International Federation of Pension Fund Administrators

Progress of the Pension Systems December 2018 - January 2019 No.1

This document reports on progress in pension matters, being factually accurate while maintaining maximum simplicity and brevity. It compiles the major changes that occurred in the pension systems in the December 2018- January 2019 period, with emphasis on the development of the individually-funded systems.

Document prepared by FIAP, based on press information. We thank FIAP member associations for the information and comments submitted.

Executive Summary by area of interest

New pension programs and approved reforms

- ✓ ***Germany***: *On January 1, 2019, a social insurance reform law was introduced that establishes new minimum and maximum contribution rates (which cannot be more than 20% or less than 18.6% of salary until 2025), broadens eligibility for reduced contributions, adjusts the target replacement rate for old-age pensions (by 48% of the average salary up to 2025), makes the disability pensions benefits formula more flexible, and extends pension credits for some childcare providers.*
- ✓ ***Chile:***
  - *A law has been passed that makes it mandatory for self-employed workers who issue fee slips (for an annual gross amount equal to or greater than 5 minimum monthly wages) to contribute to Social Security as of April 2019.*
  - *The law that improves the Pension Amount Consultation and Offers System (SCOMP) and the provision of information to members, was published.*
  - *A new electronic transfer system based on biometric identification will come into effect as of August 1, 2019.*
- ✓ ***Spain***: *Accessing retirement has become more difficult since January 1, 2019, due to the two-month increase in the retirement age (from 65 years and 6 months to 65 years and 8 months) and the increase in the number of years of contributions required for calculating pensions (from 21 to 22 years).*
- ✓ ***Peru:***
  - *Congress extended the Special Early Retirement Regime (REJA) for members of the Private Pension System (SPP) until 2021.*
  - *The Regulator approved the launching of the commercial allies, agencies other than the AFPs which will give members the option of increasing their voluntary contributions through consumption discounts.*
- ✓ ***Poland***: *The law that creates new occupational pension plans, which will start operating as of July 1, 2019, has been passed.*

Investment of the pension funds

- ✓ ***Chile***: *Experts see a growing interest of the AFPs in sustainable investment strategies because of the positive impact they would have.*
- ✓ ***El Salvador***: *Risk Committee approved investment by the AFPs of up to 10% of the fund abroad (the current regulatory limit is up to 30%).*
- ✓ ***Mexico***: *The Afores and other financial institutions will disclose environmental, social and corporate governance investment information.*
- ✓ ***Sweden***: *New law increases investment flexibility for the pension reserve funds of the public system. Among the measures is an increase in the investment limit for illiquid investments, from 5% to 40% of the assets of the portfolio.*
- ✓ ***Uruguay***: *The Latin American Development Bank created the Financial Trust Debt Fund for Infrastructure, with a maximum amount of some USD 500 million, authorized by the Central Bank, in the next five years. The fund will be used for financing State roadway and school infrastructure works, and the AFAPs will provide most of those resources.*

Reforms proposed or to be discussed

- ✓ ***Brazil:*** *The government has announced that it intends to create an individually funded pillar within a 20 year horizon and gradually increase the minimum retirement age (from 60 to 62 for men and from 55 to 57 for women).*
- ✓ ***Chile:***
  - *The government is pushing for the reform of the pension system to become law this year and has opened up to the possibility of negotiating certain issues, such as the management of the 4% additional contribution for individual accounts and raising the contribution rate of additional individual savings to 5 % or more.*
  - *The President signed a bill of law making it mandatory for civilian personnel joining the Armed Forces to enroll in the individually funded pension system.*
- ✓ ***Colombia***: *The government's pension reform bill of law will not affect people who are about to retire (men between 59 and 61 and women between 55 and 56), and will focus on expanding coverage and reducing inequality.*
- ✓ ***Costa Rica***: *According to the government's bill of law, the Complementary Pension Operators (OPCs) will be able to place up to 80% of workers' savings in government bonds (currently only up to 50%), and the obligation of classifying securities at market value will be eliminated.*
- ✓ ***Italy***: *The Council of Ministers approved a decree that must still be submitted to Parliament, which states that people can retire when the sum of their age and the number of years of contribution total 100, and creates a variable unemployment benefit with a maximum duration of 18 months If approved, these measures will come into effect as of April 1, 2019.*
- ✓ ***Mexico:***
  - *The new administration sent a reform proposal to Congress, which among other issues seeks to transform the mixed commission system (% on the balance and % on returns), replace the Investment Companies Specializing in Retirement Funds (Siefores) with life cycle investment funds, and encourage voluntary savings.*
  - *According to CONSAR, the new administration intends to carry out a reform that increases the mandatory contribution rate from 6.5% to 10.5% or 14%, increases the retirement age from 65 to 68, and reforms the defined benefit pension systems to convert them to individually funded accounts (in the case of some states, municipalities and universities).*

Crisis in public PAYGO systems

- ✓ ***Brazil***: *The recession advanced the social security deficit forecast for 2037 to 2021. According to the experts, this warrants a more thorough reform of the pension system to avert its collapse.*
- ✓ ***Ecuador***: *Government proposes additional contributions by workers due to the crisis in the Ecuadorian Institute of Social Security (IESS). An alternative is to increase the number of years of contributions to capitalize the retirement and health funds.*
- ✓ ***Spain***: *Pension expenditure in 2019 will increase to EUR 153,864 million, 6.2% more than in 2018, historically the highest figure. Due to this increase, Social Security will receive an additional State transfer of EUR 850 million. It was also was announced that the Social Security debt had doubled between 2016 and October 2018 (from EUR 17,173 million to EUR 37,800 million).*
- ✓ ***Nicaragua***: *The new social security reform that comes into effect in February will increase the contributions of companies, workers and the State, and adjust the formula for calculating old-age pensions, reducing them by between 30% and 45%.*

