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# Latam Pension Systems

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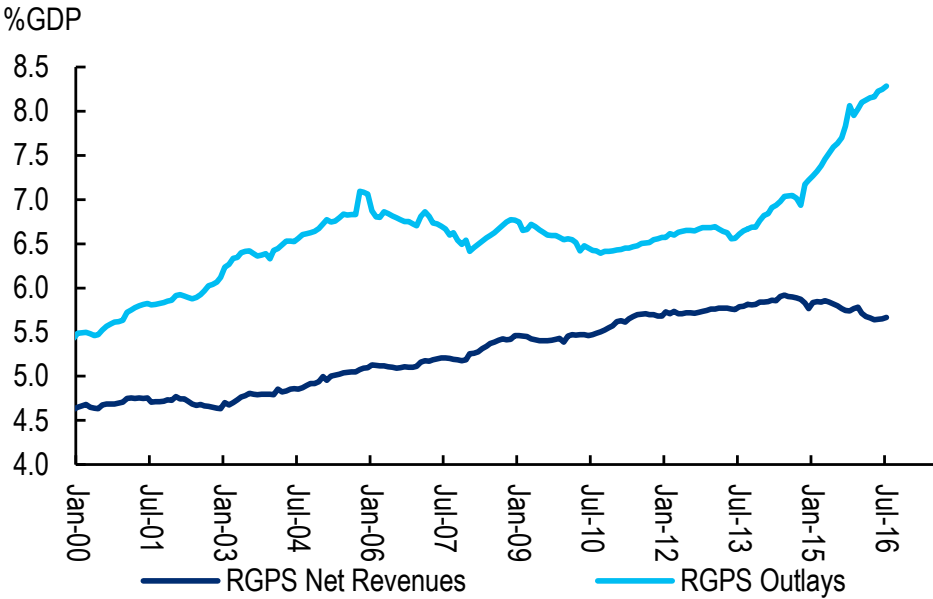
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# Brazil's Pension Reform

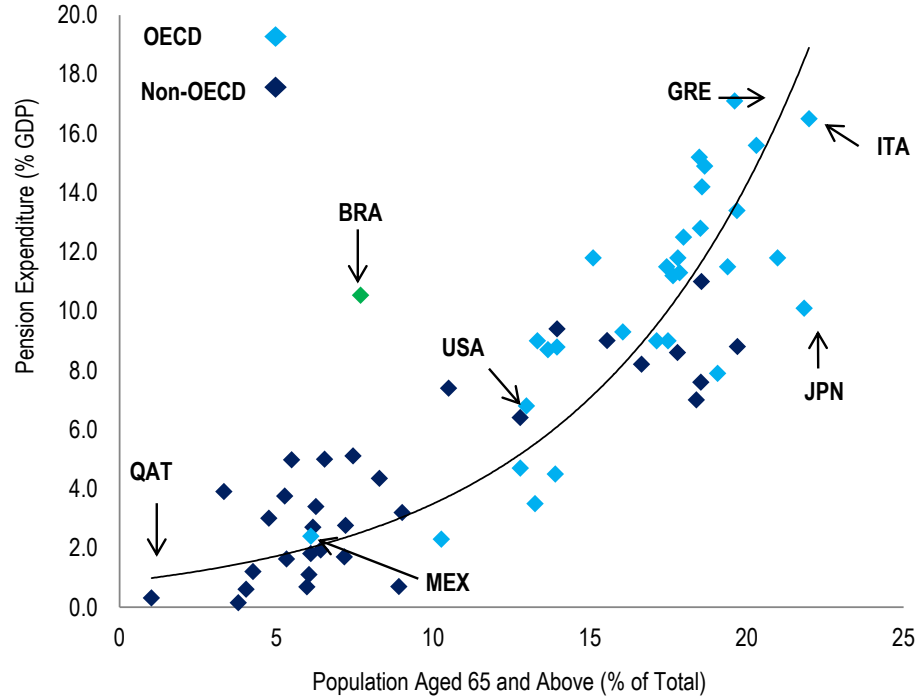
Temer's Pension Reform is crucial to tame the expenditure dynamics. In case of failure, it would undermine the spending cap rule just approved. Gross public debt will take much longer to stabilize.

**RGPS – Net Revenues Vs. Budgetary Outlays**



Source: Brazilian National Treasury and Citi Research  
 Note: Regime Geral de Previdência Social (RGPS) is the public pension system.

**Pension System Budgetary Outlays in the World**

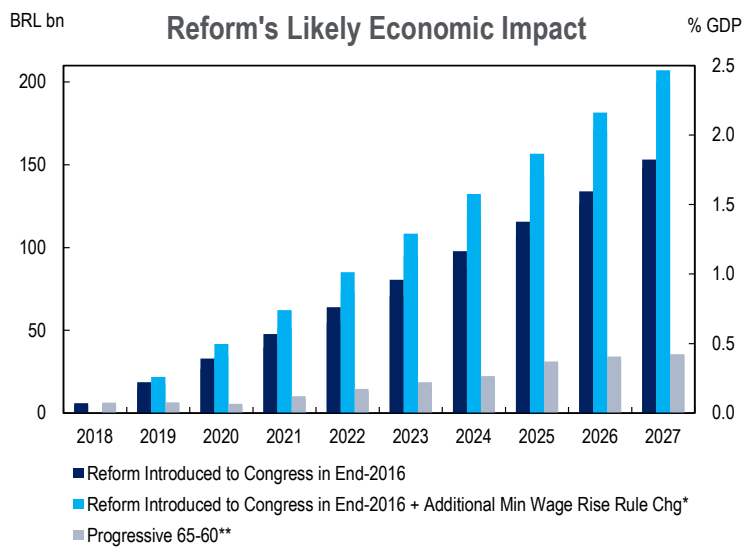


Source: Citi Research, World Bank, Social Security Secretary and BCB

# Temer's Government – Pension System Reform

## Main Dilutions on the Original Bill of the Pensions System Reform

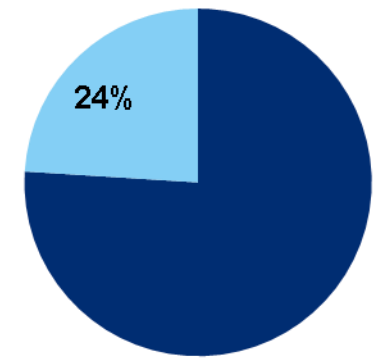
	Original Bill	Modified Bill
A) Eligibility criteria (minimum retiring age)	Equal (65 yrs old, 25 yr contrib) for Males and Females.	Different for Males (65 yrs old, 25 yr contrib) and Females (62 yrs old, 25 yr contrib)
B) Transition rule	50% penalty on remaining contribution length to retirement eligibility under current schemes. Eligible only for +45-yrs-old Females and +50-yrs-old Males.	30% penalty on remaining contribution length to retirement eligibility under current schemes. Eligible for Females and Males at any age.
C) Pension Benefit Calculation	51% floor with a 1p.p. bonus for each year of pension contribution, capped at 100%, and respecting the monthly benefit floor of one minimum salary. That is, a pension claimant aged 65y.o. with a contribution length of 25 years has a replacement rate of 76%.	70% floor with a bonus for each additional year according to the total time of pension contribution: i) +1.5p.p. for 25-29 yrs; ii) +2.0p.p. for 30-34 yrs; iii) +2.5p.p. for 35+, capped at 100%. That is, a pension claimant with a contribution length of 25 yrs has a replacement rate of 70%, while a pension claimant with a contribution length of 40 yrs has 100%.
D) Rural Pensions	Equal (65 yrs old, 25 yr contrib) for Males and Females.	Different for Males (60 yrs old, 15 yr contrib) and Females (57 yrs old, 15 yr contrib).
E) Category Waivers	None	Females (62), Rural Pensioners (M: 60; F: 57) Teachers (60), Police (55).



