR9 concerning Bulgaria (89%). Both figures are correctly quoted from the two data sources which indicate what these figures mean and refer to. PE and the BASPSC ask us to correct these Eurostat and OECD figures (sic). These data are correct, and PE should turn to these organisations, not to BETTER FINANCE, if it is unhappy with them.
6. **Fees:** BASPSC points to a misleading reporting of the pension funds transfer fee of 5 euro. The point is correct in that this fee can be charged in case of transfer of balances to EU institutions, the ECB or the EIB. The author failed to specify this.
7. **Inflation:** In point 15 BASPSC demonstrates its misunderstanding of how money-weighted returns are calculated. While it is true that the inflation rate is the same for any single period, independently of the return calculation, this is wrong when it comes to calculating money-weighted returns over a period of time, since all flows and the annual inflation itself are asset-weighted. Therefore, it is quite natural for the inflation to take a different bite from the nominal returns of UPFs and VPFs. The dynamics and the structure of their assets have been quite different.
8. **Pension determination:** BASPSC shows a misunderstanding of how pensions (either state pensions, or pensions from the funds they manage) are determined and makes the invalid point that the geometric rate of the average wage should not be compared with the money-weighted return of the pension funds. The state pension depends on the average wage in the final 12 months before retirement. This wage can be estimated by taking the current level of the average wage and applying the projected annual growth rate, going forward. The geometric average is the proper tool for that. On the other hand, the pension from a defined-contribution scheme depends on the final capital accumulated before retirement, among other factors. This capital can only be estimated by taking into account regular contributions (cash flows). Therefore, the relevant return to be applied is the money-weighted return.
9. **BETTER FINANCE report:** in point 17, BASPSC disputes that the BETTER FINANCE report is the only publicly available source of data on pension savers' real return in Bulgaria. Point 17 refers to disclosing real returns to individual clients, which are neither public, nor representative. Reading the point carefully reveals that the BASPSC in effect acknowledges this fact, as it admits that it discloses the returns only i) upon request and ii) to its members, meaning that only after becoming a member a Bulgarian pension saver and future retiree, can one be informed on how the pension funds perform (and whether becoming a BASPSC gives any value for money). The BETTER FINANCE report is indeed the only comprehensive and rigorously

⁶ EIOPA. (2020). "PAN-EUROPEAN PERSONAL PENSION PRODUCT (PEPP): EIOPA'S STOCHASTIC MODEL FOR A HOLISTIC ASSESSMENT OF THE RISK PROFILE AND POTENTIAL PERFORMANCE", p. 2.

researched **public** report on real returns of both pension funds and pension savers at the level of pension vehicles in Bulgaria.

10. **Return calculation:** The assertion from PE that *“the country profile of Bulgaria contains several incorrect numbers and calculations – most importantly an incorrect rate of returns for the Bulgarian pension funds”* is without merit.

The author* used publicly available data and standard methodology (geometric averages and the Excel XIRR function). Moreover, both BETTER FINANCE and the author believe that criticism concerning methodology and incorrect data should be backed up, on point and precise, specifying exactly which information PE considers to be wrong. The author notes in this regard that, should an error have occurred, he would be more than happy to correct it.

The Annex states that *“the BETTER FINANCE report also includes wrong information on Bulgaria in general. For instance, the report incorrectly states that “in Bulgaria, data for Professional Pension Funds (pillar II and III) is no longer available since 2018”, while the Bulgarian Local Regulator i.e. Financial Supervision Commission provides on a quarterly basis full disclosure on pension market development by type of funds and players with the same quality and quantity of information.”*

The author notes that that data is available, with the exception – as correctly stated in the BETTER FINANCE report - of the outflow data from Professional Pension Funds (PPFs) from the National Social Security Institute, which he was no longer able to obtain from said institution.