Relevant Publications

IMF publishes document on the future of savings and the role of pension system design in an aging world. The document "The Future of Saving: The Role of Pension System Design in an Aging World," explores how demographic changes have affected and will affect savings in the public and private sectors, highlighting the interaction between pension systems, labor markets and demographic variables. According to the report, and in accordance with current policies, public pension disbursements in advanced and emerging market economies will increase by an average of between 1 and 2.5 percentage points of GDP, respectively, by 2050. Without adjustments in taxes and other expenses, this increase will lead to a proportional decrease in public savings. In many advanced economies, younger people will have to save significantly more and postpone retirement for several years to enjoy pension benefits similar to those of today's retirees. While it has been foreseen that countries with aging and declining working-age populations will experience a more significant decline in national savings than those with younger populations, the design of the pension systems will affect the evolution of savings. Private savings will decline more precipitously in countries with generous public pension systems, since people will depend less on their own savings when they retire. All other things being equal, private savings are projected to increase in countries that include a defined contribution scheme as part of their pension systems. The findings of this report pose important policy considerations: (i) Promoting private retirement savings and mitigating fiscal vulnerabilities in the long term will require further reforms of public pensions in many emerging markets and advanced economies, but the reforms should be carefully calibrated to avoid undermining the well-being of future retirees or begetting poverty in old age; (ii) countries with propitious macro-economic and legal environments and insufficiently developed financial systems could consider the possibility of supplementing the public pension plan with a funded defined-contribution plan, which would provide a vehicle for promoting private savings; (iii) financial sector and labor market policies must be considered part of any pension reform package. The ability of households to save for retirement and diversify the risks associated with retirement will depend on the availability of a wide range of relevant financial products. Labor market policies should be aimed at encouraging the participation of older workers, bridging gender gaps and addressing informality. ***(Source: www.imf.org; Date: 15.01.2019).***

OECD Pensions Outlook 2018. The 2018 edition of the "OECD Pensions Outlook" report examines how pension systems are adapting to improve retirement outcomes, focusing on the design of funded pensions and assessing how different pension plans can be combined, taking into account the different policy objectives and the risks involved in saving for retirement. According to the report, the improvements in the design of pension systems in the OECD countries over the last decade have made them more financially sustainable and governments should now focus on ensuring that they provide people with adequate retirement income. In the report, the OECD also warns governments of the challenges they face in pension matters, such as population aging, the low yields of pension savings, slow economic growth, less stable professions and insufficient pension coverage for some groups of workers. The OECD points out that these issues erode the belief that the pension systems, whether PAYGO or funded, will deliver on their promises once workers reach retirement age. ***(Source: www.oecd.org; Date: December 2018).***

According to a report by the SWISS RE research group, the global retirement savings gap will increase by 5% per year, from USD 70 billion in 2015 to USD 400 billion by 2050. The well-documented increase in life expectancy, combined with declining birth rates in many countries and the increase in the automation of work processes are some of the factors cited as the root causes of this 'perfect storm' for the financing of public pension systems. In its study, the agency indicates that insurers can play a key role in reducing this global pension gap, by providing risk transfer solutions for private second-pillar schemes with insufficient funds, and life annuity products for encouraging greater discretionary retirement savings. ***(Source: www.swissre.com; Date: 14.01.2019).***

Relevant news of the period

Latin America, the Caribbean and North America

Pacific Alliance

Brazil

Creation of an individually funded pillar and gradual increase in the minimum retirement age: the new government's proposals for pension reform. President Bolsonaro has given the go-ahead to the idea of the Minister of Economy, Paulo Guedes, to include the creation of an individually funded system within the pension reform bill of law that the Executive plans to send to Congress in February. It will be a double reform, seeking on the one hand to avoid the collapse of the existing PAYGO system, and on the other hand, generating a new individually funded model for new entrants to the labor market, to guarantee their future retirement. Although Guedes acknowledges that the "transition" to the individually funded model could be costly, the new government is working on the hypothesis that the change could be possible within a 20-year horizon. The reform will also involve gradually increasing the minimum retirement age over a period of 15 years, from 60 to 62 for men, and from 55 to 57 for women. According to the Minister of Economy, the pension reform in Brazil could save up to USD 342,155 million in ten years. ***(Source: www.americaeconomia.com; www.libremercado.com; www.metropoles.com; Date: January 2019).***

The recession advanced the social security deficit forecast for 2037 to 2021. Whereas in 2015 the income/expenditure deficit was expected to reach 3% of GDP by 2037, it is now expected to be achieved in only two years, says Manoel Pires, associate researcher at the Brazilian Institute of Economics of the Getulio Vargas Foundation (Ibre-FGV) and former Secretary of Economic Policy of the Ministry of Finance. In an article entitled "How the macroeconomic scenario affected Social Security," Pires analyzed the long-term projections of the General Social Security Scheme (RGPS) put forward in the Budgeting Guidelines Bills of Law (PLDO) between 2015 and 2019. This analysis, he says, shows how the fiscal scenario of Pensions was altered by the recession and the subsequent slow recovery of the economy. This has important implications for the reform debate. If in the former scenario a fairly gradual reform could be implemented, as had been the case in the past, in which every government made adjustments to the system, the scenario is now different and merits a more complete reform, said Pires. ***(Source: www.valor.com.br; Date: 21.01.2019).***