Sources: Citi Research, Social Security Secretary, Valor Econômico and Caetano et al. (2016)

## Expected Economy in 10 years after Congress Negotiation

■ Original Bill    ■ Dilution of Original Bill's Savings



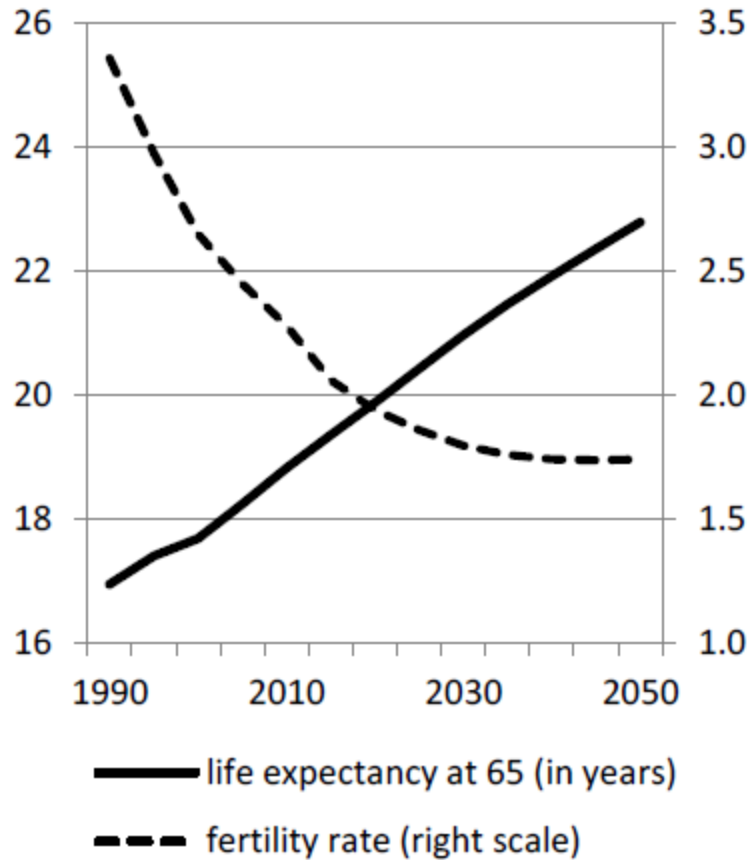
# Mexico's Pension System

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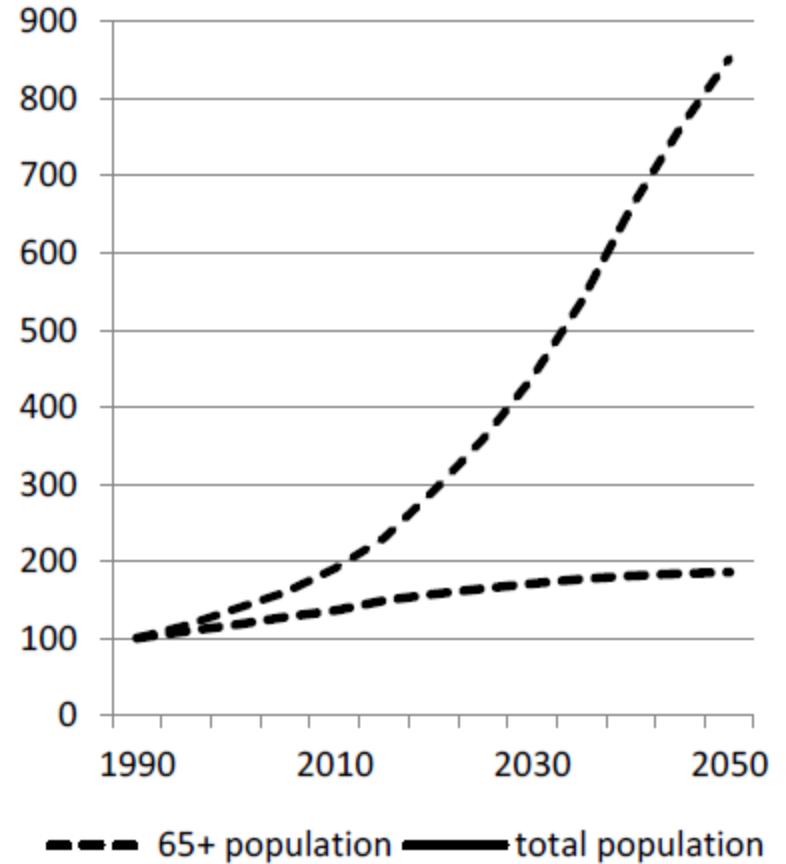
- The new defined contribution (DC) system of individual accounts, introduced in 1997 for private-sector workers (IMSS) and in 2007 for public-sector workers (ISSSTE), has been relatively successful.
  - Mexico has assets backing up pension benefits of close to 15% of GDP.
- However, there are many challenges:
  - Contributions to the system have to increase.
  - The non-contributory old-age pension (assuming participation in the system) is insufficient.
  - The system is still fragmented and will need to reform the pension systems of states, local governments and universities in order to achieve a true National Pension System.

Figure 3.1. Demographic projections in Mexico

Panel A. Remaining life expectancy at age 65 and fertility rate



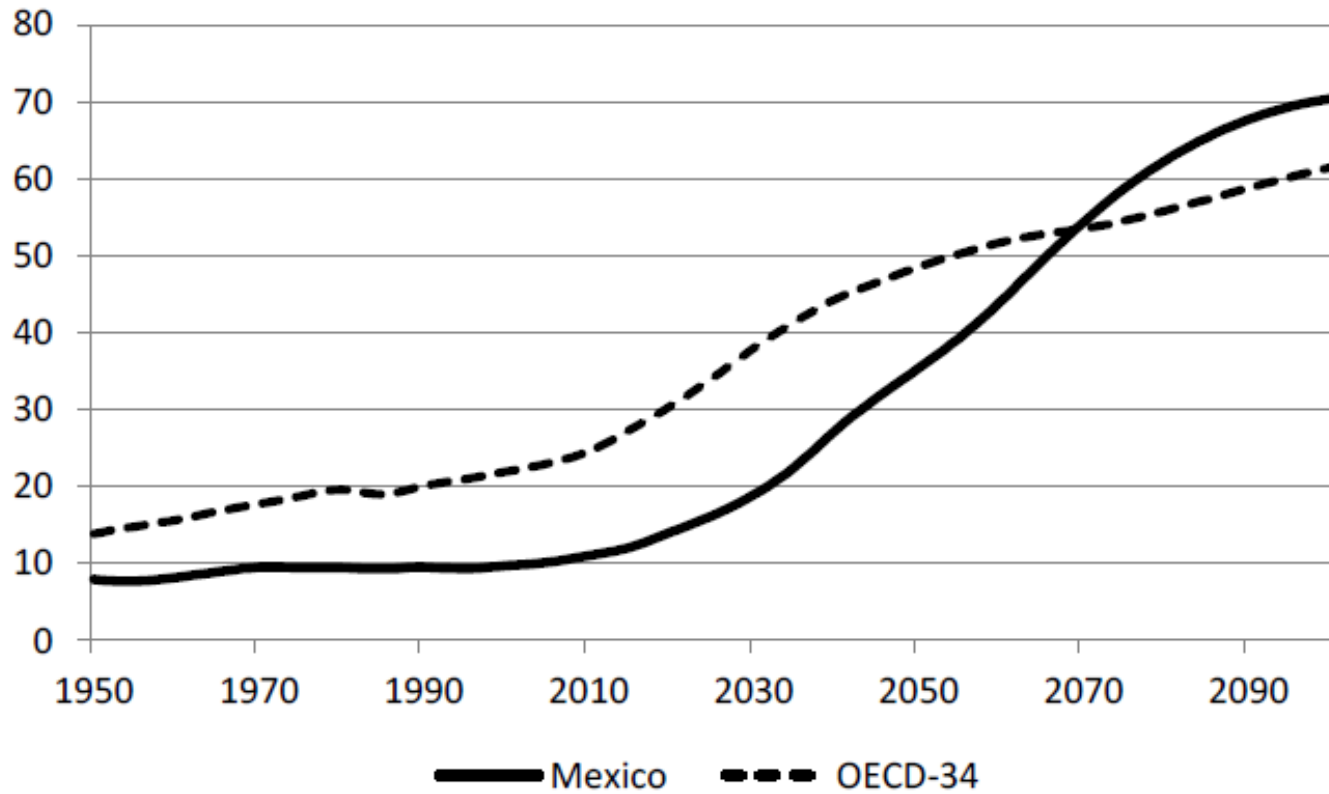
Panel B. Rapid increase of the share of people aged 65 and more (population in 1990 = 100)



