BANKA QENDRORE E REPUBLIKËS SË KOSOVËS
CENTRALNA BANKA REPUBLIKE KOSOVO
CENTRAL BANK OF THE REPUBLIC OF KOSOVO

Pursuant to Article 35, paragraph 1, sub-paragraph 1.1, of Law No. 03/L-209 on Central Bank of the Republic of Kosovo (Official Gazette of the Republic of Kosovo No. 10/16 August 2010), and Article 14, paragraph 11, and Article 22, paragraph 7, sub-paragraph b, of Law No. 04/L-101 on Pension Funds of Kosovo (Official Gazette of the Republic of Kosovo no. 10/8 May 2012), the Board of Central Bank, at its meeting held on 29 November 2018, adopts the following:

REGULATION ON FUNDING AND ACTUARIAL VALUATION OF DEFINED BENEFIT PENSIONS

Article 1
Purpose and scope

1. The purpose of this Regulation is to determine the funding requirements of the Defined Benefit Pension, and the minimum standards to be applied by the Actuary for the preparation and completion of actuarial valuation reports.
2. This Regulation shall apply to the Supplementary Employer Pension Funds (Pension Funds) and Pension Providers, who provide Defined Benefit Pensions of Supplementary Individual Pensions. This Regulation shall also apply to actuaries who calculate and certify actuarial valuations in relation to the Defined Benefit Pension Scheme.

Article 2
Definitions

1. All terms used in this Regulation shall have the same meaning as the terms defined in Article 1 of Law No. 04/L-101 on Pension Funds of Kosovo and in Law No. 04/L-168 on amending and supplementing Law No. 04/L-101 on Pension Funds of Kosovo (hereinafter: Law on Pension Funds) and/or the definitions provided below for the purpose of this Regulation:
    1.1. *Actuary* - means a person licensed by a state or professional organization of a State that is a member of the Organization for Economic Co-operation and Development and who based on his/her education, training and experience is acknowledged to possess the skills

to perform mathematical calculations regarding the valuation and funding of Defined Benefit Pension program, who works independently or for a firm and who is accepted by the CBK as a qualified actuary for pensions.

1.2. *Actuarial report* - means the report signed by the actuary, reflecting the assets and liabilities of the Defined Benefit Pension as well as the financing requirements, methods, assumptions and data used for reaching the actuarial conclusions.

1.3. *Actuarial liability* – means, from the given date of Defined Benefit Pension valuation, the greatest of the following elements:

1.3.1 Solvency liability or

1.3.2 The present value of the pension benefit distributed over the period immediately prior to the valuation date in accordance with the actuarial methods used to determine the normal contribution.

1.4. Audited annual financial statements - means the financial statements prepared in accordance with International Financial Reporting Standards and audited by an external auditor licensed in accordance with the applicable legislation.

1.5. *Deficit* – means the amount by which the actuarial liability exceeds the pension assets at the valuation date.

1.6. *Fund* – means the amount of assets allocated to support the Defined Benefit Pension program.

1.7. *Financing indicator* – means the ratio of assets to actuarial liabilities.

1.8. *Fully funded* - means the financial condition of the Defined Benefit Pension whereby the pension assets are equal to or greater than the actuarial liability.

1.9. *Financing plan* **-** means the methodology of financing the acquired rights. The allowed financing methodology for Defined Benefit Pension is a "single premium" applicable to the period or periods of the accumulated years of service acquired.

1.10. *Normal contribution* **–** means the amount of contribution that is necessary to finance the present value of the pension benefits that have been distributed over a given year, in accordance with the actuarial valuation method used.

1.11. *Pre-plan deficit* - means that portion of deficit created in the Defined Benefit Pension program pertaining to credited years of accrued service that is attributable to years of service prior to the effective date of the Pension Fund bylaws and included as accrued service in the first actuarial valuation report prepared in accordance with this Regulation.

