



## **Technical description of the mechanism for accumulations and management of funds on the real funded accounts.**

### **Context and Finding**

According to the Law “On Labour Pensions” of the Republic of Azerbaijan old age pension capital is the amount registered in the insurance part of a personal account as well as the amount accumulated in the funded part of a personal account. Funded part of individual account is a sub-account accumulating the mandatory state social insurance contributions that are paid for the insured in accordance with the correlation established by the appropriate executive authority and that are taken into account for calculation of funded part of labour pensions, as well as the incomes generated from the turnover of these funds.

Labour pensions are administrated by the Social State Protection Fund of Azerbaijan Republic (SSPF). Similarly the SSPF work out proposals on the state policy in the area of social insurance, collect the mandatory state social insurance contributions and ensure personal accounting s Personal accounting system has been established in mandatory state social insurance area.

Currently the establishment of the legislation on funded part is carried out. According to the project of the Law on Funded Part of the Labour pensions the Executive Authority will be a public authority which is delegated to perform activities prescribed in the law and providing administrating function and asset management function for the funded part of the labour pensions.

According with the legislation of Republic of Azerbaijan the SSPF is going to be the executive authority thus providing establishment and implementation of funded pension scheme.

According to the project of the Law on Funded Part of the Labour pensions Executive Authority shall: (1) register contributions made to funded part and accrue funded pension capital; (2) inform the person regarding the registration to a funded part and other significant changes in the operation of the funded part; (3) conclude contracts with the Private Pension Funds regarding the management of the funded part and conditions thereof; (4) issue a regulation for the State Pension Fund regarding the management of the funded part and conditions and providing the same conditions as in the contracts with the Private Pension Funds; (5) ensure fulfilment of submissions of participants of funded part regarding selection and change of the Pension Funds and the pension plans; (6) ensure the publication of information regarding funded part and the results of the operations thereof.



The project of the Law on Funded Part of the Labour pensions provides also the creation of State Pension Fund which could be respective administrative body or department according to organisation structure of the Executive Authority. State pension Fund are going to provide asset management function for the funded part of the labour pensions and organisationally separated from other functions performed by the Executive Authority.

**Objectives of Technical description** of the mechanism for accumulations and management of funds on the real funded accounts is to give comprehensive survey on the main functions, processes, tasks and responsibilities of SSPF during the establishment as well as implementation of funded pension scheme. The Technical description is developed based on analyses carried out in the previous project sub-activities – analyses of management processes and analysis of the IT systems.

The project of Law on Funded Part of the Labour pension's states that the asset management functions should be provided by the respective administrative body or department according to organisation structure of the Executive Authority. Thus only the main issues of asset management function are observed in the technical description.

The technical description contains information on:

- 1) **Administrative functions of overall system:** (1) customer service organization (process of client consultation, registration of participants, registration of contributions and transfer to the fund manager, granting of old age pension); (2) registers maintenance (types of Registers and Investment accounting example); (3) administrative costs deducting (planning and management of administrative costs); (4) monitoring and statistical data collection; (5) additional functions of SSPF structures responsible for funded scheme implementation;
- 2) **Asset management function and administration of individual accounts of State Pension Fund;**
- 3) **Draft action plan for the implementation.**

Separate functions and the draft action plan are described more detailed and displayed in additional annexes.



## 2. Administrative functions

### Customer service organization

To provide successful implementation of the funded part and provide a client oriented approach the staff of SSPF involved should have a general knowledge and competence to provide following client service: (1) consultation of local offices regarding operation of scheme, preparing instructions for work; (2) decision making on participants registration in the funded scheme, as well as on participants involvement in pension funds and plans, (3) preparing the account statement for clients; (4) providing of all necessary materials for client services in regional offices regarding fund managers and results of its operation; (5) clients information regarding change of fund managers (if fund managers are more than one), (6) replay to complains and applications regarding SSPF operation in connection with administration of 2<sup>nd</sup> tier scheme.