Source: United Nations data, World Population Prospects – 2012 Revision.

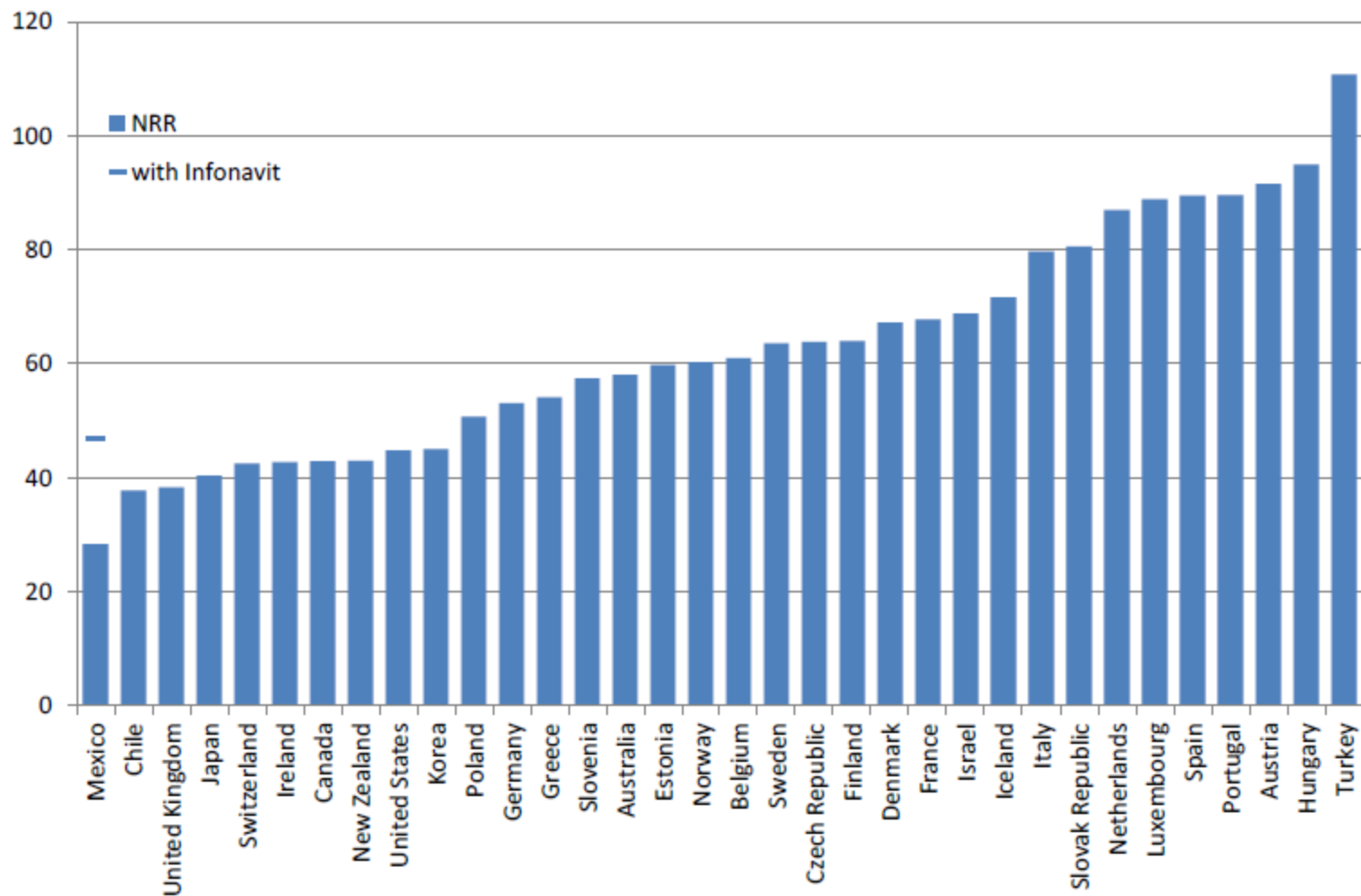
Source: OECD Reviews of Pension Systems, Mexico, 2015

**Figure 3.2. Old-age dependency ratio, %**  
Population aged over 65 divided by the 20-64 population



Source: United Nations data, World Population Prospects – 2012 Revision.