Chile

Government pushes for the reform of the pension system to become law this year and has opened up to the possibility of negotiating certain issues. The Association of Pension Fund Managers (AAFP) has called for the reform of the pension system to become law this year. This is one of the emblematic economic reforms proposed by the Executive, considered by many to be the most urgent. One of the points of the pension reform on which there is no agreement, is the management of the additional 4% contribution to the individual accounts proposed in the pension reform bill of law. Last year the government proposed that this greater contribution should be managed by the AFPs, or by different entities that will be allowed to enter the system, such as insurers, compensation funds or general fund managers (AGF). Although the government says it will defend its proposal, it has also acknowledged that this will be the main point of negotiation with the opposition; hence the Executive is preparing different options to put on the table. One of the most likely alternatives is that all the additional contributions will be paid into a single fund similar to the Pension Reserve Fund, whose management would be awarded to an agency through a bidding process, for a period of two to three years. There will also be a transversal committee, comprising government authorities and experts in the field, which would define the fund's investment framework, such as, for example, types of assets or levels of risk. Another one of the points on which the Government would be willing to negotiate is raising the contribution rate of additional individual savings. Thus the current 10% contribution may not only increase by 4%, but even by 5% or more. This would also entail greater graduality. ***(Sources www.biobiochile.cl; http://www.economiaynegocios.cl; Date: January 2019).***

Immigrants surpassed Chileans in new enrollments in the pension system. Although foreigners made up only 7.3% of the total number of enrolled members by September 2018, their growth rate is already higher than that of Chileans. 472,229 people enrolled in the AFP system between August 2017 and July 2018. Of this total, 48% were immigrants (228,431 people), and 46% were Chilean (217,411). Peruvians (217,634) made up the largest number of enrolled members in the entire system as of September 2018; followed by Venezuelans (119,991), Colombians (107,924), Haitians (98,294) and Bolivians (77,004). For the experts, this indicates growing participation of foreigners in the labor market, which is positive for the economic growth of the country because it provides manpower for jobs that Chileans are no longer interested in. ***(Source: www.latercera.com; Date: 26.01.2019).***

The Chilean Pensions Commission has launched a new tender to appoint the AFP that new members will be

assigned to. The Pensions Commission launched the sixth public bidding process for the management of individually funded accounts, since it was established in the pension reform of 2008. The AFP currently assigned this task, AFP Modelo, charges a commission of less than 0.77% of taxable income, after AFP Planvital raised its commissions and no other AFP submitted a lower offer in the last bidding process. Bidding was scheduled for March 13, 2019, and the award resolution will be announced on April 1, 2019. The new member portfolio comprises all individuals enrolled in the pension system as dependent, self-employed or voluntary workers in the 24 months following on October 1, 2019. ***(Source: www.publimetro.cl; Date: 22.01.2019).***

Civilian employees of the Armed Forces will be subject to the same pension system as all Chileans. President Piñera signed the bill of law that extends the military careers of officers and non-commissioned officers by three and five years, respectively. The plan for the modernization of the military career will also entail that civilian personnel entering the Armed Forces must enroll in the same pension system as "all other Chileans." The President explained that the initiative seeks to retain higher ranking officers by increasing the legal maximum length of career from 38 to 41 years for officers and from 35 to 40 years for non-commissioned officers, thus gradually postponing the right to a full pension from 30 to 35 years and the right to a minimum pension from 20 to 23 years. In order not to affect those who are close to retirement, this will be done gradually, being fully applicable to those with less than 10 years of service today, but not to those with 18 or more years of service, and being applied gradually and in phases to those in between them." He also explained that the civilian personnel of the Armed Forces, who are quite significant in number, do not have the same duties or demands as uniformed personnel. Hence, this bill of law establishes that those entering our Armed Forces will have to enroll in the regular pension system that all Chileans are enrolled in." ***(Source: www.cooperativa.cl; Date: 14.01.2019).***

A law was passed that makes it mandatory for self-employed workers to contribute as of April. The law introduces a new gradual contribution mechanism for workers obligated to pay contributions through the Annual Income Tax Return, starting in 2019, charged to the 10% withheld tax. But contrary to the existing regulations, it establishes a gradual annual increase of 0.75% in the withholding tax, up to 16% by 2026, with an additional 1% increase in the ninth year, to reach 17% by 2027. It will be mandatory for self-employed workers who issue fee slips for a gross annual amount equal to or greater than 5 minimum monthly wages (a total of CLP 1.3 million per year, approx. USD 1,932), except for men of 55 or older, and women of 50 or older, as of January 1, 2018. It is estimated that they total about 577 thousand workers, half of those required to contribute under the previous law. With the amounts withheld each April after the income tax filing process, coverage will be paid in the following order: (i) Disability and Survival Insurance (SIS); (ii) Social Security coverage of Work Accidents and Occupational Disease Risks (Atep); (iii) Insurance covering childcare (Sanna Law); (iv) Medical leave and subsidies, pre and post-natal leave, and parental post-natal leave; and (v) Pensions. The formula allows self-employed workers to access the monetary subsidies (medical leave payments) granted by these systems, calculated on 100% of the taxable base income, amounting to 80% of all gross income obtained by the self-employed worker in the calendar year prior to the tax return. ***(Source: www.publimetro.cl; Date: 03.01.2019).***