### Client consultation, registration of participants

Activities	Local function	Centralized function	Comments	IT support
1.1. Client consultation on funded pension scheme				
1.1.1. In the office personally	x		Staff involved should be trained.	
1.1.2. By phone		x	Suggestion – providing in centralized way, evaluation possible number of calls and technical infrastructure. Staff involved should be trained	
1.1.3. electronically		x	Suggestion – providing in centralized way Staff involved should be trained	x
1.2. Receiving of Application	x		The standard form of application should be developed.	
1.2.1. electronically		x		x
1.3. Verification of application	x		Verification, if submitter complies with provisions. Verification, if application is completed correctly. Verification can be automatically created by system.	x
1.4. Application registration in the system.	x		If application is send electronically registration is not necessary.	x
1.5. Decision on participation		x	If it is possible to process data in the centralized	



			way.	
1.6. Information for client and employer regarding the decision.		x	Information should be available also for local offices.	
1.7. Opening of the subaccount in the SSPF		x	The model has to be defined where after the sub account will be created.  What kind of information will be provided in the subaccount (identification, beginning date of participation, employer who makes contribution)?	x
1.8. Information to fund manager on participants registered.		x	Periodicity and data amount (which will be should be passed to the pension Plan) should be defined.  Registers in the SSPF and in the fund manager should be identical. This procedure could be made 1) at the beginning of participation; 2) when first payment is made.	x

#### Registration of contributions and transfer to the fund manager

Activities	Local function	Centralized function	Comments	IT support
1.1. Contribution registration in the subaccount	x		Verification if contributions are paid.  It should verify if legislation provide time limit for correction made by employer.	x
1.2. Survey on joint sum of assets should be invested.		x	If there are several investment plans and pension funds, investment sum should be divided corresponding to each plan.	x
1.3. Preparing of the Payment order		x	Order on asset transfer can be created in two parts:  1. Transfer assets from joint revenue account to the accounts of funded pension scheme. 2. Transfer assets from account of funded pension scheme to the account of investment plan of pension funds.	
1.4. Statement to the finance department (?) and account department		x		
1.5. Payment to pension fund		x	If pension fund keeps accounts for every person, SSPF should give simultaneously information	x



			on every person`s contributions.	
1.6.Results processing of asset transfer management		x	Afterwards money is entered into the fund`s account pension fund send to the SSPF statement on number of investment plan`s units and value of units.	
1.7.Information registration in the Register of Investment plans		x	Based on Fund manager statement information on value of one unit in particular date in the register is fixed	x

### Granting of old age pension (funded part)

Activities	Local function	Centralized function	Comments	IT support
1.1. Receiving application on old age pension granting	x			x
1.2. Application registration		x		x
1.3.Verifying whether client is a participant in the funded scheme		x	Verification can be automatically created by system	x
1.4. Forecast for the funded scheme		x		
1.5.Notification to the client regarding forecast		x	Notification can be created by system.	
1.6.Temporary closing of subaccount		x		
1.7.Transfer of information on the sale of units <sup>1</sup>		x		
1.8.Traiding cycle. Selling of Fund units		x		
1.9.Receiving of information regarding the accumulated funded pension capital		x		
1.10.Recalculation of the 1 <sup>st</sup> pillar pension		x		
1.11.Decision on old age pension	x			
1.12.Sending of decision to client	x			

### **Register maintenance**

The new functions in administration of overall system will be linked with maintenance of register of participants. The Register of participants should be created on the base of already existing personal account register in SSPF developing register of Funded scheme participant`s personal Account subaccounts. The Register should contain information regarding each participant on: (1) date of entry in the funded scheme, (2) name of selected pension fund and plan, (3) date when payment of contributions was suspended and restored, (4) date when the participation was terminated, (6) calculation of administrative costs (scheme administration expenses of the SSPF attributed to a participant, type of expenses, their rate and date the above mentioned expenses are withheld), (7) information

<sup>1</sup> If the particular methodology of capital calculation will be defined



on contribution made (the sum from which contributions were calculated, contribution made in funded scheme and the date they are registered in the account of participants), (8) transfer of contributions to pension fund (the date when contributions were transferred to a Custodian of pension fund); (9) accumulated funded pension capital at the end of each quarter.

According to the project of the Law on Funded Part of the Labour pensions funded part pension capital shall be calculated at least on quarterly basis according to rules and procedures determined by The Supervisory Authority.

**Administrative costs** – the expenses of the Executive Authority for the administration of funded part shall be covered by the deductions the Executive Authority withholds from the contributions of the participants of funded part. The maximum level of deductions will be set in the Law on Funded Part of the Labour pensions. Exact level of deductions will be set by the Executive Authority on annual basis at least by October 1 each year<sup>2</sup>.

