



Dear CEO Letter No. 5/2009

on the Contents of the Information to be Provided by Pension Funds to their Members

In line with its operational objectives the Hungarian Financial Supervisory Authority (hereinafter referred to as the HFSA) hereby issues this CEO Letter to call the attention of the chief executive officers of voluntary and private pension funds to the increased prudence required in the current situation on the financial and capital markets of both voluntary and private pension funds in providing information to their members. As the information provided by the funds may significantly impact the life status and future pensions of the members both on the short and on the long term, information should always be provided factually, with consideration to the life status and future intentions of the member.

In this letter I present the supervisory expectations for the contents of the information provided by funds to their members, and request pension funds to consider these expectations in conducting their communications.

Information provided by voluntary and private pension funds

For both voluntary and private pension funds, when switching portfolios the information provided to members should extend to the following:

- The investment policies of the current and of the optional portfolio (or of the portfolio already chosen by the member), the target levels of the individual investment instruments;
- The risks and future prospects of the individual portfolios; the target groups for whom the given portfolio is recommended (on the basis of age and the remaining time to retirement for private pension funds, while with voluntary pension funds it is recommended that members are also asked about their future intentions, in addition to their age);
- The net yield rates for the actual year, the net yield rates for 10 years, and the asset growth indicators for 10 years, of the actual and of the targeted portfolios;
- The substance and the meaning of the individual yield indicators;
- The portfolio switching costs;
- The allowed frequency of portfolio switching;
- The process of portfolio switching, the subsequent fate of any realised yield gains or losses;
- That the home page of the HFSA contains data that can be used to compare the various portfolios.

In relation to transfers to another fund, funds should inform their members of the following:

- The investment policies of the actual fund (and of the fund chosen by the member) and the targeted level of the individual investment instruments;
- The net yield rates for the actual year, the net yield rates for 10 years, and the asset growth indicators for 10 years, of the actual and of the targeted funds;
- The substance and meaning of the individual yield indicators;
- The fund switching costs;
- The allowed frequency of fund switching;
- The process of fund switching, the subsequent fate of any realised yield gains or losses;
- That the home page of the HFSA contains data that can be used to compare the various funds.

Communications related to investment policy and realised yields should contain the following:

- The extent of the yield rate, including the net yield rate for the actual year, the net yield rate for 10 years, and the asset growth indicator for 10 years;
- The substance and the meaning of the individual yield indicators;

- Information on whether or not the fund operates a system of optional portfolios;
- The investment strategy followed by the fund (conservative or risky), the minimum, maximum and target levels for the individual investment instruments;
- In the case of a system of optional portfolios, a presentation of the groups of members for whom the individual portfolios are recommended on the basis of their risks;
- Expectations for the given portfolio, with consideration to economic and capital market processes.

Funds should provide information to the beneficiaries and heirs of deceased fund members as follows:

- The options regarding the balance on the individual account of the deceased member, namely:
 - that the beneficiary or the heir may take it as a lump sum,
 - may have this amount transferred to his/her own individual account,
 - may leave the amount with the fund (voluntary pension fund),
 - may have it transferred back into the social insurance pension system (private pension fund);
- The extent of the realised yield gains or losses.

Information provided by private pension funds

Special treatment should be given to fund members reaching the retirement age; the information provided to them should separately address the fact, that if the period of their membership within the private pension fund system was less than 120 months, and if their monthly pensions based on their individual account balances will not reach 25% of the pension provided by the social insurance, then they may return to the social insurance system until 31 December 2012 and in this case they become entitled to the full pension provided under the social insurance (as if they would have never been members of the fund). If a member's period of membership within the private pension fund system exceeds 120 months, or if his/her pension payments determined on the basis of his/her individual account balance will reach at least 25% of the social insurance pension, then they may not return to the social insurance system operated by the state and they are entitled either to receive pension benefits or to take a lump-sum payment from the private fund. The information provided should also address the fact, that neither the fund nor any other authority has any powers to authorise, on an equitable basis, the return of the member to the social insurance system operated by the state.

If a member of a private pension fund who reaches the retirement age is not entitled to return to the social insurance system operated by the state, then he/she should be informed of the following:

- That he/she is entitled to take his/her savings as a lump sum, if his/her period of membership was not more than 180 months;
- That he/she has an option to leave his/her savings in the private pension fund;
- That although he/she has a right under the law to chose pension benefits to be paid by the private pension fund, the conditions for such do not yet exist;
- The breakdown of his/her individual account balance into principal and yield proportions;
- The investment policy (the target levels of the individual instruments) of the portfolio into which his/her savings will be invested by the fund;
- The expectations with regard to the given portfolio, considering the economic processes and the processes on the capital market.

Members should also be informed that a request to switch to another portfolio or to transfer to another fund may not be withdrawn, and that before sending such a request to the fund, they should first request detailed information from the fund for orientation purposes.

Information provided by voluntary pension funds

The information provided to a member when withdrawing all or part of the amount on his/her individual account (the information to be provided at the expiry of the 10 year waiting period)

should include the following:

- The amount of the member's claim; the amount of the principal and of the yield;
- The amount of the yield gains or losses;
- The process and the time schedule for the payment,
- The way in which the amount to be taken by the member will be determined;
- The taxation rules.

The attention of the member should be drawn to the fact that if the amount to be taken exceeds 85% of the balance on the individual account, then the payment will be scheduled in two stages, where the yields for the actual quarter will also be considered.

Special treatment should be given to cases of retirement, where the information to be provided should address the following:

- The types of services provided by the fund and their advantages and drawbacks;
- The amount of the member's claim; the amount of the principal and of the yield;
- The amount of the realised yield gains or losses;
- The options available to the member, which may be as follows: o lump sum payment; o the rules for pension benefit services and the amount of the pension if a pension (phased withdrawals or annuity) is chosen; o the member may leave the claims on his/her individual account with the fund, with or without the payment of membership fees;
- The taxation rules.

The attention of the fund member should be drawn to the fact that his/her entitlement to a pension does not mean that he/she should actually withdraw his/her savings.

In case a member uses part of his/her balance as collateral for a loan, or if a loan is taken by a member, the information provided should address the following:

- The substance of the collateral or of the loan taken by the member;
- The maximum amount allowed for the member for such collateral and the related administrative procedures;
- The maximum amount allowed for loans to members, including the related interest rate and the way in which loans may be taken;
- The consequences of failure to repay a loan guaranteed by a member's claims or a loan taken by a member.

You are hereby informed that the contents of this letter have no mandatory power for organisations governed by the acts listed under Article 4 of Act CXXXV of 2007 on the Hungarian Financial Supervisory Authority; their purpose is to assist in prudent operations, but their implementation will be considered by the HFSA in the course of an audit.

This CEO Letter will be published by the HFSA on its home page under "Regulation / CEO Letters", and will also be sent directly to the chief executive officers of the pension funds.

Budapest, 10 March 2009

Kind Regards,

Csaba VARGA
Director General of the HFSA