

## **Fees and Operating Costs – Practices of European Pension Funds**

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One of the key elements in every economy is the pension system. It is well known that the Croatian pension system is somewhat “stretched” with the ratio between the number of employed people and that of retired ones being unfavourable in long term. However, this paper is not focused on the demographic indicators but on the way that pension funds operate, which were established in 2002 within the pension reform that was supposed to solve this problem. To be exact, this paper is focused on the significant operating segment of the current pension funds – the fees that are charged to its contributors, as well as the operating costs they encounter in their operations. The forms of fees, that the pension funds charge, are very diverse. There are fixed commission, fees on contributions, fees on assets, fees on return, switching fee, and exit fee among others. The question is whether the stronger competition among the funds influence the level and number of these fees. Furthermore, this paper explores the validity of these fees considering the level of operating costs obtained by the pension funds. The pension fund management companies have expenses for running the fund such as transaction expenses, agent sales and marketing expenses as well as expenses made by company itself such as material expenses, personnel expenses, amortisation, and reservations. By putting the charged fees and the operating costs of the pension funds, expressed as a percentage of the overall assets under management, in a ratio, one can get an interesting indicator for analysis. Since the goal of this paper is to analyse the mentioned segment of pension funds operations in the international context, it was very important to select the pension funds of those countries that are similar to Croatia from the geographical, economic, and socioeconomic point of view. Therefore, the main data source for this paper are the databases on pension funds made by the Organisation for Economic Co-operation and Development (OECD), as well as the databases and annual reports of the Croatian Financial Services Supervisory Agency (HANFA). Beside these, other useful sources were the European Insurance and Occupational Pensions Authority (EIOPA), Eurostat and Croatian National Bank (HNB). Therefore, one of the methods applied will be a thorough statistical analysis, while the detailed analysis of current situation in different European countries will be carried out by using comparative and descriptive methods. When the results of the analysis covering the period between 2010 and 2014 are observed, it is obvious that the Croatian pension funds management companies are spending relatively small amounts (0,56% of the assets value) for fund management compared to other countries. When put into the context of relatively high returns that Croatian funds achieved, it could be concluded that they operate successfully and bring value to its contributors with charging relatively small fees.

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