The expenses of the Executive Authority for the administration of funded will be covered from the state budget and could consist of two main sub-groups: (1) start-up costs (development of IT systems, development of sector (establishment of working places), training of employees, public information campaign); (2) maintenance/annual costs - could be relatively divided into administration expenses and expenses that depend on the number of the participants of the scheme or number of clients (development and printing of forms, payment of postage expenses (sending of notifications regarding the affiliation to the scheme or change of the fund).

### Monitoring and statistics

Implementation of funded pension scheme will request also **additional monitoring and collection of respective statistical data**. According to the law project On Funded part of the Labour Pensions SSPF will have to create annual report on funded pension scheme on following topics: (1) review on funded scheme operation (role of SSPF, administration issues), (2) pension funds and custodian banks, (3) participants of funded pension scheme (structure of age and gender, analyses of pension plans choice, amount of contribution made, dynamic of participants, changes of funded pension capital), (4) outputs of funded pension scheme, (5) financial summary of funded pension scheme (accounting principles, expenditures of administration, pension capital paid to participants, taxes, etc.)

Report have to be submitted to the supreme authority, as well as it has to be audited by the independent auditor in accordance with international auditing standards

To provide qualitative monitoring on funded pension scheme operation and pension system dynamic overall additional statistical data should be collect:

- registered number of participants in the end of the reviewed period (total/men/women);
- age structure of participants in the end of reviewed period (total/men/women);
- average age of participants (total/men/women);
- average number of active participants in the reviewed period (total/men/women);
- number of new participants (registered in the reviewed period) (total/men/women);

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<sup>2</sup> Project of Law On Funded part of the Labour Pensions



- number of participants who are stopped participations (total/men/women);
- number of participants who are returned to scheme (total/men/women);
- average duration period in the scheme in the end of the reviewed period (total/men/women);
- changes in number of participants, %;
- contributions made in the reviewed period (total/men/women);
- average contributions per 1 participant made in the reviewed period (total/men/women);
- profitability % in the reviewed period;
- total contributions in the end of the reviewed period (total/men/women);
- average contributions per 1 participant in the end of the reviewed period (total/men/women);
- average accumulated capital per 1 participant in the end of the reviewed period (total/men/women);
- increase of accumulated capital compared to contributions, %;
- administrative costs % in the reviewed period;
- structure of investments portfolio;
- results of investments;
- number of death participants in the reviewed period (total/men/women);
- number of retired participants in the reviewed period (total/men/women);
- average age of retired participants in the reviewed period (total/men/women);
- total number of retired participants in the end of the reviewed period (total/men/women);
- pension capital transferred for adding to labour pension or lump sum in the reviewed period;
- inheritance payments in the reviewed period;
- number of funded schemes pensioners in the end of the reviewed period and retired in the reviewed period (total/men/women)
  - fund capital added to labour pension
  - fund capital pied out in lump sum;
- average age of new funded scheme pensioners retired in the reviewed period (total/men/women);
- average amount of funded schemes pensions in the end of the reviewed period and retired in the reviewed period (total/men/women);
- registered number of participants distributed by: single age, gender;
- number of active participants and number of new participants (registered in the reviewed period) distributed by: single age, gender;
- contributions (made in the reviewed period) distributed by: single age, gender;
- scheme assets in the end of the reviewed period by: single age, gender;



- average duration period in the end of the reviewed period distributed by: single age, gender;
- number of funded schemes pensioners in the end of the reviewed period and number of new funded schemes pensioners retired in the reviewed period distributed by: single age, gender;
- average amount of funded schemes pension in the end of the reviewed period and average amount of funded schemes pension for new pensioners retired in the reviewed period distributed by: single age, gender.

### **Additional functions of SSPF structures responsible for funded scheme implementation.**

To provide successful implementation of the funded part **several actions should be managed already before the funded pension scheme implementation** (*Legal department, Personal Accounting Department*): (1) preparing analysis and interpretation of new legislation (Manual on the legal base of the funded component), as well as preparing analysis of relation of legislation to other incumbent legislation (labour law, financial law, administrative law); (2) preparing explanatory leaflets to participants and notification to employers with general information on the rules governing the operations of the funded component; (3) explanatory work and support to other departments of the SSPF and regional offices; (5) training sessions for SSPF staff and especially for regional offices employees at all levels identifying appropriate target groups.

