ANNEX 80

STUDY VISIT REPORT ON GERMANY BY BC OFFICIALS

In the framework of the Twinning Project "Support to the State Social Protection Fund on the introduction of funded element within the insurance – pension system, establishment of non – state pension funds and development of legal framework for regulating their activity", a study tour was organized for the staff of SSPF to Federal Republic of Germany. During the trip, meetings were held with several state and private institutions operating in insurance-pension system of Germany.

Federal Ministry on Labor and Social Issues- the main functions of the ministry is to develop the social integration, protect the stability of social provision system and establish a strong framework for generation of new work places.

Federal Financial Oversight Organization (BaFin)- is an autonomous public-legal organization under the legal and technical oversight of the Federal Finance Ministry**.** The organization provides oversight on the financial service providers, insurance companies and securities operations. The financing of the organization is based on the fees of entities under its oversight.

Sosial Insurance Policy and Research Association (GVG)- is a research forum in order to ensure the future development of social insurance system from practical and theoretical point of view.

Social Insurance Fund of Germany (Hessen Regional Center)- the fund is responsible for collection of social insurance payments, allocation and payment of pensions and benefits.

European Insurance and Corporative Pension Organization (EIOPA)- the organization was set up as a result of reforms conducted in EU financial oversight sector. The European Insurance and Corporative Pension Organization is part of European Financial Oversight System comprising banking, securities and corporative pension sectors, as well as, the board of directors from on European system risks.

SOKA-Bau Pension Fund- is a social pension fund in construction sector.

INSURANCE-PENSION SYSTEM IN FEDERAL REPUBLIC OF GERMANY

Statistical data. As of data 31.12.2014, the population of the Federal Republic of Germany makes up 79 925 008 persons. 49.05% (39 195 776) of country population consists of male, while 50.95% is female (40 729 232). The natural growth of population in FRG comprised 209 840 persons in 2014. The minimal amount of pensions in Germany makes up 364 euros.

Insurance-pension system. The insurance-pension system of FRG has three parts (pillars):

I pillar – compulsary state social insurance system

II pillar – corporative pension provision

III pillar – registry program.

I pillar – compulsary state social insurance system. The first pillar of German insurance-pension system is the compulsary state social insurance system functioning on PAYG system. It is mandatory for every individual regardless of his/her citizenship to join the system with the monthly wage not exceeding 3,900 euros and operating in Germany. The amount of social insurance contributions in compulsary state social insurance system comprises nearly 40% of brutto wage. 15.5% of paid contribution goes to medical insurance, 18.9% to pension insurance, 2.35% to illness and patient care insurance (additional 0.25% for families without children), 3% to unemployment insurance and the remaining percentage to accident insurance that may occur in production with risk estimation. 50% of the pension insurance is paid by an employer and another 50% by the employee. In addition, the compulsary social insurance contributions are applied to employees with the wage over 45 euros, and to the amount of only up to 6,000 euros of the wage. The pension allocation is implemented based on the policy holder's insurance date.

The pensions in Germany are divided into three categories: a) old age pension; b) disability pension and c) survivor's pension. Old age pensions are divided into six main categories: 1) general old age pension, when the pensioner reaches 67 and when there are 5 years of general insurance period; 2) old age pension for pensioners who has 35 years of general insurance period earned in Germany; 3) old age pension for pensioners who has fully or partially lost the labor ability, who has reached 60 years of age and who has at least 35 years of social insurance experience; 4) old age pension for miners who has reached 60 years of age and who has at least 25 years of social insurance experience; 5) old age pension for women who were born before 01.01.1952, reached 60 years of age and with over 15 years of general social insurance experience in Germany (provided that 10 years and one month of that experience is before 40 years of age; 6) old age pension for those unemployed who has reached 60 years of age and with 15 years of total social insurance experience and for persons working on shifted work schedule (if he/she has been registered as unemployed at least 52 weeks during the past half of the year or worked for 24 months on shifted work schedules). The policy holder should have at least 5 years of social insurance experience in order to receive pension for disability and survivory. The pensions in FRG are provided not in automotized order, but based on an individual's application to pension cash desk. Pursuant to legislation, an individual may be provided with only one pension on relevant category. It should also be noted that for all types of pensions in Germany, there is no uniform social insurance experience. Each pension type has its own value (Wartezeit- insurance experience period). Depending on the pension type, the insurance experience period varies from 5 to 35 years (Wartezeit), the pension age varies between 60-67 age range. For citizens of foreign countries, the pension is appointed when there are at least five years of insurance experience, when the experience is less than 5 years, an employee is entitled to withdraw the social contributions he/she has paid during his/her activities (9.45% of wage). In addition, the following activity periods are included into social insurance experience for persons engaged in labor activity in Germany: 1) for a child who was born until 01.01.1992, an additional insurance experience is calculated for1 year child care; 2) for a child who was born after 01.01.1992, an additional insurance experience is calculate for 3 years of child care; 3) the care period for ill family member (with the condition of having over 30 hours per week) is included into insurance experience and currently 70% of pensions paid in Germany comprise the pensions paid on compulsary state social insurance system.