Figure 3.4. Net replacement rate for the full-career average-wage worker, %

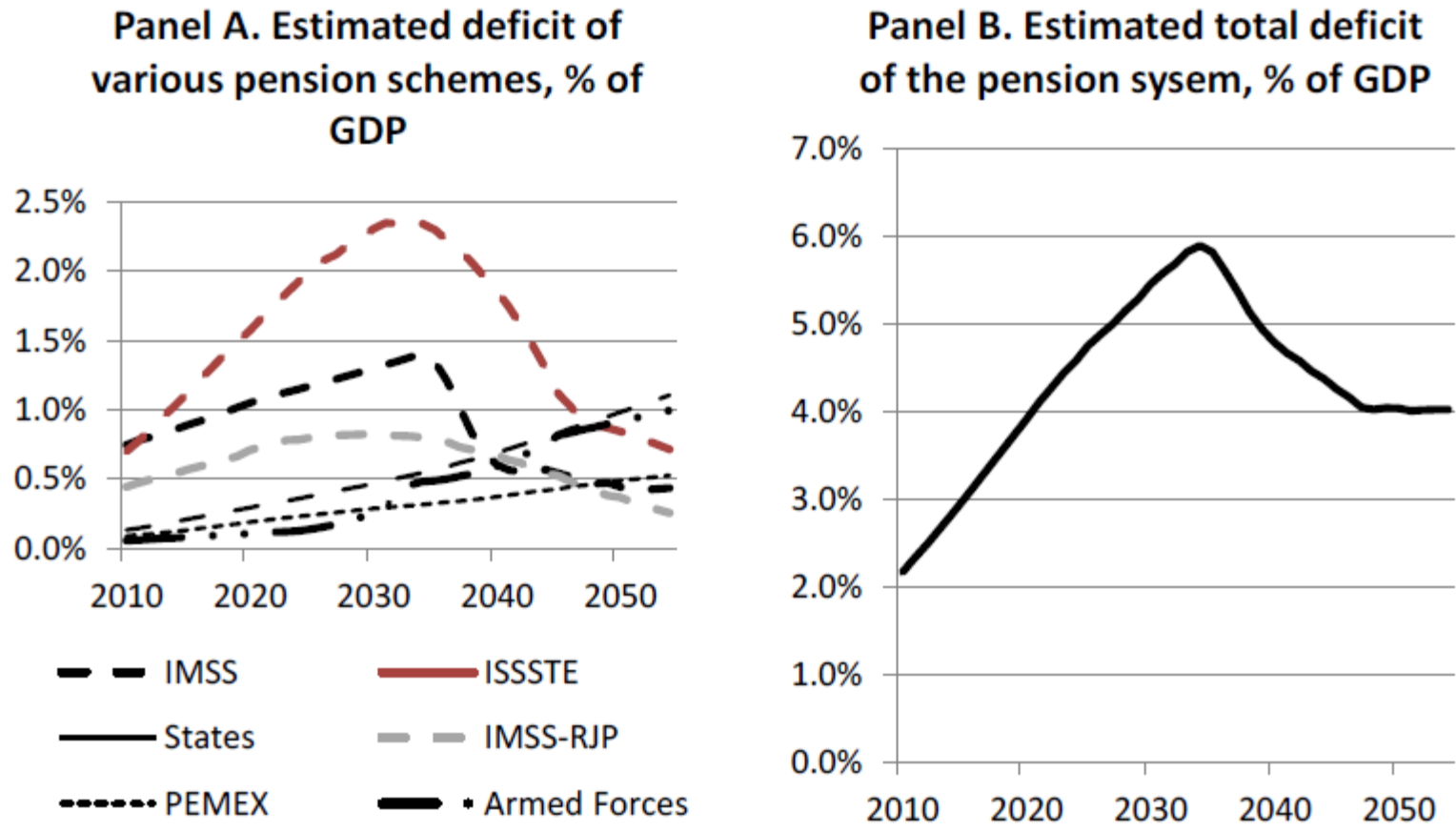


Projected net replacement rates are expressed as a percentage of average lifetime earnings assuming that individuals enter the labour market at age 20 in 2014 and work until the retirement age.

Source: OECD (2015a).

Source: OECD Reviews of Pension Systems, Mexico, 2015

Figure 3.6. Projected deficit of the pension system



Source: Tapen (2012).

Note: IMSS: Instituto Mexicano del Seguro Social (Public pension scheme for employees in the private sector and non-centralized public workers)  
 ISSSTE: Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado (Public pension scheme for employees in the public sector)



Figure 3.7. Old-age poverty rate, %, 2013

Percentage of those aged 65 and over with income lower than half median equivalised income

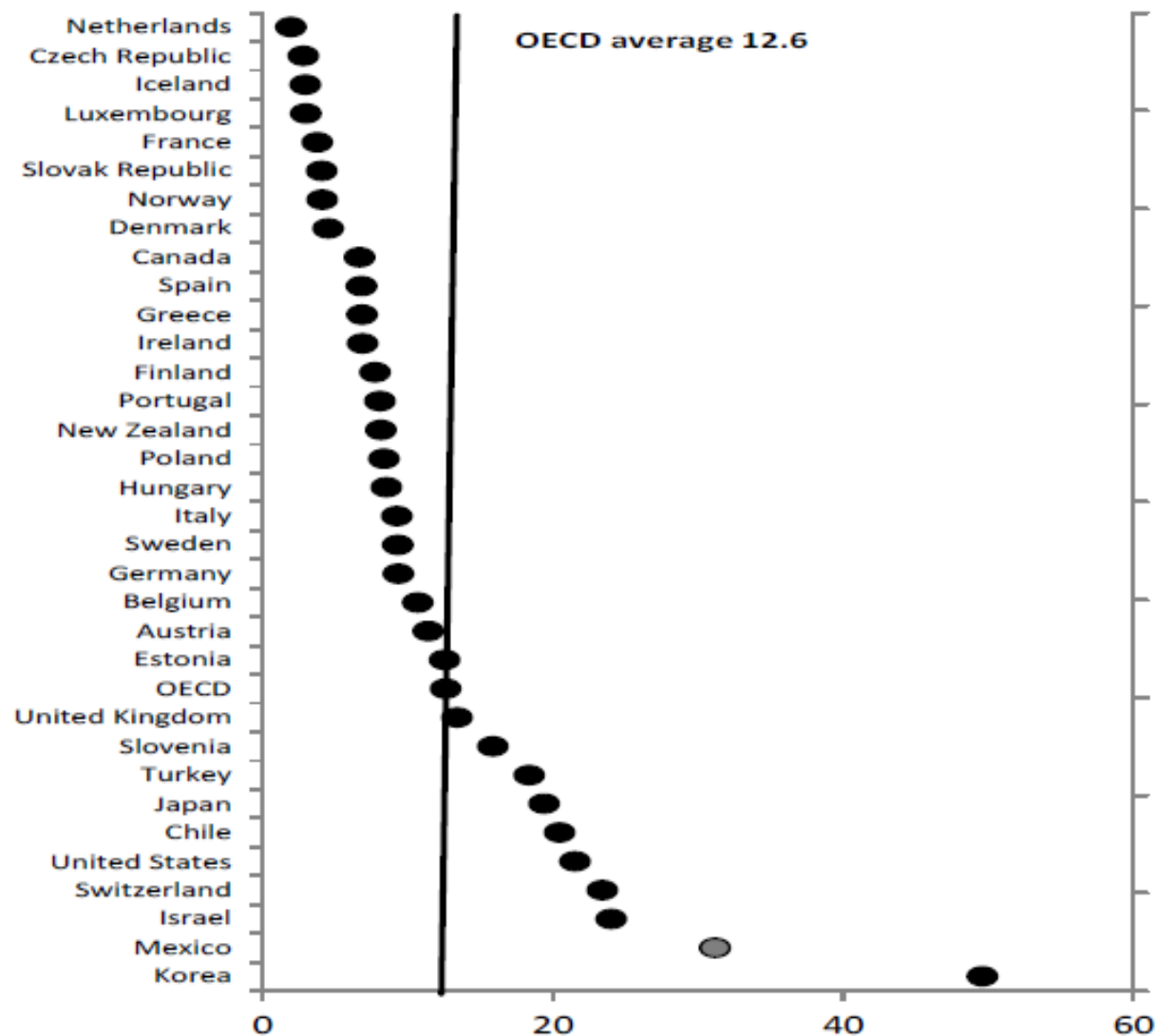
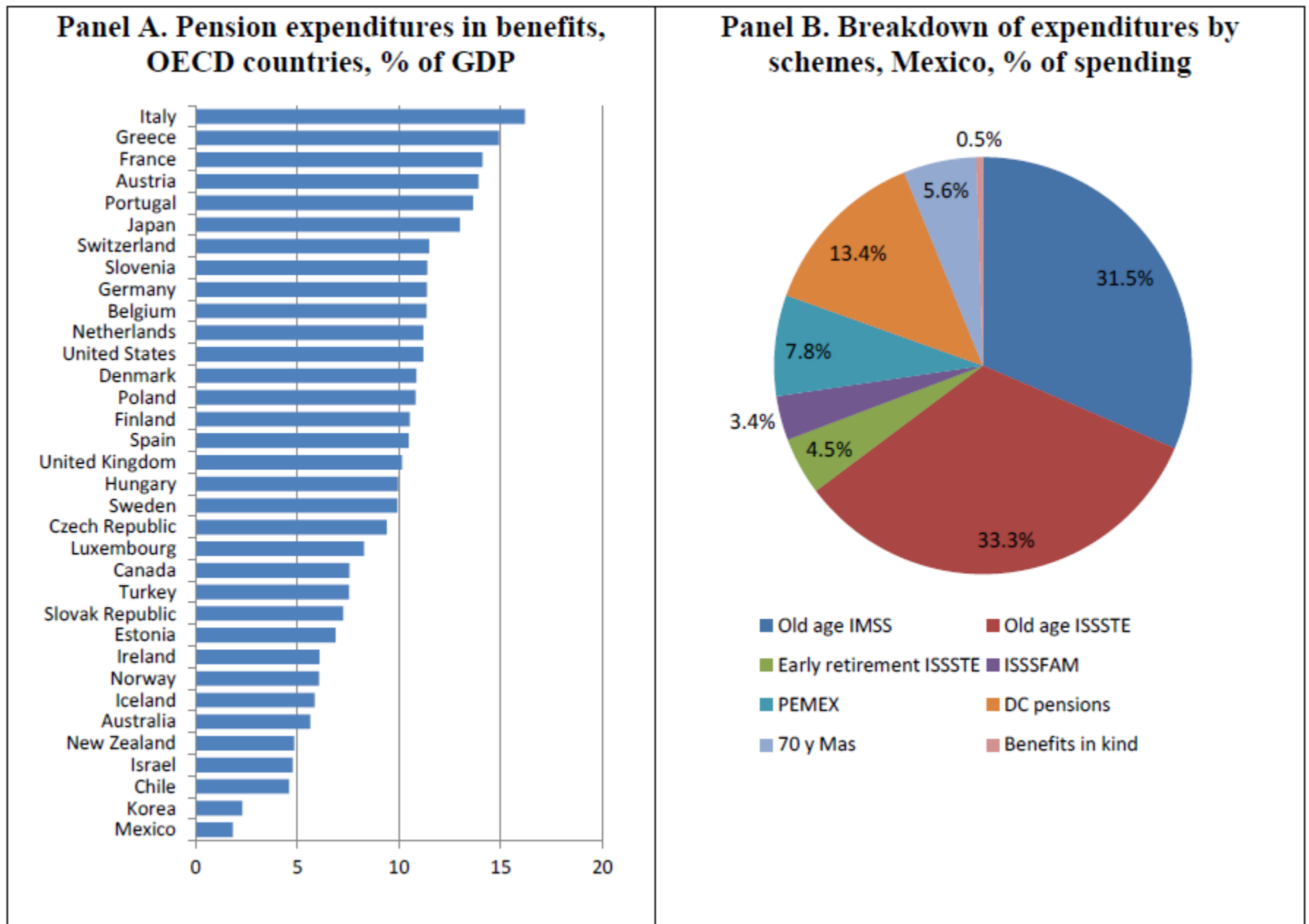