**Additional functions and inputs will have to be provided in the IT system** (*IT department, Risks management unit*): (1) IT solution for recording of payments into the funded scheme`s personal account, (2) IT software to run accounts in line with standards, appropriate It software, (3) IT hardware against appropriate benchmarks, (4) development of IT architecture (information systems maintenance and development plan - eliminate resource silos, Identify data requirements, Identify and integrate existing resources, Define technical standards, Identify security requirements, Justify changes); (5) detailed IT process description - document incident and problem-solving management; (6) creation of Help desk; (7) Development of service level agreement, configuration and release management plans; (8) IS Security Management (IS security policy, IS user security instructions, Information classification regulations, Resource classification rules, Physical Security Regulations, User Rights Assignment procedure, Implement IS security policy, User training, IS service continuity plans).

**Accounting and financial planning** (*Finance Department, Department of Accounting of Budget Execution, legal department*) includes following issues: (1) Assessment of financial planning instruments regarding strategic financial planning and liquidity management, (2) adjustment of capacity and structure of the accounting department to the required standards of a fully funded component, (3) creation of reports and information for Account department regarding incomes and transfers registration, (4) profit or losses registration in accounting system of IP units operations, (5) registration of changes of value or cancelling of IP units in accounting system, (6) entries on registered contributions which will be invested, as well as on withholds for scheme administration, (7) comparing of financial data in funded scheme, (8) cooperation with auditors, (9) preparing of annual reports.





**Risk management function** includes understanding of the risks related to dealing with risks in the entire organization. The risk management unit could be created at the board of SSPF directors. The purpose is to identify and monitor potential risks, mitigate and hedge those risks: (1) Operational risks (*IT department and risk management unit*) includes all risks regarding the IT processes, e. g. system failure, software problems, cybercrime, etc. Operational risks identifying relates to fluctuations in the workload, e.g. meeting deadlines regarding response time, transfer of funds, pay-out of funds, assessment of minimum number of staff to deal with unexpected peaks in new participation, establishment of contingency plan for staff flexibility policy in case of peak loads (*Personal Accounting Department, Risk management unit*); (2) Investment risks includes establishment of model to monitor investment risk (*Risks management unit, Finance Department, Department of Accounting of Budget Execution*); (3) legal risks relates to the measurement of risk exposure (legal department, Risks management unit).

**State Pension Fund** which could be respective administrative body or department according to organisation structure of the Executive Authority is going to deal with two main functions: (1) asset management function, (2) administration of individual accounts by the State pension Fund.

#### Asset management function

The asset management function of funded part assets shall be provided by the Executive Authority in accordance with provisions when acting as the State Pension Fund. The State Pension Fund may perform asset management activities itself or entrust it to the third party competent in asset management and having capacity to provide asset management of the funded part<sup>3</sup>. If the State pension Fund are going to provide asset management function itself, this function have to be organized separate from other functions performed by the Executive Authority.

In order to provide asset management function itself, the organizational structure of the SSPF shall ensure establishment of the separate independent department/structure dealing with asset management issues: (1) developing the pension plan providing conservative investment strategy, (2) performing the management of the contributions made in funded part, further interest and other assets, (3) entering into a custodian agreement and submission to the Supervisory Authority, (4) ensuring implementation of the investment strategy, settle accounts for pension plan contributions according to pension plan, perform transactions with financial instruments and other transactions with pension plan assets, (5) provide quarterly reports on the pension plan according to the requirements of law.

Likewise the Executive Authority shall comply with the following criteria: (1) employees of respective department shall be fit and proper to provide asset management of funded part; (2) organisational structure shall provide independence of the asset management function and administration function provided by the Executive Authority to ensure elimination of conflict of interest and introduction of the appropriate risk mitigation mechanisms; (3) the Executive Authority shall have in place all the necessary resources (human, financial, technological) to ensure proper functioning of the asset management; (4) the Executive Authority shall establish appropriate internal control system to ensure

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<sup>3</sup> Project of Law On Funded part of the Labour Pensions



elimination of conflict of interest between administration function and asset management function and introduction of the appropriate risk mitigation mechanisms<sup>4</sup>.