1.1. *Prior service deficit* - means a deficit created in the Pension Fund pertaining to the credited years of service attributable to periods of service on or after the effective date of the Pension Fund bylaws. In other words, this term means the deficit that does not include the outstanding (unliquidated portion) of the Deficit Pre-Plan.

1.2. *Sponsor* - means the employer in a Supplementary Employer Pension Fund or the Pension Provider in a Supplementary Individual Pension Fund, which provides Defined Benefit Pensions.

1.3. *Solvency Liability* – means as of a particular valuation date of a Defined Benefit Pension, whichever is higher:

1.14.1 the participants' accumulated contribution plus interest; or

1.14.2 the present value of pension benefits calculated as if the Fund is terminated on the actuarial valuation date, with the assumption that each participant is fully vested in the Fund.

1.4. *Surplus* – means the excess of pension assets over actuarial liability.

Article 3
Funding of a Defined Benefit Pension

1. The Sponsor is responsible for maintaining the Defined Benefit Pension in a fully funded condition, or if that condition is not met, to gradually bring the Defined Benefit Pension to a fully funded condition. The Sponsor shall ensure that contributions referred to under paragraph 2 of this Article are deposited in the Fund in amounts and within the time defined in normative acts of the Pension Fund or pension rules and in accordance with the Actuary's Statement described in Article 5 of this Regulation.
2. The Sponsor shall make payments to the Fund for:

2.1 The normal contributions for and on behalf of participants as defined in the normative acts of the Pension Fund or pension rules in accordance with the requirements of the applicable actuarial valuation.

2.2 The additional contribution needed to finance and cover a deficit in the Fund related to a pre-plan deficit or a prior service deficit.

3. The Pension Fund and the Pension Provider who implements a Defined Benefit Pension shall report to the CBK the funding quality of their pensions, together with their annual reports and actuarial valuation reports. The same shall be sent to the CBK whenever requested. The funding quality consists of any of the following classes:

3.1 Class A, the pension assets are equal or greater than the actuarial liability (fully funded).

3.2 Class B, the pension assets are less than actuarial liability but are equal or greater than the solvency liability.

3.3 Class C, the pension assets are less than the solvency liability.

4. In determining the funding quality, the Pension Fund and the Pension Provider shall compare the pension assets against the provisions established as actuarial liability and solvency

liability. The value of the pension assets to be used in this comparison shall be the total value of the pension assets as indicated in the latest audited annual financial statements and/or the investment portfolio report which has the same valuation date as the liabilities.

5. The pre-plan deficit created in the first actuarial valuation report of the Defined Benefit Pension program shall be funded in equal monthly additional contributions, within a period of not more than 60 months from the effective date of normative acts of the Pension Fund or pension rules.
6. The prior service deficit in a Defined Benefit Pension program shall be funded in equal monthly additional contributions, within a period of 12 months from the time it is presented in the actuarial valuation report.
7. The amount of monthly additional contributions to finance a deficit is to be determined in such a way that the present value of the series of monthly additional contributions required during the funding period is equal to the deficit in question.
8. In the actuarial valuation report, the amount of monthly additional contributions to finance the deficit may be recalculated and adjusted accordingly so as to comply with the requirements of paragraph 7 of this Article.
9. If a subsequent actuarial valuation indicates a surplus, the remaining additional monthly contributions may be terminated. If the surplus is more than 20% of actuarial liabilities the surplus may be used as normal contribution of the employer and the participant in proportion to their sharing rate for normal contributions.

Article 4
Actuarial Valuation Standards

1. Every Defined Benefit Pension provider must prepare the actuarial valuation report in a manner presented in this regulation and submit it to CBK.
2. Actuarial valuation must be carried out as of the effective date if Pension Fund normative acts or pension rules, based on the following timelines and criteria:
   2.1 Annually, as of the end of the financial year of the Pension Fund with more than 1000 participants.
   2.2 Every five years, as of the end of every fifth year of Pension Fund with 1000 or less participants.
   2.3 Annually, as of the end of the financial year of Pension Providers who provide the Defined Benefit Pension program.