Figure 3.9. Old-age pension spending

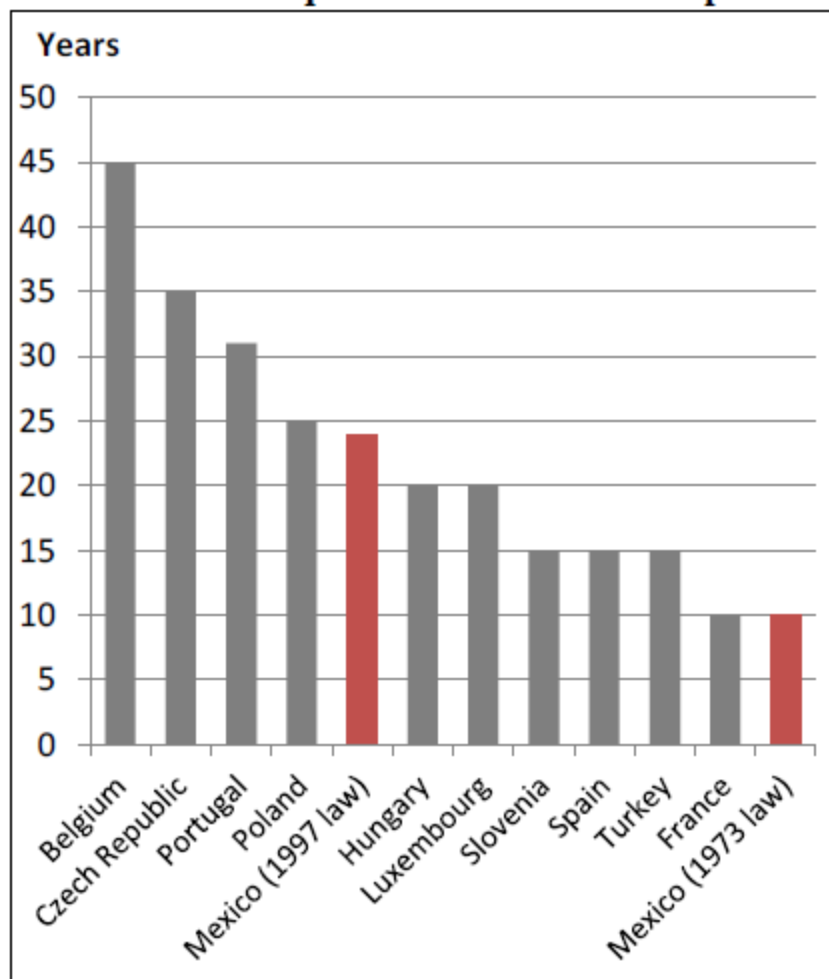


Source: OECD SOCX database.

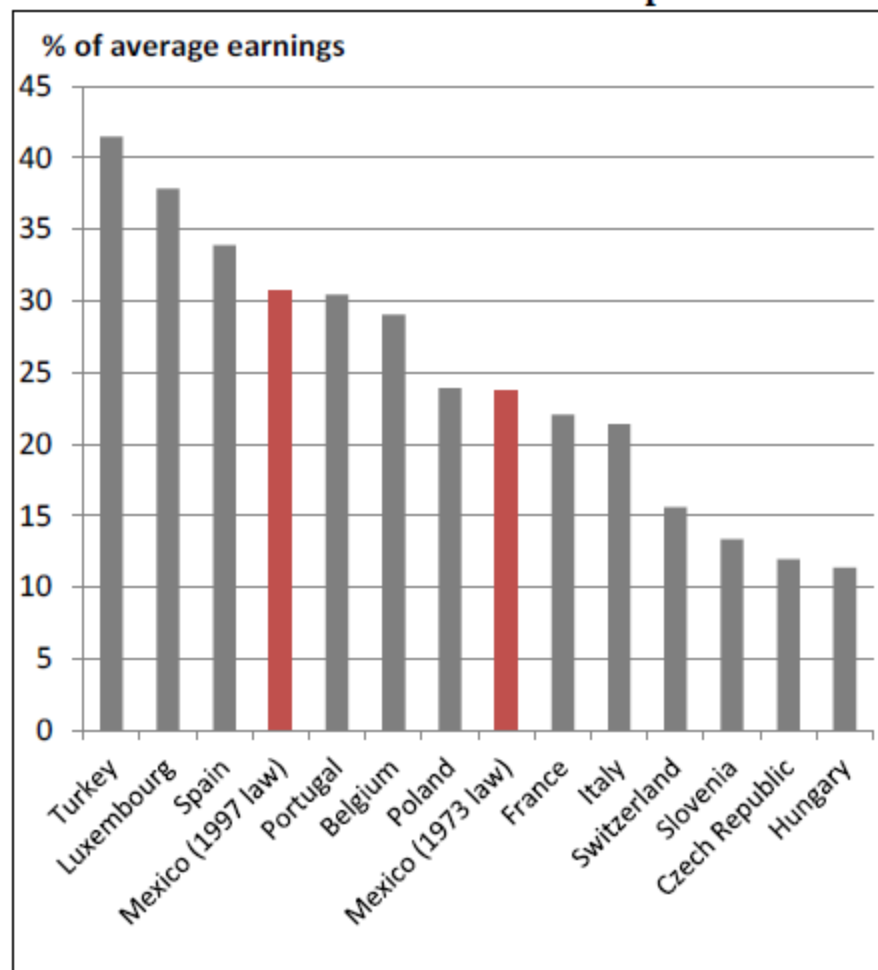
Source: OECD Reviews of Pension Systems, Mexico, 2015