Administration of individual accounts by the State pension Fund includes following issues: (1) calculation and record-keeping of the pension capital accumulated to each the pension plan participant; (2) registration of all contributions, investment income and fees in individual accounts; (3) annually verification on maintenance of individual accounts and conformity with the requirements of the legislation and provisions of the pension plan and participating contract; (4) providing of information to the Executive Authority regarding to the individual accounts necessary for the maintenance of the personal accounts; (5) written policies in relation to risk management, internal audit and, where relevant, outsourcing or other activities concerned, and the Pension Fund ensures that those policies are implemented; (6) preparing and submission of information regarding the investment policy of the relevant the pension plan to the Supervisory Authority; (7) internal control system which includes administrative and accounting procedures, an internal control framework, and appropriate reporting arrangements at all levels of the Pension Fund, etc.

### **3. Draft Action Plan for the implementation of the funded component of labour pension**

When the legislation on the funded component will have been enacted eventually, the SSPF will be in charge as the principal authority to implement and administer the funded component. In order to support SSPF in the preparation for the implementation a preliminary Action Plan has been compiled. The Action Plan should be comprehensive and detailed. It comprises objectives and tasks, it assigns responsibilities to particular units, it lists assumptions and risks. A timeline is foreseen as well and it should be detailed in the Action Plan, when the legislative process is scheduled more clearly. In the course of working off the Action Plan, new tasks etc. will emerge. Therefore it should be well understood that Action Plan are subject to a continuous process of up-dating. The current draft of Action Plan (Annex 3) covers in particular the following fields of activity: (1) legal base, (2) preparation of administrative procedures, (3) adjustment of financial management procedures, (4) preparation of investment decisions, (5) adjustment of accounting procedures, (6) preparation of risk management procedures, (7) preparation for monitoring (8) preparation for reporting, (9) Preparation of counselling services and public awareness campaign.

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<sup>4</sup> Project of Law On Funded part of the Labour Pensions



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  
Twinning Project AZ/13/ENP/SO/24



<b>Objectives and Tasks</b>  (1)	<b>Steps and Activities Planned Outputs</b>  (4)	<b>Assignment of Principal Responsibility</b>  (3)	<b>Assumptions (A) Risks and Potential Obstacles (R)</b>  (4)	<b>Timeline and Deadlines</b>  (5)	<b>Additional Measures Follow up</b>  (6)	<b>Remarks</b>  (7)
<b>LEGISLATION</b>						
<b>Legal foundation of activities based on planned legislation</b>	Prepare analysis and interpretation of new legislation Prepare analysis of relation of legislation to other incumbent legislation: labour law, financial law, administrative law. <u>Planned outputs:</u> Manual on the legal base of the funded component Communication of the legal analysis to other SSPF departments and to SSPF staff in general	Legal department	Legislation and enactment can come on short notice	Start on the availability of draft laws, continue at the same time as legislation is emerging and voted. Finalize in due time after enactment.	Consider relation to task of information to (1) General public (2) Employers (3) Potential clients	Compile a list of unconventional cases and constellations
<b>ADMINISTRATION</b>						



Objectives and Tasks  (1)	Steps and Activities Planned Outputs  (4)	Assignment of Principal Responsibility  (3)	Assumptions (A) Risks and Potential Obstacles (R)  (4)	Timeline and Deadlines  (5)	Additional Measures Follow up  (6)	Remarks  (7)
<b>Prepare for registration of participants</b>	Adjust forms for written application Draft letter of confirmation and acknowledgement	Individual Account department		Start on the availability of draft laws and finalize on enactment of the law.		Examples of the current Latvian practice will be provided during a planned workshop on administration
	Prepare explanatory leaflets to participants	Individual Account department in close cooperation with Legal department				
	Prepare IT system: hardware capacity, and software for processing registration	Individual Account department in close cooperation with IT department	Capacity constraint in the IT department Consider necessary time lead for programming and purchasing			
<b>Prepare for notification to employers</b>	Draft letter of confirmation and acknowledgement Prepare explanatory leaflets with general information on the rules governing the operations of the funded component	SSPF / Individual Account department in close cooperation with Legal department				



