



Online Seminar held by the International Federation of Pension Funds, FIAP:

## Experts foresee that the early withdrawal of pension funds will have a permanent negative effect

*The presentation of the study "Withdrawal of funds: Defeating the Purpose of the Pension Systems. A review of the effects of this public policy," was attended by economists and experts from Chile and Peru.*

National and international experts conducted a thorough review of the long-term negative effects associated with the early withdrawal of pension funds, as part of the presentation of the study "**Withdrawal of funds: Defeating the Purpose of the Pension Systems. A review of the effects of this public policy,**" published this Tuesday by the International Federation of Pension Fund Administrators (FIAP).

On the occasion, the results and conclusions of the study conducted by Rodrigo Acuña, FIAP's external advisor, partner of PrimAmérica Consultores and Economist of the Catholic University of Chile, and Francisco Margozzini, FIAP's General Secretary, were presented. María Cecilia Cifuentes, Master in Economics from the Catholic University of Chile and Professor at the Center for Financial Studies at ESE Business School of the University of Los Andes; and Giovanna Prialé, Chairwoman of the Peruvian Association of AFPs, attended as guests.

The study outlined the approved mechanisms for withdrawing funds accumulated in mandatory accounts in Peru, Chile and Australia, the only countries in the world that allowed withdrawals from their pension funds, setting out in detail how the lack of means testing and the uncertainty regarding the reimbursement of the funds set the tone in the case of the first two countries. In fact, the data collected by FIAP show that withdrawals associated with Covid-19 in Peru and Chile, amounted to 18% and 17% of the managed funds, respectively, 10 times more than the amounts withdrawn in Australia.

This was aggravated by uncertain political contexts in both countries, which certainly facilitated the adoption of such measures, precisely at the time when one of the central concerns of both countries was how to resolve the low pensions issue.

Guillermo Arthur, President of FIAP, analyzed the consequences of these measures in the pension debate and said that it was "a contradiction that, while considering mechanisms for increasing the contribution rate in all our countries, governments have resorted to mechanisms that encourage the depletion of savings."

The President of the international trade association emphasized that in the new scenario, the withdrawal of the pension funds will lead to rethinking the purpose of pensions: "A case in point is the replacement rate, because evidently, with the reduction of the pension funds we have witnessed in Chile and Peru, we cannot achieve better replacement rates." He added that "a contribution rate should be agreed on to annul or minimize the negative effect of this withdrawal."

Rodrigo Acuña commented that, in his opinion, one of the harmful effects is that Congress seeks to promote new withdrawals in the future, which is at odds with the experience in Peru, which "evidences that once the possibility of making withdrawals for purposes other than pensions is available, it is difficult to close the door to avoid the repetition of such measures, especially when they are politically and ideologically motivated."

Francisco Margozzini, in turn, detailed the characteristics that an income support mechanism should meet, financed with the early withdrawal of pension funds, with means-testing, tax neutrality and clarity regarding how such funds will be reimbursed, being the three main pillars.

"Because pension savings have a sole and exclusive purpose, people must understand that withdrawals have a negative impact on future pension amounts. In other words, they come at a cost. Nothing is free in life. Thus, after the crisis has passed, efforts must be made to achieve the pensions that would have been achieved without the withdrawal of funds. To raise awareness, it is proposed that at the time of withdrawal, members must choose the means of recovery, either by temporarily increasing the contribution rate, or else delaying their retirement age, or a combination of both," he explained.

### **The worst public policy in 47 years**

Later on, María Cecilia Cifuentes argued that the withdrawal mechanisms have defeated the purpose of the pension systems, "and the truth is that I believe that this goes even further, and we are crippling the country's development process."

In this regard, Cifuentes argued that the crisis associated with the pandemic "is a transitory problem (...) and what politicians did in Chile and Peru was to address a transient issue while creating permanent damage," calling Chile's first approved withdrawal "the worst public policy in Chile in the last 47 years."

She endorsed her point of view by pointing out the "paradoxical" situation that "in times of severe recession, the deepest since 82, families had more disposable income than in the previous year, resulting in an extremely serious public policy error, because it doesn't make much sense."

Finally, Giovanna Prialé emphasized the importance of examining the Peruvian case: "so that you do not make the mistakes that we are making in our country, that can have effects that are unfortunately irrecoverable."

In her presentation, she recalled that Peru pioneered the start of withdrawals in 2016, remarking: "The political timing is very important because in the end, decisions are no longer technical in nature, but become a kind of escape valve for when congressmen are looking for the easiest thing to attack (...) resulting in the creation of irrecoverable deficits, because there are no measures in place for reimbursing those funds."

In fact, she warned about two initiatives currently being discussed in Peru, one of them involving the creation of new pension mode of S/43,000 per person, about US\$17,000, while the other one seeks to create a public body that will end up replacing the AFPs, similar to what occurred in Bolivia more than 5 years ago (in Bolivia, the public body has never been operative, and pension funds are managed by the private AFPs to this day).

In view of the above, she warned that "the pension system in Peru remains at risk, due to the saving capabilities of the population and because of the future consequences of withdrawals, so I call on you to consider the importance of pension savings."

To download the FIAP study and all presentations delivered in the webinar (only the Spanish version available), please visit:

<https://www.fiapinternacional.org/seminario/retiro-de-fondos-desnaturalizando-los-sistemas-de-pensiones-una-mirada-a-los-efectos-de-esta-politica-publica/>

To review the video of the webinar, please check the FIAP YouTube channel:

<https://www.youtube.com/watch?v=0B8PbhPAQjA>