Article 5
Content of the Actuarial Valuation Report

1. The Actuarial Valuation Report shall contain the following data:

   1.1 Actuary’s statement;

   1.2 Assumptions and information based on which the Actuarial Valuation Report is prepared;

2. The Actuary’s statement shall contain the following:

   2.1 A statement that the data supplied and used by the Actuary is to his knowledge complete and accounted for the purpose of preparing and completing the report and that the data were subjected to tests for their reasonableness and consistency in relation to the Defined Benefit Pension.

   2.2 A statement that the report:

      2.2.1 Complies with the requirements of the Law on Pension Funds and this Regulation;

      2.2.2 Has been prepared on the basis of the stipulations in the applicable Pension Fund normative acts and pension rules;

      2.2.3 The assumptions used are in accordance with acceptable pension valuation principles and standards that apply to the Defined Benefit Pension;

      2.2.4 The methods applied in the calculation are consistent with the generally accepted actuarial principles adapted by the International Association of Actuaries, and recognized by the International Accounting Standards.

   2.3 Confirmation and conclusions as to the amount of pension assets, actuarial liabilities, solvency liability, surplus or deficit, and the funding quality, as of the same valuation date.

   2.4 Calculation and conclusions on the:

      2.4.1 Adequacy of the amount of the normal contribution which must be paid over subsequent financial years, separated into contributions that are paid by the Participant and contributions that are paid by the Sponsor.

      2.4.2 Adequacy of the formula in the calculation of the amount of the normal contribution that will be paid for the periods or years until the next actuarial valuation.

   2.5 Calculation and confirmation of the adequacy of the amount of monthly additional contributions that is needed to finance the deficit, if any.

3. The Actuarial Valuation Report shall contain the signatures of the actuary and the authorized officers of the Sponsor or the authorized officers of the Pension Fund or of the Pension Provider and must be accompanied with the following documents:

3.1 A statement by an authorized officer of the Pension Fund or Pension Provider certifying that the data and the pension normative acts or pension rules supplied to the actuary are complete and accurate.

3.2 A decision by the highest governing body of the Sponsor confirming that the Sponsor understands the funding quality of the Defined Benefit Pension. In the case of a Pension Fund, a statement reaffirming the employer's ability to pay contributions in accordance with the amount and timing determined in the actuary's statement.

Article 6
Fiduciary Responsibilities of the Actuary

1. The calculations, confirmations and conclusions in the Actuarial Valuation Report are the fiduciary responsibility of the Pension Fund and Pension Providers, who provide Defined Benefit Pensions of Supplementary Individual Pensions.
2. If the Pension Fund, Pension Providers or CBK verifies that the Actuarial Valuation Report or the actuary's statement is not in accordance with the requirements of the Law on Pension Funds, this regulation and/or Pension Fund normative acts or pension rules, or if the actuarial valuation was not carried out in accordance with the generally accepted actuarial principles, the Pension Fund or Pension Providers shall not appoint the same actuary to conduct the actuarial valuation report or to prepare the actuarial statement for the next 5 years.
3. In cases as referred to in paragraph 2 of this Article, the Pension Fund and/or the Pension Providers may sue the actuary to recover the damages caused by the actuary due to the erroneous actuarial valuation. The exercise of the lawsuit under this paragraph shall not affect or impede the imposition of other administrative measures foreseen by the Law on Pension Funds, its implementing regulations or other applicable legislation.

Article 7
Enforcement and Remedial Measures

Violation of the provisions of this Regulation shall be subject to the measures provided for under the applicable legislation.

Article 8
Abrogation

Upon the entry into force of this Regulation, Rule 15 Funding and Actuarial Valuation of Defined Benefit Pension Arrangements, dated 23 October 2002, shall be abrogated.

Article 9
Entry into force

This Regulation shall enter into force 15 days after its approval by the Board of the Central Bank

Flamur Mrasori

Chairman of the Board of the Central Bank