Objectives and Tasks  (1)	Steps and Activities Planned Outputs  (4)	Assignment of Principal Responsibility  (3)	Assumptions (A) Risks and Potential Obstacles (R)  (4)	Timeline and Deadlines  (5)	Additional Measures Follow up  (6)	Remarks  (7)
<p><b>Prepare for the recording of payments into the second pillar personal account</b></p>	<p>Adjust Personal Accounts to allow data entries for voluntary component</p> <ul style="list-style-type: none"> <li>- contributions made</li> <li>- returns accrued</li> <li>- administrative fees deducted from capital</li> <li>- additional items</li> </ul>	<p>Individual account department IT department</p>	<p>(R): No budgetary support to cover the set-up cost is granted.</p>	<p>The size and allocation of administrative cost should be clear from the beginning to avoid disappointment on part of the plan participants</p>	<p>Regarding the <u>deduction of administrative fees</u> during the initial phase of the scheme, the proposed law requests reimbursement of set-up cost from the general budget. In that case no fees ought to be deducted during the introductory phase.</p> <p>In case the law does not satisfy that request, a method for the allocation of set-up cost has to be defined.</p> <p>It is recommended to then to distribute expected set-up cost jointly over the entire introductory phase.</p>	
	<p>Establish a procedure to separate payments to mandatory part from payments to voluntary funded component</p>	<p>Financial department Individual account department</p>	<p>(R): If no comprehensive IT solution can be established, this problem will impose a huge</p>			



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			workload on the staff concerned.			
	Adjust structure of and enlarge staff in line with growing participation in the fully funded component of labour pensions Identify training needs	Individual account department Staff department	(A): Sufficiently qualified personnel can be recruited Budgetary provisions for additional staff are available (R): Sufficient lead time for specific training is not available			
<b>Prepare for default investment while payments wait for instructions (Design of Default Fund)</b>						Implementation of the appropriate investment strategy is elaborated below.
<b>Default fund during introductory period</b>	Define default fund to match the retirement income objectives of the funded component	Individual account department in cooperation with Legal department				<i>Explanation:</i> In the introductory phase of the funded component, contributory payments are collected by SSPF, however, the funds are not invested in the financial market in a broad sense. Instead those funds are invested in a safe financial instrument e.g. bank deposits or instruments issued by the government. The rationale for



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						such a concept is to keep financial risk and turmoil out of the pension scheme as long as portfolios are small.
<b>Default fund after introductory period</b>	Define default fund to match the retirement income objectives of the funded component	Financial department		To be put on hold until the end of the introductory phase comes closer		<p>The default fund to be established after the introductory phase should take into account the long-term horizon of pension saving, and therefore provide for more developed portfolios. It should include two options: One is for those who want to invest only with minimum or no risk. Such a default fund would invest in real (i.e. with implicit or explicit inflation protection) government bonds.</p> <p>The second option for a default fund should be designed according to life-cycle smoothing principles. This means assets are moved from riskier – and more profitable – investments at earlier ages to index bond allocations at later ages, closer to retirement. Within the spectrum of life-cycle fund designs the portfolio of a default fund should probably be towards the cautious end.</p>



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<b>ACCOUNTING</b>						
<b>Adjust capacity, structure and performance of the accounting department to the required standards of a fully funded component</b>	Review current structures and processes regarding accounting standards, IT software to run accounts in line with standards, appropriate IT software, appropriate IT hardware against appropriate benchmarks	Accounting department in cooperation with financial department, legal department and			Address particular concern on methods to value financial instruments. Consider the attachment of actuarial principles to the valuation of financial instruments in order to avoid extreme volatility	Benchmark for accounting standards could be - IPSAS: International Public Sector Accounting Standards - IFRS: International Financial Reporting Standards (for private sector financial instruments)
	Identify necessary and appropriate adjustments to take domestic features into account.					
<b>FINANCIAL MANAGEMENT</b>						
<b>Adjust capacity, structure and performance of the financial department to the required standards of a fully funded component</b>	Assess financial planning instruments regarding strategic financial planning and liquidity management	Financial department In cooperation with accounting department and legal department				Default options have to be defined for the time between payment and the end of the quarter and for case were no consumer instructions exists





Objectives and Tasks  (1)	Steps and Activities Planned Outputs  (4)	Assignment of Principal Responsibility  (3)	Assumptions (A) Risks and Potential Obstacles (R)  (4)	Timeline and Deadlines  (5)	Additional Measures Follow up  (6)	Remarks  (7)
<b>Prepare for dealing with asset manager</b>	Prepare framework agreement on investment of funds  Consider international examples of framework agreements with asset managers	Legal department  Financial department			Get professional legal advice on this	Examples of the Netherlands, the United Kingdom, Latvia, etc. could be considered.
	Recruit staff to deal with asset manager on a day to day basis to implement the investment strategy.	Financial department				
<b>Prepare for investment decisions</b>	Establish an Investment Committee to decide on the guidelines and strategy for investment of the fund (in the default fund)	SSPF Management / Financial Department				
<b>Prepare for investment planning</b>	Recruit new staff to prepare the investment strategy and the investment plan  Train current staff in investment planning (training from outside)	Financial department	(A): New staff for investment planning could be hired from the market. New staff should include senior professionals with experience			The investment plan should instruct the asset manager regarding permitted asset classes, quantitative investment limits, limits to risk exposure benchmarks, ...