Government is preparing a bill of law making it mandatory for self-employed workers who do not issue a fee slips to contribute to social security. This was announced by the Undersecretary of Social Security, María José Zaldívar, who explained that the aim was to include workers such as taxi drivers, fishermen, stallholders and employers, so they can access health, pension and insurance benefits. ***(Source: www.emol.com; Date: 11.01.2019).***

The law that improves the Pension Amount Consultation and Offers System (SCOMP) and the provision of information to members, was published. The new legislation, issued by the Financial Markets Commission (CMF) and the Pensions Commission(SP), will provide future pensioners with a clear picture of the pension differences offered by AFPs and insurance companies, as well as commission payments to pension advisors and insurance company sales personnel. ***(Source: www.cmfchile.cl/; Date: 04.01.2019).***

With the new electronic transfer system, which will come into effect as of August 1, 2019, the procedure that allows members to switch fund managers will be simplified, thus promoting competition. Nonetheless, existing transfer alternatives on paper and in an agency will be maintained, since no previous registration or security code will be required, as is currently the case. With the new regulations, the AFPs must have biometric identification devices authorized by the Pensions Commission, and members will be able to transfer all or part of their balances with or without the assistance of a sales agent. ***(Source: www.inese.es; Date: 19.12.2018).***

The AFPs have shown interest in sustainable investments (ESG). According to Philip Bärtschi, CIO and Managing Director of the Swiss investment Bank (J. Safra Sarasin Bank), much interest in sustainable strategies by the pension funds has been detected in Chile. The fund managers are beginning to understand what it is, how it works, and whether it can have a positive impact. Further details here. ***(Source www.latercera.com; Date: 10.12.2018).***

Colombia

Government played its first pension reform cards, but there is confusion regarding its presentation. The Minister of Finance had announced that the pension reform would be presented in the second half of this year, and that it is being prepared and structured by a highly qualified government team. The bill of law will not affect people who are about to retire (men between 59 and 61 and women between 55 and 56), and will focus on expanding coverage and reducing inequality. Nonetheless, the Minister of Labor, Alicia Arango, denied the above, stating that the bill of law will not be presented this year, but rather in March of 2020, also highlighting the fact that the government is not considering increasing the retirement age (62 for men and 57 for women). "On the campaign trail, the president made several clear assertions, such as, for example, that the retirement age will not be increased, acquired rights and substitute pensions will be respected, and that subsidies on the highest pensions should be focused on lower pensions. There are four campaign promises that we are committed to comply with," said the Minister. ***(Source: https://actualicese.com; Date: 21.01.2019).***

Pension reform will be addressed in the second half of 2019. Although he did not mention any change in the retirement age (currently 62 for men and 57 for women) the Minister of Finance, Alberto Carrasquilla, explained that the draft bill of law being prepared seeks not to affect citizens who are about to retire (men between 59 and 61, and women between 55 and 56). ***(Source: www.elespectador.com; Date: 08.01.2019).***

Pension account statement will be simpler as of May. Through External Circular 28, dated December 19, the Financial Commission ordered the simplification and more practical presentation of the document, so that people can keep better track of their account information. Jenny Aguirre, VP Operations of the Colombian Association of Pension and Unemployment Fund Managers (Asofondos), insisted that the purpose is to achieve a simpler form, so that people understand the information being provided to them. ***(Source: http://www.elcolombiano.com; Date: 14.01.2019).***

Costa Rica

According to the former Superintendent of Pensions, Edgar Robles, changes in the regulations governing the investment of the pension funds will put the savings of workers at risk. Existing regulations allow the Complementary Pension Operators (OPC) to place up to 50% of the savings of workers in government bonds, but with this change, they will be able to place up to 80%. According to Robles, another worrying regulatory change is that the obligation to classify securities at market value will be eliminated, causing an imbalance, since this will benefit those who retire early, but savings could end for thousands in the future. ***(Source: https://teletica.com; Date: 11.12.2018).***

Pension operators promise caution in any eventual change in the assessment of securities. The Complementary Pension Operators (OPC) ensured that they will be cautious in the use of the proposed new method for assessing the investments of their clients' savings. Hermes Alvarado, Chairman of the Costa Rican Association of Pension Operators (ACOP), does not expect the OPCs to drastically modify the way their clients' investments are assessed if the National Financial Stability Oversight Council (CONASSIF) approves the regulatory changes proposed at the end of 2018. Alvarado stressed that if the change is approved, there are parts of the OPC investments that could be assessed at market prices and others, until maturity. He pointed out, for example, that the assessment of the resources of the Labor Capitalization Fund (FCL) must be kept at market prices, since this is money that is constantly being used to pay workers who resign or are dismissed. For Édgar Robles, ex-head of the Pensions Commission (SUPEN), the proposed reform of the assessment of investments lacks transparency. "The most worrying aspect is that failure to assess at market prices means that the financial statements of members will contain false information, reflecting figures that are not theirs," said Robles. The economist insisted that the equation is complicated by CONASSIF's decision to raise the investment ceiling in the Ministry of Finance and the Central Bank, from 50% of managed resources to 80%. ***(Source: www.nacion.com; Date: 25.01.2019).***

Ecuador

Government proposes additional contributions by workers due to the crisis in the Ecuadorian Institute of Social Security (IESS). Another one of the alternatives put forward is to apply the existing legal provision, which enables increasing the years of contribution to capitalize the retirement and health funds. The matter is being discussed and the experts hope that the dialog announced by the Government will materialize, so that employers and workers will be able to analyze IESS's future options. ***(Source: www.ecuavisa.com; Date: 10.01.2019).***