Figure 3.10. Eligibility and benefit level of the minimum pension

Panel A. Years required for full minimum pension



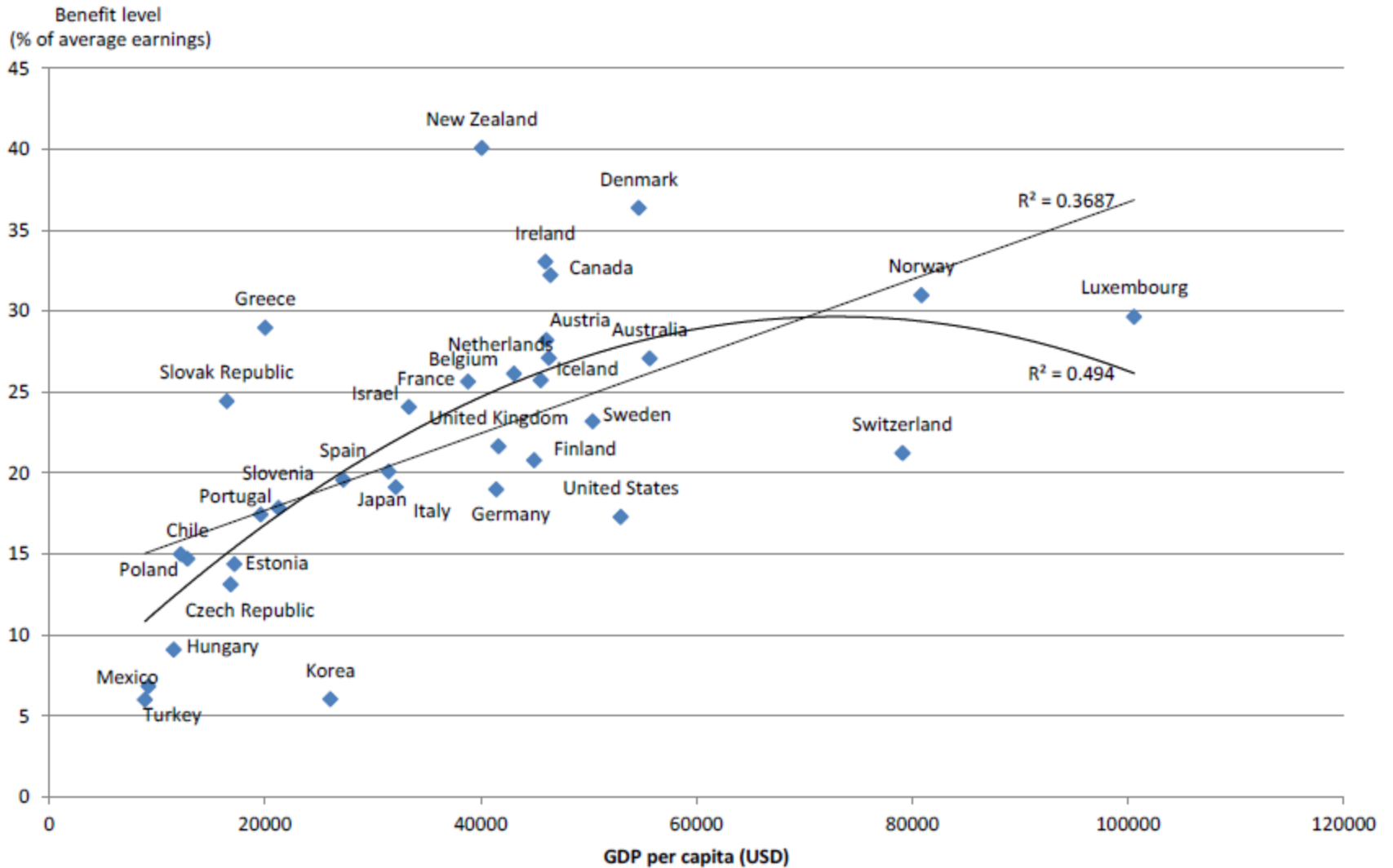
Panel B. Value of the minimum pension



Source: OECD (2015a).

Source: OECD Reviews of Pension Systems, Mexico, 2015

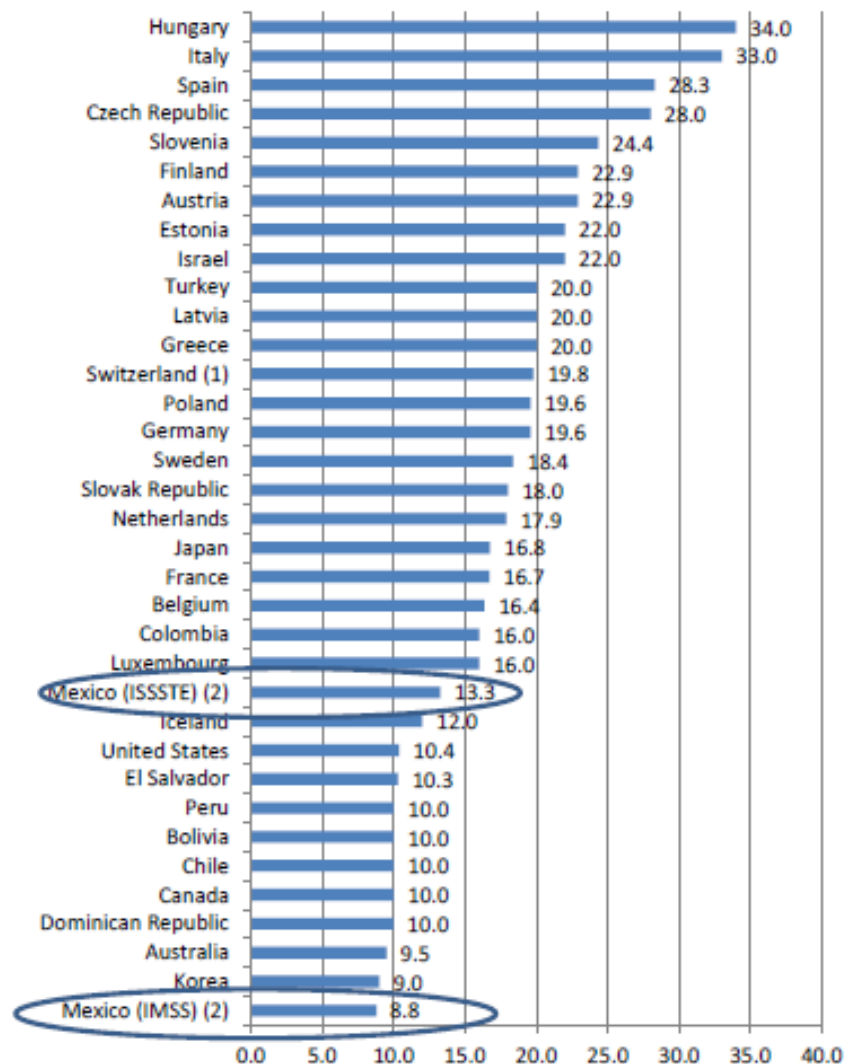
Figure 3.13. Old-age safety net level and economic development, 2014



Source: OECD calculations.