11. **Inconsistency in policy recommendations:** The Press Release mentions that *“There is also clear inconsistency in BETTER FINANCE’s messages. In its press release “Dismantling the Estonian Pension System ...” and “It is thus clear that in Bulgaria the PAYG social security pension system will be very challenged and funded supplementary pensions are increasingly necessary in order to achieve adequate and sustainable pensions.”*

BETTER FINANCE and the author do not see any inconsistency between BETTER FINANCE’s position on Estonia and the author’s one on Bulgaria. The characteristics of the Estonian and Bulgarian pension systems are different, so is the reform discussed in the highlighted press release. The crux of the issue is that the largest pension fund type (UPFs) in Bulgaria is not supplementary, but that, instead, contributions to UPFs are subtracted from the mandatory contribution to the State Pension Fund. As a result, the state pension is reduced for those participating in UPFs.

The UPF pension has to first replace or compensate for the reduction of the state pension. It can do that and ensure a supplementary pension only if the return that pension savers receive in UPFs is higher than the rate of growth of the average wage. The opposite is happening in Bulgaria: while the average wage grew by a 4% real annual rate between 2002 and 2019, UPF clients received a paltry 0.3% real return (based on HICP) and a negative -0.6% real return based on CPI. If these trends continue, “supplementary” pensions in Bulgaria will actually reduce the pension income of pension savers and its adequacy. Therefore, the claim that “funded supplementary pensions are increasingly necessary in order to achieve adequate and sustainable pensions” is manipulative and misleading. Supplementary pensions in Bulgaria can be supported under two conditions:

- a) that they are funded by supplementary contributions, separate from the contribution to the State Pension Fund and,
- b) that pension savers receive meaningful positive real returns over the contributory period.

Moreover, the accusation of nationalisation is false and baseless because the recommendation for Bulgaria is to allow the insured (pension savers) themselves to decide what to do with pension balances in UPFs.

12. **Bulgarian pension funds’ asset allocation:** the data on asset allocation are from the OECD and may well be different from the source indicated by the BASPSC (*“see www.fsc.bg Statistics”*). In fact, the author does publish detailed UPF and VPF data in Table BG11. However, the 2018 asset allocation figures for Bulgarian pension funds from OECD were not correct and have been corrected.
13. **Comparability of returns:** the periods on which returns are calculated are clearly indicated and separated from one another.

There is nothing misleading about the different periods. Moreover, we would like to ask PE to indicate which methodology in particular is different.

14. **Inflation data in Table GR10**: there was indeed a mismatch between the draft and published version of the inflation data for Table GR10, which BETTER FINANCE has already replaced. This had no material impact on the computation of real returns of Bulgarian pensions.
15. **Comment on “different data for Bulgaria”**: in p. 17-18 we use Time-Weighted Returns (TWR) to enable comparison with other countries which also have time-weighted returns, whereas in p. 118 the author used Money-Weighted Returns (MWR). These figures are clearly marked and stated in the report: that the executive summary refers to TWR and the Bulgarian case to MWR, which is also very clearly marked in the report.
16. **Conclusion**: PE’s Secretary General’s statement that “*funded supplementary pensions are increasingly necessary in order to achieve adequate and sustainable pensions*” is **not applicable to the case of Bulgaria**, since UPF and PPF are not supplementary but rather a result of partial privatisation of the public pension insurance. Moreover, even assuming real rates of return of Bulgarian pension funds were to be higher as PE claims against all published evidence including from its own Bulgarian affiliate, the main conclusions of the BETTER FINANCE Report in the case of Bulgaria hold:

- 1) Savers in Bulgarian pension funds overpay for underperformance, and
- 2) Contributions to UPFs reduce pension income and pension adequacy in Bulgaria.

Supplementary pension funds have a role to play in Bulgaria only if the following two conditions are met:

- 1) Pension funds are truly supplementary, and the contributions are in addition to, and not at the expense of, contributions to the State Pension fund as is currently the case.
- 2) Pension funds are managed with a view to ensuring meaningful after-fee real returns, which currently is not the case either.

Most of PE’s and BASPSC’s criticism of the Bulgarian country case, as pointed out above, is without merit . Therefore, BETTER FINANCE’s findings and policy recommendations stand.

More information:

- Download the [Full 2020 Report](#) on the BETTER FINANCE website.
- BETTER FINANCE created a simplified version of the Pensions Report ([Booklet](#))
- BETTER FINANCE digitalised the nominal and real net performances of all pension products covered by the Report [on a user-friendly online interface](#).