El Salvador

The AFPs will be able to invest 10% of their funds in foreign securities. The Risk Committee, the entity responsible for analyzing the sustainability of the pension system, approved the investment in foreign securities of up to 10% of the savings of workers in the custody of the Pension Fund Managers (AFPs). The Committee came into being with the 2017 pension reform and comprises different actors, including representatives of the workers. The provision approved by the Risk Committee is below the maximum allowed by law, explained Carlos Pérez, representative of the workers in the entity. Existing legislation allows the placement of between 10 and 30% of savings in foreign securities. The Salvadoran Association of Pension Fund Managers (Asafondos) is still waiting to be informed of the technical standard governing the investment portfolio. With this legal framework, investment in foreign securities will be gradual, "based on the liquidity of the funds," he said. "New resources are collected monthly and must be invested pursuant to law, for the sole purpose of obtaining an adequate return in terms of security, liquidity and risk diversification," the Trade Association added. ***(Source: www.estrategiaynegocios.net; Date: 14.01.2019).***

Mexico

New President of Mexico, Andrés Manuel López Obrador, seeks to reform the Retirement Savings System Law. In its proposal submitted to the Congress of the Union on Wednesday, January 23, the executive highlighted reforms emphasizing the following: (i) Transform the commission system into a mixed system, so that the commissions for the management of individual accounts can only be charged by applying a sole commission comprising a component calculated as a percentage of the value of managed assets, and an additional component calculated on the returns obtained by workers, with the aim of promoting investment in strategic projects of longer duration (the AFOREs that achieve better returns for their clients will in turn achieve better income from commissions, encouraging them to engage in best practices and achieve better results); (ii) Replace the Investment Companies Specializing in Retirement Funds (SIEFORES) through which the AFORES invest the money of the workers, by the so-called Specialized Retirement Fund Investment Funds (FIEFORES), which would enable reducing the costs incurred by the fund managers in managing their investments, resulting in the fund managers no longer having the five basic SIEFORES; they would not have to buy and sell new assets when a worker changes SIEFORE because of his age, and they would be given access to life-cycle investment funds; (iii) Based on the opinion of the Ministry of Finance and the Bank of Mexico, the controller (CONSAR) would be granted the authority to determine the investment regime of the AFORES, which will operate these new FIEFORES, and will also be granted more investment options, among them securities lending.[1]; and (iv) Eliminate the delay for workers to be able to access the resources deposited in the voluntary savings sub-accounts, for which the AFORES would be allowed to design savings products with different investment perspectives, without having to be subject to minimum time constraints. Bernardo González, the new Executive President of AMAFORE, believes that the proposed changes will allow the AFORES to design more diversified investment strategies, seeking better returns for workers, although he pointed out that further reforms will be necessary in the future to further strengthen the system, in order to be able to grant better pensions. ***(Sources: https://m.fundssociety.com; http://www.milenio.com; https://heraldodemexico.com.mx; Date: January 2019).***

According to CONSAR, the new administration will carry out a profound reform of the pension system. There will be a profound reform of the Retirement Savings System (SAR) in the government of President Andrés Manuel López Obrador, said the president of the National Commission for the Retirement Savings System (CONSAR), Abraham Vela Dib. This reform would be ready towards the second half of the administration, and different reform proposals would be studied, including the proposal of the Pension Fund Managers (AFORES) and the former administration, in addition to working on its own proposal for achieving the best alternative for providing sustainability to the system and enabling workers to aspire to higher pensions. The reform would aim to achieve an average replacement rate for workers of 70% of the last salary, and would include the following: (i) Increase mandatory contributions, which are currently 6.5% of the base salaries of workers that contribute to the Mexican Institute of Social Security (IMSS), to levels between 10.5% and 14%; (ii) Raise the retirement age, from 65 to 68; and (iii) Reform the pension systems of the states, municipalities, universities and some state companies, such as the Federal Electricity Commission (CFE) and Petróleos Mexicanos (Pemex), with the idea of migrating them from such defined benefit systems to a defined contributions system with individual accounts. ***(Source: http://monitoreconomico.org; Date: 22.01.2019).***

Afores and other financial institutions will disclose environmental investment information. These institutions signed an Investors' Declaration on the disclosure of environmental, social and corporate governance investment. The CEO of Afore Citibanamex and co-chair of the Green Finance Advisory Board (CCFV), Luis

[1] The investment regime of the AFORES is currently determined by Congress, and CONSAR can only make minimum changes through the Sole Financial Circular (CUF).