Source: OECD Reviews of Pension Systems, Mexico, 2015

Figure 4.2. Contribution rates in mandatory pension plans, selected OECD and non-OECD countries, 2012 or latest available data



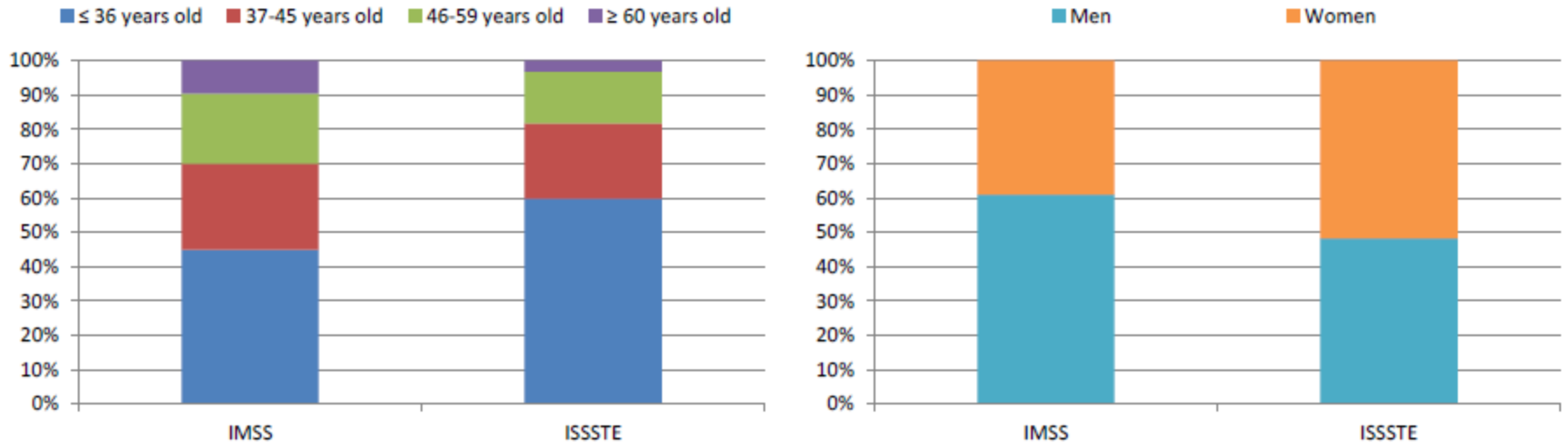
Notes: 1. The contribution rate to mandatory occupational pension plans varies across age groups, from 7% between 25 and 34 years old to 18% beyond 55 years old. The graph uses the rate of 10% (for people aged 35 to 44). 2. Numbers for Mexico include state contributions and the social quota for workers with a wage equivalent to 3 times the minimum wage.

Source: OECD (2013) and OECD/IDB/The World Bank (2014).

Source: OECD Reviews of Pension Systems, Mexico, 2015

OECD REVIEWS OF PENSION SYSTEMS: MEXICO © OECD 2015

Figure 4.4. Accounts administered by AFORE by age and gender

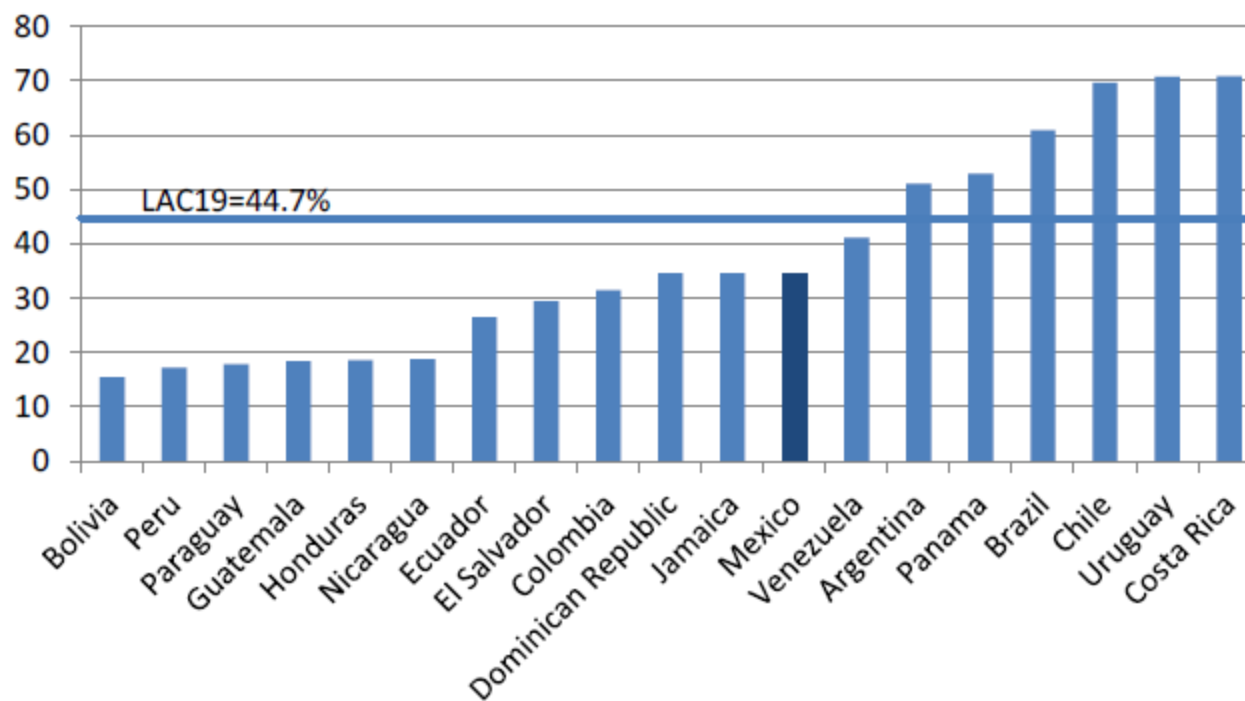


Notes: Preliminary data for the last quarter of 2014. IMSS: Includes IMSS workers registered to an AFORE and assigned workers with money deposited in a SIEFORE. The breakdown by gender does not include assigned workers when their gender is not known. ISSSTE: Includes workers who have only contributed to the ISSSTE and do not have a social security number (pure ISSSTE workers) and workers currently contributing to the ISSSTE and have a social security number because they already have contributed to the IMSS in the past (mixed ISSSTE workers).

Source: CONSAR.

Figure 4.6. Contributors or affiliates of pension systems in Latin America and the Caribbean, around 2010

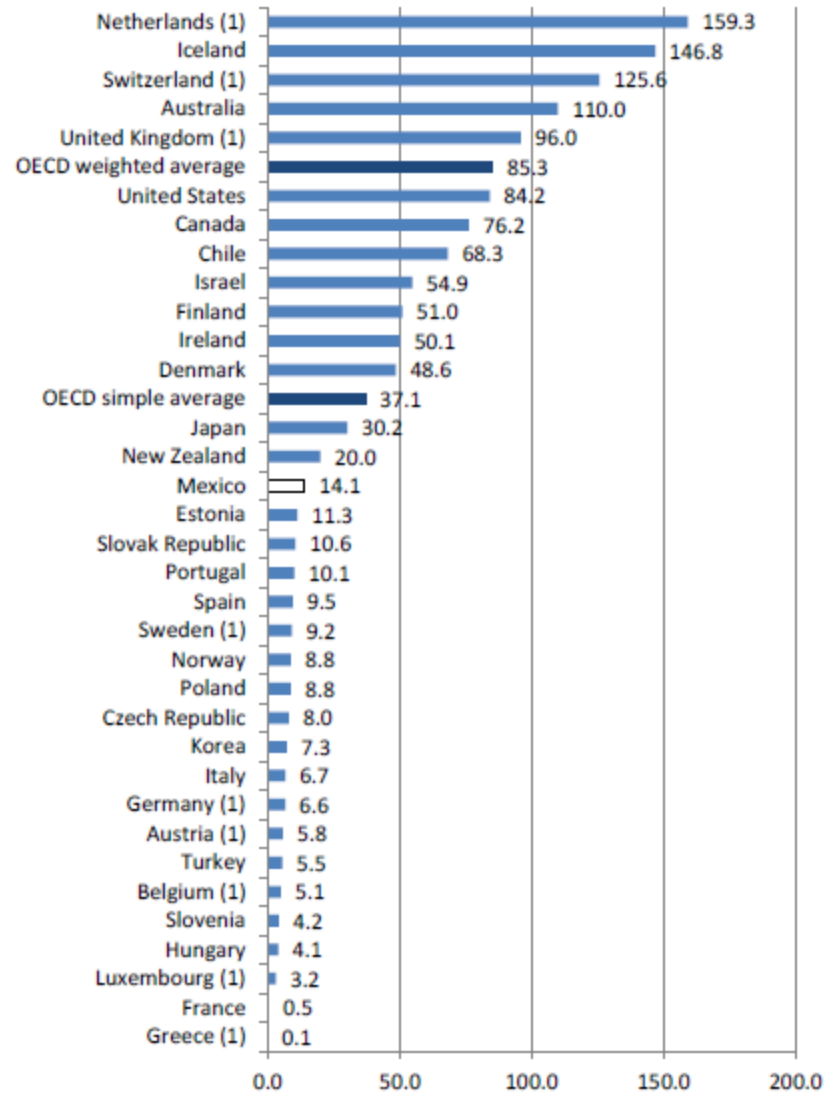
As a percentage of total workers (aged 15-64)