II pillar – corporative pension provision. The corporative pension provision has been operating in Germany for nearly 150 years, the participants of which are mainly large enterprises, banks and insurance companies. The corporative pension provision is of voluntary nature in FRG and is provided by an employer. The contracts on corporative pension provision are divided into three groups: individual, group and corporative pension provision according to areas. In addition, the corporative pension provision is operating based on DB (defined benefit) and hybrid pension schemes depending on the system chosen by the employer. Taking into account the demographic issues, there is a consideration in the future to switch from DB pension plan to DC (defined contribution) pension plan. 50% of pension capital is disbursed according to PAYG (contributions of current pensioners), and 50% according to funded principle (the securities are invested). The employers may make a choice among the following corporative pension provision types: 1) pension cash desks (insurance companies); 2) pension funds; 3) direct insurance (contract with insurance companies); 4) direct obligation; 5) support fund. The mentioned corporative pension provision is implemented through the pension cash desks and direct insurance through hybrid (mixed) pension schemes, the rest is implemented through DB (defined benefit) - contributions. In order to protect the future pensions of employees from insolvency on corporative pension provision, the pension payments are provided through pension cash desks and direct insurance types by the protector, while on the direct obligation, the support fund and pension fund types, the pension payments are provided by RSV (Association). The pensions on corporative pension provision are not granted the bequest rights, the pensions are provided only for survivor pension type. As of 2012 statistics, the total amount of assets on corporative pension provision made up 520 billion euros. On the asset part, 271.6 billion euro comprise direct obligations, 127.3 billion euros go to pension cash desks, 58 billion euros to direct insurance, 36 billion euros to support funds and 27.9 billion euros to pension funds. Currently 10% of pensions paid in Germany comprise pensions paid on corporative pension provision.

III pillar – Registry program. The Registry program being the third pillar of Germany’s pension system is functioning based on voluntary principle and is fully paid by the employee. In addition, the registry program is being financed by the state. In the framework of Registry program, the financing of the policy holder’s contributions is mostly envisioned for persons who are being exerted a negative influence of 2001 reform program. The financing of funded contributions in Germany by the state makes up 154 euros per year, for each child additional 300 euros are paid, also additional 200 euros are paid in order to promote the persons who have just started their new jobs according to third pillar. A person wishing to receive financial aid from the state under the Registry program should file a special application at the bank. Moreover, with the goal of expanding the activeness in private pension provision, tax breaks are applied to participants by the state, however, tax is not deducted from the contributions paid to Registry program by the citizens. For Registry Program, 4% of previous year income is paid. The payments according to third pillar are made in the annuity pension form. The pension capital on Registry Program may be invested on four main directions: 1) Bank funded plan; 2) contract with life insurance company; 3) housing program of Registry (funded contributions are used in mortgage loan payment); 4) investment funded plans. The Registry Program as the third pillar of Germany’s pension system is operating on DC –defined contribution plan, that is, the employee is not granted a pension guarantee in a certain amount when reaching the pension age. The pensioners when reaching 60 (62) are entitled to receive 30% of pension payment as an annuity and the remaining amount in the form of life pensions according to the third pillar. Currently 20% of pensions paid in Germany comprise the pensions paid according to the Registry Program.