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			from the private sector			
<b>Prepare for pay-out of the accrued capital at retirement</b>	Establish liquidity management to gear processes of dis-investment				Align liquidity management with tactical investment plans	
<b>RISK MANAGEMENT</b>						A note to outline Risk Management Issues is under preparation
<b>General Issues</b>	Develop a proper understanding of the risks related to dealing with risks in the entire organization <i>See column Remarks</i> Establish a risk management unit at the level of the board of directors	Management Legal department		The responsibilities should be allocated to separate departments and personnel to reduce potential conflict of interest		Risk management is a cross sectional tasks. It has to deal with regulatory requirements, market requirements and internal stipulations. The purpose is to identify and monitor potential risks, mitigate and hedge those risks. Risk management must be seen as a forward looking process
<b>Operational risks</b>	Identify operational risks related to IT processes, e. g. system failure, software problems, cyber crime, etc., Establish protection	RMU IT Department				



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  
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	where possible, Draw up contingency plans.					
	Identify operational risks related to fluctuations in the workload, e.g. meeting deadlines regarding response time, transfer of funds, pay-out of funds, etc. Assess minimum number of staff to deal with unexpected peaks in new participation Establish contingency plan for staff flexibility policy in case of peak loads. Define training needs accordingly.	RMU Individual Account Department Staff Department				
<b>Financial risk</b>						
<b>Investment risks</b>	Establish model to monitor investment risk:	RMU Financial department				



Objectives and Tasks  (1)	Steps and Activities Planned Outputs  (4)	Assignment of Principal Responsibility  (3)	Assumptions (A) Risks and Potential Obstacles (R)  (4)	Timeline and Deadlines  (5)	Additional Measures Follow up  (6)	Remarks  (7)
<b>Legal risks</b>		RMU Legal department				The model for risk monitoring should include: Economic and financial environment Measurement of risk exposure
<b>Auditing and control</b>	Establish an internal auditing scheme				Consider the use of external auditing where appropriate	
<b>Prepare for dealing with supervisory authority on matters of funded pensions</b>	Form a working party together with the Supervisory Authority Establish benchmarks and procedures for supervision	Legal department / Financial department / Individual Account department / IT Department				
	Prepare for drafting regular reports on the fully funded component: define a potential table of contents		Allocate task for drawing up regular reports	Train staff on reporting		
<b>MONITORING OF THE FUNDED COMPONENT</b>						
	Establish a monitoring programme to assess the financial performance of	Forecasting department				



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  
Twinning Project AZ/13/ENP/SO/24



<b>Objectives and Tasks</b>  (1)	<b>Steps and Activities Planned Outputs</b>  (4)	<b>Assignment of Principal Responsibility</b>  (3)	<b>Assumptions (A) Risks and Potential Obstacles (R)</b>  (4)	<b>Timeline and Deadlines</b>  (5)	<b>Additional Measures Follow up</b>  (6)	<b>Remarks</b>  (7)
	the funded component and the impact on the retirement income of various groups of the population					
<b>REPORTING</b>						
<b>Preparation of mandatory annual reports</b>	Assign task to staff members	Legal department in close cooperation with forecasting department, individual account department and financial department				
<b>PUBLIC AWARENESS AND COUNSELLING SERVICES</b>						
<b>Prepare for public awareness campaign and ongoing publication of</b>	Draft written material (booklets, leaflets, etc.) to explain the funded component	Legal department Public relation department				



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<b>information regarding the funded component</b>	Expand SSPF's Website to inform on the funded component. n					
<b>Counselling services</b>	Prepare general information on the rules governing the operations of the funded component and major changes Train staff on the specific features of <b>voluntary</b> participation, e.g. implications of participation and non-participation Implication of continuous and interrupted contributing	Legal department Public relations department				



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