Sayeg, said that these agencies are highly committed to incorporating these advances in environmental, social and corporate governance matters into their investment processes. "It is the responsible way to manage the resources entrusted to us; our fiduciary responsibility requires us to take good care of those resources and we believe that these are the correct steps for managing them," he added. ***(Source: https://azteca.digital; Date: 14.12.2018).***

The Office of the Undersecretary of Finance and Public Credit (SHCP) announced that it will strengthen the investment regime of the AFORES and voluntary savings. During the presentation of the Program to Promote the Financial Sector, Arturo Herrera Gutiérrez, Undersecretary of Finance and Public Credit (SHCP) announced a series of measures for strengthening the financial sector and facing the country's economic challenges, such as the lack of growth and inequality. Thus, among other measures, the federal officers said that they will strengthen the investment regime of the AFORES and voluntary savings. Experts have considered this measure to be positive. Federico Rubli, a pensions expert and economist at the Autonomous Technological Institute of Mexico, pointed out that the existing investment regime of the AFORES is restrictive, which has led to the majority of them placing 50% of their investments in government instruments such as debt; while less than 20% is placed in foreign debt or equity. "The AFORES are subject to a 20% foreign investment limit, while other countries in Latin America can invest up to 50, 60 or 80% in international investments, which gives them better returns," he explained. Jorge Sánchez Tello, director of Applied Research of the Financial Studies Foundation, agreed that it is a positive measure and that what is most expected from this proposal is precisely the extension of the 20% investment limit. ***(Source: www.eleconomista.com.mx; Date: 08.01.2019).***

Nicaragua

Government introduces new Social Security reform. Through Resolution No. 1/325 of the Administrative Council of the Nicaraguan Social Security Institute (INSS), on January 28 the Government announced changes to the pension system that will come into effect as of February 1, and are summarized below: (i) Increase the contribution of the INSS to companies with more than 50 workers from 19% to 22.5% of wages; to companies with less than 50 workers from 19% to 21.5%. Employer's contributions will be 21.5%; workers contributions will increase from 6.25% to 7%; and the State's contribution from 0.25% to 1.75% of wages (regardless of the number of employees the company has). The disability, old age and death insurance (IVM), in turn, increased from 10% to 13.5%, and the other components such as occupational risks, contribution to casualties of war, disease and maternity remain at 1.5%, 1.5% and 6%, respectively; (ii) The maximum taxable income is eliminated, and after the reform workers will contribute based on their salary; (iii) Workers must contribute for 2,756 weeks to acquire a pension equivalent to 70% of salary (until January 2019 workers required 2,080 weeks of contributions to obtain 80% of their salary as an old age pension, which was the maximum allowed by law, which meant that a worker had to strive to remain active in the formal market for at least 40 years before reaching 60 (the official retirement age in the country. With the new reform, as of February 2019, workers must have worked for at least 53 years in the formal market, i.e. 13 years more than prior to the reform). According to estimates, with the modifications to the calculation formula, pensions would be reduced by between 30% and 45%. ***(Sources: https://www.laprensa.com.ni; https://www.elnuevodiario.com.ni; Date: 30.01.2019).***

Peru

Congress extends early retirement for the unemployed to 2021. The Labor and Social Security Commission agreed to push through the Law that extends the Special Early Retirement System (REJA) for members of the Private Pension System (SPP) with six votes in favor and one abstention. REJA allows men over 55 years and women over 50 who have been unemployed for 12 months, to access early retirement. Commenting on the law that extends the REJA, the Government argued that the system was created as a temporary measure and that it undermines the purpose of the pension system, which is the protection of members in old age. In the 33 months that the law that allows the withdrawal of 95.5% of the retirement fund has been in place, approximately 154 thousand people withdrew their funds through REJA, representing 68% of the people who have withdrawn their funds to date under the auspices of this provision. Thus, this group of people has withdrawn a total of PEN 7,248 million (approx. USD 2,158 million), an amount representing 40% of the total amount withdrawn. The Association of AFPs (AAFP) noted that the expansion of REJA for members distorts the pension system, once again permanently affecting future pensioners in the long term for an alleged immediate benefit. "Together with the possibility of withdrawing up to 95.5% of the fund, this is creating generations of elderly people without pensions," said the chairman of the trade association, Giovanna Prialé. Along these lines, she explained that the legislative proposal, which was forced through Congress until 2021, is not recommendable because it encourages members to stop contributing to their retirement fund, affecting their future and, furthermore, losing the coverage of the disability and survival insurance, which covers the risks to which all individuals are exposed. ***(Source: https://gestion.pe; Date: January 2019).***

Companies will be able to retain part of the consumption of customers to transfer it to the Individually Funded Account in an AFP. This measure approved by the regulator creates the concept of the commercial ally, an entity other than an AFP that, through consumption discounts will give members the option of increasing their voluntary contributions to the private pension system. The new modality will be an alliance between a company and its AFP, that must be agreed to by members themselves, and that seeks to increase voluntary contributions. This commercial ally thus becomes an alternative channel to collect said contributions, being obligated to transfer them to the Individually Funded Account. ***(Source: https://larepublica.pe; Date: 07.01.2019).***

AFP Integra, part of the SURA group, was awarded a new bidding for members, with a commission of 0% per flow (salary) and a 0.82% annual commission on the accumulated balance. Thus, new members who enroll in AFP Integra as of June 2019, will no longer pay commissions on income. This is made extensive to former members under the mixed commission scheme. AFP Integra will enroll workers who join the SPP for the first time as of June 1, 2019, for a period of two years. However, these workers will also be able to switch to another AFP, as long as it offers a higher return net of commissions. ***(Source: www.fundssociety.com; Date: 17.12.2018).***

Uruguay

Record USD 500 million issue launched in the stock market. For the purpose of channeling resources for financing long-term infrastructure projects, CAF - the Latin American Development Bank - created the Financial Trust Debt Fund for Infrastructure in Uruguay, II CAF-AM, which will have a duration of 30 years and will receive a maximum amount authorized by the Central Bank of Uruguay (BCU) of about USD 500 million in the next five years. It is the largest amount of any issue in the domestic stock market. The previous one was CAF 1, with an amount of USD 350 million. The funds will be used to finance state infrastructure works under the PPP scheme for roads and schools. The AFAPs will put up most of these funds. With the establishment of this fund, new assets are introduced into the region that will benefit Uruguay's infrastructure and help to boost its capital market. It is estimated that infrastructure investment requirements for the 2015 - 2019 five-year period are more than US $ 2,140 million in education, energy, railways, ports, health, roadways and housing projects. ***(Source: www.elobservador.com.uy; Date: 12.12.2018).***