Oversight. The oversight over the pension system is conducted by the Federal Financial Oversight Institution (BaFin). BaFin is an autonomous public-legal institution under the legal and technical oversight of Federal Financial Ministry. The financing of the institution is conducted based on the fees of agencies under its oversight.The institution was established as a result of merging of Federal Bank Oversight Body, Federal Oversight Body on Securities and Federal Body on Insurance Supervision in 2002. As of 2013 statistics, the Federal Financial Oversight Body implements an oversight over 560 insurance companies and 31 pension funds. A supervision over the pension funds and insurance activities is realized by the insurance oversight commission at the Federal Financial Oversight Institution (BaFin) and is regulated by the Law "On Insurance Supervision". The main goals of insurance oversight is to protect the interests of policy holders and ensure the future obligations of insurance companies with respect to insurance contract. The oversight on the insurance companies on private pension funds is realized through the Solvency II principles adopted by the European Parliament and European Council. The main goal of Solvency II Directive is to establish a new and stronger risk-based supervision system for European insurance system. The following documents are submitted to Federal Financial Oversight Institution (BaFin) by insurance companies in the framework of oversight process: 1) annual report; 2) actuary report; 3) audit documents; 4) report on intra-group operations; 5) financial report; 6) notification on solvency; 7) notification on obtaining investment portfolio and special assets. The major part of reports is adopted annually, however, some reports are also submitted on a quarterly basis. In addition, the activity of an insurance company should be checked once a year by an external audit, for small insurers, the requirement for an external audit was appointed once in every three years. The Federal Financial Oversight Institution (BaFin) enjoys the right to verify the business operations of insurance companies and of private pension funds at any time, even with no special reason. The intensity of audits is based on risk-based oversight principles and is related to insurer's quality level and market impact. The Federal Financial Oversight Institution (BaFin) imposes relevant financial sanctions against the insurance companies which have violated the Insurance Oversight Act (VAG). These financial sanctions are the following: a) when an insurance company has insolvency risk, put a ban on payments with shareholders, policy holders and other person by the company b) prohibit the transfer of assets and purchase of own shares' liabilities; c) demand the termination of the board of directors from the oversight board who lack the technical specialty and are unreliable. In order to assess and verify the sustainability of insurance companies, the Federal Financial Oversight Institution (BaFin) conducts the stress tests. In addition, the Federal Financial Oversight Institution (BaFin) is conducting the licensing for banks, insurance companies and private pension funds.

Employers Association

Employers Association was established in 1974 consisting of German Employers Union, German Industrial Enterprise Union and Insurance Union with the goal of ensuring the future pensions for employees in case of employer's insolvency in order to protect the policy holder's interests. The main goal in the Association activity is to ensure the pension contributions in case of employer's insolvency. The membership to the Association is voluntary, however, the employers pay their membership dues instead of their membership. Nevertheless, the employers are interested themselves in becoming members to the Association for ensuring the pension contributions in case of their insolvency. However, the more the insolvency cases increase, the more the size of social insurance contributions of the Association also increase, which negatively impacts on the system activity. When the employer has insolvency, its funds are transferred to the Association and the Association invests these funds in the capital market with the goal of ensuring the pension rights for future pensioners.

The insurance activity of the Employers Association is supervised by the Federal Financial Supervision Body (BaFin). Currently, 93,765 persons are the members of Employers Association. As of information dated early 2015, the Association administers the pension contributions for 533,000 persons.

European Insurance and Corporative Pension Organization (EIOPA)

The financial crisis occurred in late 2008s, necessitated the establishment of new financial supervision system and EIOPA commenced its activities since January 1, 2012.

EIOPA – is a supervision body of the EU Member States on corporative pension and individual funded areas and first of all, conducts supervision over the insurance activity. The main principle of EIOPA is to ensure the transparency of pension system.

EIOPA has an independent budget. 60% of its budget is formed on the account of EU contributions, while 40% through the contributions of 28 member states. EIOPA reports about the quality and results of its activities to EU and European Parliament in every five years. The main duties of the organization are to ensure the transparency and integrity of financial markets and of supervision over the regulatory activity and on the risks of insurance organizations and to protect the interests of the insured people.