



## FIAP Declaration

### The withdrawal of Social Security funds for purposes other than the funding of pensions, puts the workers and pensioners of the region at serious risk

- 
- *The withdrawal of Social Security funds for purposes other than the funding of pensions defeats the purpose of the system, could generate a contagious effect in the region and introduce perverse incentives. Measures of this kind do not solve the problem of pensions, but rather aggravate it and move the problem into the future.*
  - *The individually funded pension systems were created to ensure a regular flow of income when enrolled members stop working. Any use for any another purpose, or before retirement age, reduces or eliminates the pension and the peace of mind members deserve when they retire.*

The International Federation of Pension Fund Administrators (FIAP), always respectful of the sovereignty and public policies in each country, wishes to express its concern for the risks involved in modifying the use of the pension funds saved by workers in their individual accounts, for purposes other than the funding of their pensions.

In particular, FIAP wishes to highlight the following:

1. The measure recently adopted in Peru, which authorize the withdrawal of 95.5% of the pension funds on retirement, is contrary to the fundamental purpose of all pension systems - whether public, private or mixed - which is to grant a suitable, stable and financially sustainable revenue stream during the decumulation stage of the life cycle of workers.
2. With the approval of this measure, which allows the withdrawal of almost all of the funds accumulated during the active phase, people will be exposed to two risks:
  - a) Quickly spend the savings accumulated with so much effort during their working lives, without subsequently having incomes that would allow them to finance their living expenses during the stage in which people need it most, i.e. when they stop working. Pension systems must ensure stable income in the passive stage - through the provision of periodic payments - which enable individuals to sustain adequate levels of consumption and well-being over time. Having access to most of the resources of their pension savings in the short term, undermines the possibility of having a regular and stable income for their support in the long term.
  - b) Face potential scenarios of poverty and social exclusion. If the resources withdrawn from pension savings are poorly managed, either because they are not used to ensure a steady income, or because they are poorly invested and suffer losses due to unanticipated risks



or misuse, there will be a greater risk of people finding themselves in situations of poverty and social exclusion in future, forcing the State to solve this problem through non-contributory pension schemes, therefore increasing taxes or creating new ones.

3. The free withdrawal of private pension funds, puts the possibility of advancing on the path charted by the Presidents of the countries of the Pacific Alliance at risk, particularly with regard to the free mobility of individual pension savings account balances. The type of measures approved in Peru generate perverse incentives, because the situation could be exploited by workers from other countries who migrate their social security savings to Peru, in order to withdraw funds destined solely to financing pensions.
4. The individually funded pension funds were created to ensure a regular flow of income when enrolled members cease to work. Any use for other purposes, or prior to retirement, only reduces or eliminates the peace of mind that enrolled members deserve when they retire.
5. Finally, it must be pointed out that the design of the individually funded system in the region made it mandatory for the pension fund managers to engage in the sole line of business of managing social security resources, excluding from their purpose any other function which could generate conflicts of interest between them and enrolled members, to the detriment of the latter. In this regard, allowing companies engaged in other types of activities to simultaneously manage pension funds and their own resources, defeats this purpose and introduces unnecessary risks.

FIAP urges the incoming Peruvian Government authorities to rethink the approved measures. FIAP offers its collaboration and puts itself at the disposal of the competent bodies, for the purpose of technicality participating in the discussion.

FIAP is aware that there is room for improvement of the individually funded pension savings systems in the region, but improvements must be made on the basis of a broad technical discussion, with committees of experts that examine the best proposals for the comprehensive reform of the pension systems of each country, in order to ensure that they have ample coverage, that they are financially sustainable and equitable, avoiding reckless actions with populist goals.

FIAP is an international agency comprising the Associations of Pension Fund Managers of the European and Latin American countries that have incorporated individually funded savings regimes into their pension systems. To December 2015, there were more than 113 million workers enrolled in FIAP member agencies, accumulating more than US\$ 577,628 million in their respective individual accounts.

**Agreement of the 20th FIAP Assembly in Panama  
May 18, 2016**



Subscribed by: The Board of Directors of the International Federation of Pension Fund Administrators (FIAP)

- **Mr. Guillermo Arthur, FIAP President**

A handwritten signature in black ink, appearing to read 'Guillermo Arthur', with a stylized flourish at the end.

- **Mr. Santiago Montenegro - FIAP Vice President**  
Chairman, Colombian Association of Pension and Unemployment Fund Managers, ASOFONDOS.

A handwritten signature in black ink, appearing to read 'Santiago Montenegro', with a stylized flourish at the end.

- **Mr. Angel Martinez-Aldama - FIAP Vice President**  
Chairman of the Association of Collective Investment Agencies and Pension Funds, INVERCO, Spain.

A handwritten signature in black ink, appearing to read 'Angel Martinez-Aldama', with a stylized flourish at the end.

- **Mr. Carlos Noriega - FIAP Vice President**  
Chairman of the Mexican Association of Pension Fund Managers, AMAFORE, Mexico.

A handwritten signature in black ink, appearing to read 'Carlos Noriega', with a stylized flourish at the end.

- **Mr. Rafael Picasso - FIAP Vice President**  
Chairman of the Peruvian Association of Private Pension Fund Managers

A handwritten signature in blue ink, appearing to read 'Rafael Picasso', with a stylized flourish at the end.

Declaration No. 2/2016  
page 3/3