Europe

Germany

Government implements social security reform. On January 1, 2019, the country implemented a social security reform law that establishes new minimum and maximum contribution rates, expands eligibility for reduced contributions, adjusts the target replacement rate for old-age pensions, modifies the benefits formula for disability pensions and extends pension credits for some childcare providers. These provisions aim to improve the adequacy of benefits and protect vulnerable populations from poverty. The government estimates that the reforms will cost a total of EUR 32 billion (approx. USD 36,600 million) by 2025. The key changes that came into effect on January 1 are: (i) New minimum and maximum social security contribution rates: the law prevents the general tax rate (divided equally between employers and workers) from increasing by more than 20% of salary or falling below 18.6% of salary until 2025 (the contribution rates are adjusted annually; the general contribution rate is currently 18.6% and is expected to remain at this level until 2023 before increasing to 19.9% in 2024 and to 20.3% in 2025 (which will trigger the 20% limit). According to the previous law, the maximum contribution rate was set at 20% until 2020 and 22% from 2020 to 2030; (ii) An increase in the number of workers who pay reduced contributions: as of July 1, 2019, workers with monthly incomes of EUR 450 (USD 515.25) and up to EUR 1,300 (USD 1,488.5) will pay reduced social security contributions; the specific rate depends on the worker's salary, and the rates increase progressively as wages increase. Previously, reduced contributions were paid on earnings of EUR 450 to EUR 850 (USD 973.25). (Employers continue to pay the full contribution rate regardless of the worker's wage level). (iii) A new objective replacement rate for old-age pensions: The law establishes the target replacement rate for old-age pensions at 48% of the average salary (the current rate), until 2025. According to the previous law, the target replacement rate was set at 46% until 2020 and 43% from 2020 to 2030. (The target replacement rate is maintained through adjustments in the benefits formula); (iv) Adjustments to the benefits formula for disability pensions: the law increases the number of years that people with disabilities are credited for having worked and paid contributions (based on their average income before the disability began). According to the previous law, the period between the date of the reduction in earning capacity and 62 years and 3 months of age (gradually increasing to 65 by 2024) was taken into account in the calculation of the pension. The new law extends this period to the age of 65 years and 8 months (gradually increasing to the age of 67 by 2031); (v) An increase in pension credits for certain parents: for children born before 1992, the maximum number of individual income points credited to a parent who looked after a child for up to 3 years increased from 2 to 2.5 income points. (For children born after 1992, a parent will continue to be credited with one point of income for each year of care, up to 3 years). ***(Source: International Update, Social Security Administration; Date: January 2019).***

Spain

Pension expenditure in 2019 will increase to EUR 153,864 million, 6.2% more than in 2018, historically the highest figure. In addition to the loan already announced, Social Security will receive an additional transfer of EUR 850 million from the State. ***(Source: https://okdiario.com; Date: 11.01.2019).***

Social Security doubles its debt in just two years. The social security debt rose from EUR 17,173 million to EUR 37,800 million between 2016 and October 2018, and If the trend does not change, the deficit could even triple next year. Further details here. ***(Source: www.larazon.es; Date: 24.12.2018).***

Accessing a pension has become more difficult since January 1, 2019, due to the two-month increase in the retirement age (from 65 years and 6 months to 65 years and 8 months) and the increase in the number of years taken into account for calculating pensions, although the implementation of the Sustainability Factor will be delayed. Furthermore, in 2019, the legal retirement age will rise by two months and will be 65 years and 8 months for those who have contributed for less than 36 years and 9 months during their working lives. However, workers can still retire at 65 if they have contributed at least 36 years and 9 months, which is three months more than what was required until 2018. The delay in the retirement age will continue in the years ahead. This limit will increase progressively until 2027, when the official retirement age will be 67 (for individuals with less than 38 years and 6 months of contributions) or 65 (for individuals with 38 years and 6 months or more of contributions). On the other hand, in 2019 pensions will be calculated on the salary received in the last 22 years of contributions (instead of 21 years in 2018; this figure will increase progressively to 25 years by 2022). One of the novelties planned for 2019 has been eliminated: the Sustainability Factor, a coefficient applied when calculating the first pension of retirees, which links pension amounts to life expectancy. It will come into effect not later than January 1, 2023. ***(Source: http://www.rtve.es; Date: 27.12.2018).***

Italia

Italy

The Council of Ministers approved a decree that lowers the retirement age and establishes an unemployment benefit, which must still be approved by Congress. The decree states that the reduction of the retirement age is based on the so-called "100 Standard," whereby people can retire when their age and number of years of contributions add up to 100, allowing them to stop working at 62 with 38 years of contribution (in 2018 the retirement age was 66 years and 7 months for men, and 65 years and 7 months for women, with at least 20 years of contributions required for obtaining a partial pension). The unemployment benefit ("Citizenship Income") includes allowances that vary between EUR 780 and EUR 1,330, depending on the number of members of the family nucleus. Recipients will have to be Italians, Europeans or resident in Italy for the last 10 years, the β two continuously, and their income index should not exceed EUR 9,360 per year; the allowance will have a maximum duration of 18 months during which they will be able to receive three offers, the first one for a job at a maximum distance of 100 kilometers, the second one for a job up to 250 kilometers away, and the third one for a job anywhere in the country.
The money received in this period cannot be used for gambling and must be spent entirely to continue receiving it, because the intention is for it to drive the Italian economy and contribute to growth. If approved by Congress, the measures, which will require funding of EUR 12,000 million in 2019, should start being applied as of April 1 this year. ***(Source: https://intereconomia.com; Date: 18.01.2019).***