Source: Bosch et al. (2013).

Figure 5.1. Mexico's pension fund assets in an international context, 2014

As a % of GDP

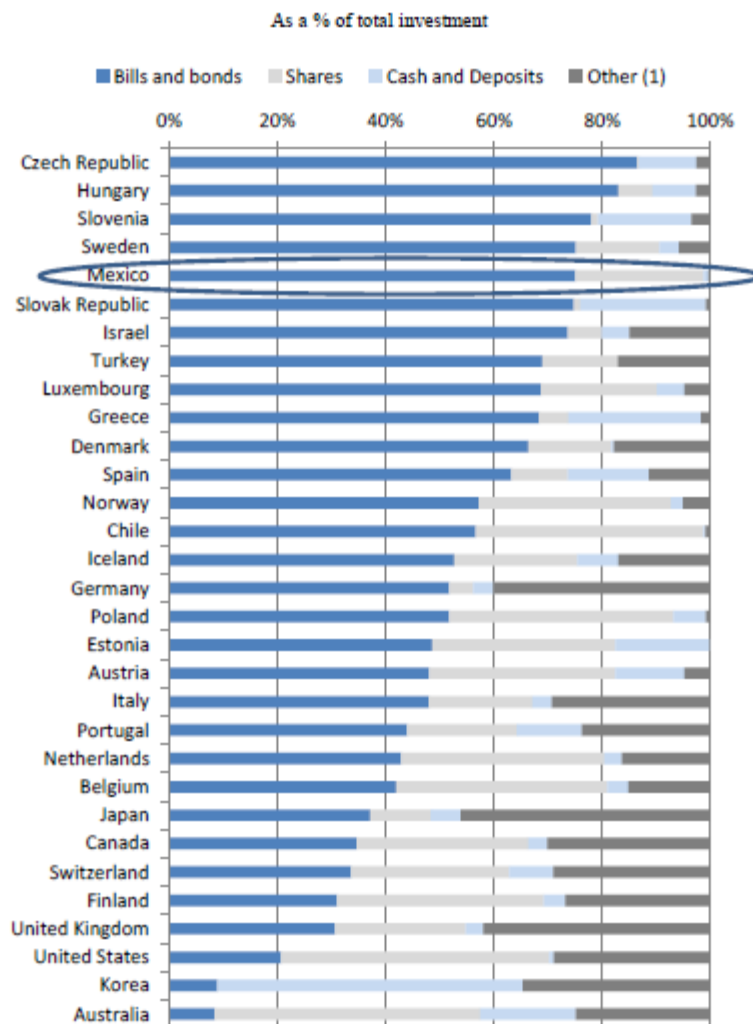


Note: 1. Preliminary data.

Source: OECD Global Pension Statistics.



Figure 5.6. Pension funds' asset allocation for selected investment categories in selected OECD countries, 2013

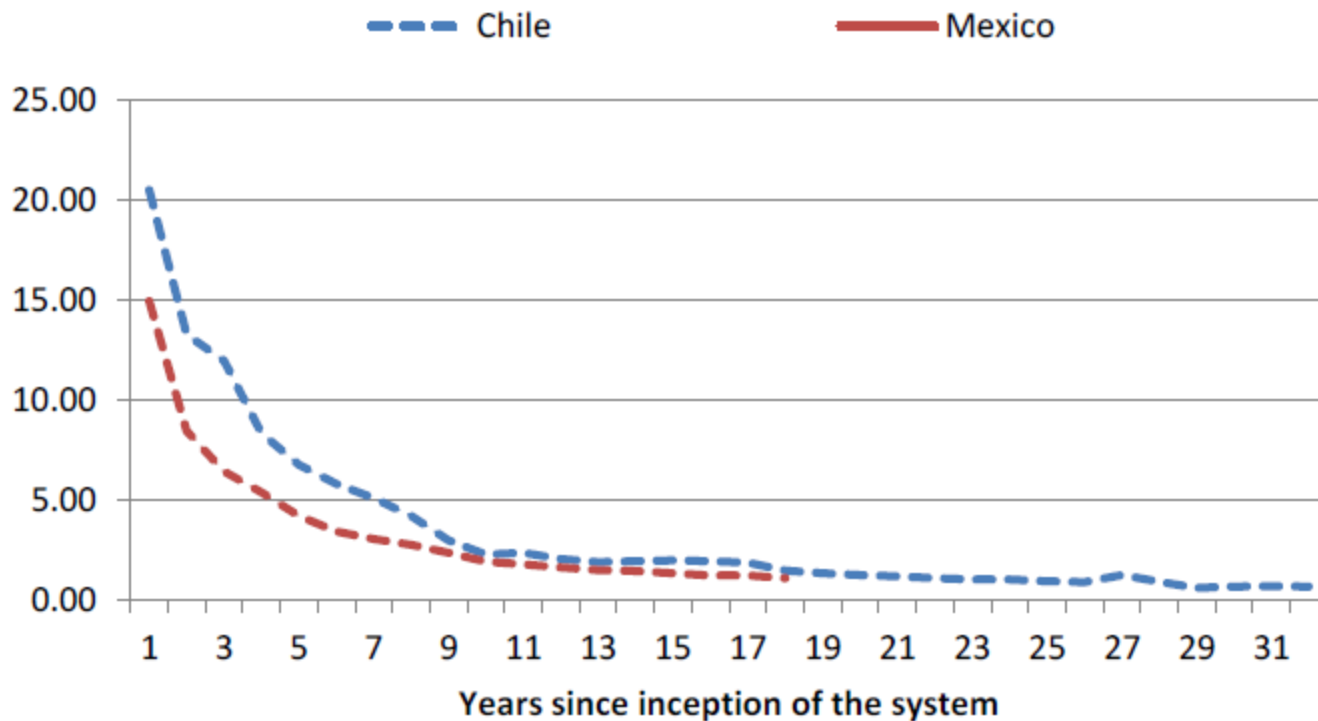


Note: 1. The "Other" category includes loans, land and buildings, unallocated insurance contracts, hedge funds, private equity funds, structured products, other mutual funds (i.e. not invested in cash, bills and bonds, or shares) and other investments.

Source: OECD Global Pension Statistics.

Figure 5.10. Evolution of fees charged in Chile and Mexico since the inception of each system

As a % of assets under management



Source: Chile: Superintendence of Pensions; Mexico: CONSAR.

# Appendix A-1

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