Poland

Law that creates new occupational pension plans is passed. On November 19, 2018, the president approved a law that introduces new defined-contribution occupational pension plans called Workers' Capital Plans (Pracownicze Plany Kapitałowe, or PPK). The law comes into effect on January 1, 2019 and the first PPK will start operating in July 2019. Employers must offer their employees a PPK, unless they have already offered (and continue to offer) a qualified pension plan through the Voluntary Employee Pension Program (Pracownicze Program and Emerytalne, or PPE).[2]. According to the government, the new law aims to increase pension savings

[2] In addition to the PPE and the PPK, the pension system in Poland comprises a notional defined contributions public program and voluntary privately managed private accounts.

and is expected to cover around 11.5 million workers. The key details of the new law include: (i) Graduality: employers must offer a PPK to their workers as of July 2019 (for companies with more than 250 employees), January 2020 (for companies with between 50 and 250 employees) , July 2020 (for companies with 20 to 49 employees), or January 2021 (for all other companies); (ii) Enrollment: All workers between 19 and 55 years of age with at least 3 months of service will be automatically enrolled in their company's PPK, but they may choose to opt out. Those who choose to opt out will be automatically re-enrolled every 4 years. Employees between 56 and 69 will only be enrolled at their request; (iii) Contributions: employers will contribute 1.5% of gross wages and workers will contribute 2%; additional voluntary contributions of up to 2.5% (for employers) and up to 2% (for workers) will be possible. Workers with a total income of less than 1.2 times the minimum monthly wage will contribute 0.5% of the gross salary.[3]; (iv) Investments: Employers will choose a financial institution to manage their PPK assets, in consultation with union representatives or workers. Assets will be invested in life cycle funds that adjust the portfolios of participants to an age-based risk profile ; (v) Commissions: financial institutions may charge PPK participants an annual management fee of up to 0.5% of the net assets under management. An additional 0.1% may be charged if certain performance standards are met; (vi) Withdrawals: on turning 60, participants may withdraw up to 25% of the balance of their account as a lump sum, and have the rest paid as a programmed withdrawal for at least 10 years. Early withdrawals before the age of 60 are allowed under certain conditions, even if the participant, a spouse or a dependent child falls seriously ill; (vii) Benefits for survivors: if the participant dies, 50% of the balance of the account will be paid to the widow (o) and the rest to the other eligible survivors. ***(Source: Social Security Administration, International Update December 2018; Date: December 2018).***

Sweden

New law increases investment flexibility for the pension reserve funds of the public system[4]. On November 28, Congress approved a law, which came into effect on January 1, 2019, modifying the investment rules for the country's four main pension funds (AP1, AP2, AP3 and AP4). Reserve funds help smooth out fluctuations during periods when pension contributions are insufficient to cover pension disbursements from the notional income-related defined contribution pension program (NDC).[5]. At the end of 2017, four main reserve funds managed about SEK 1,412 million (approx. USD 155,000 million) in assets. The new investment rules are designed to improve the returns of the four main reserve funds, and include: (i) An increase in the investment ceiling for non-liquid investments (those that are not easily converted into cash, such as infrastructure holdings) from 5% to 40% of the assets of the portfolio; the new ceiling also includes real estate, which is not restricted by current regulations (in addition, reserve funds will not be required to sell illiquid investments to maintain the ceiling); (ii) A reduction in the minimum allocation of the portfolio to interest-bearing securities (those with low credit and liquidity risk, such as government bonds and highly rated corporate bonds) from 30% to 20%; (iii) The elimination of a requirement to designate a specific portion of the fund's assets to be managed by external managers (10% according to current rules); (iv) The introduction of a requirement for reserve funds to manage assets in a "sustainable" manner by evaluating how well their portfolios would fare in a range of adverse climate change scenarios.

Asia and the Pacific

China

The third batch of 14 pension funds has been approved for specific groups, which means that funds of this type can play a more important role in satisfying the needs of the retirement plans of the country's growing elderly population. The country is currently trying to develop specific pension funds that are part of individual pension plans, in order to complement the system at a time when the aging of its population is bringing pressure to bear on the system. ***(Source: http://spanish.people.com.cn; Date: 07.01.2019).***

[3] (The monthly minimum wage will be 2,250 zloty [USD 595.75] in 2019.) The government will grant a single grant of 250 zloty (USD 66.19) plus 240 additional zloty (USD 63.55) per year to all PPK participants.

[4] Sweden's public pension system consists of a guaranteed minimum pension granted against proof of income, notional PAYGO accounts and mandatory individual accounts. Semi-mandatory occupational pension plans, based on collective agreements covering 90% of workers, complement the public system. There are also voluntary private pension plans.

[5] There are two other reserve funds: a smaller AP6 reserve fund that invests only in private capital, but receives no contributions and pays no benefits; and an AP7 fund that manages the default investment option for the country's mandatory individual accounts program.