

International Federation of Pension Fund Administrators



Progress of the Pension Systems October - November 2016 No. 5

This document reports on progress in pension matters, factually accurate while maintaining maximum simplicity and brevity. It compiles the major changes that occurred in the pension systems in the October - November 2016 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. The content of this document may be fully or partially reproduced citing the source.

Executive summary by area of interest

New Pension Programs and Social Security Reforms (approved)

- ✓ **Germany:** The "Flexi-Pension" law, which enables flexible transition from work to retirement, was passed. The legislation modifies means testing for pensioners who continue working, allows individuals working after the normal retirement age to qualify for greater benefits by paying in contributions, and reduces the age at which workers can make pre-paid contributions for the purpose of early retirement, without suffering a reduction in their pension amounts.
- ✓ **Chile:** Law passed that increases the Basic Solidarity Pension by 10% (from US\$ 134 to US\$ 152). The law will become effective as of January 1, 2017, also increasing the benefits of the Solidarity Pension Contribution and Disability Pensions.
- ✓ **Finland:** The contribution rate to the mandatory occupational system has been increased; the total rate is currently 23.7% and will increase to 24.4% (17.15 points funded by employer and 7.25 points by workers under 53).
- ✓ **Peru:** Agreement for the Application of the Multilateral Ibero-American Social Security Convention subscribed. The Convention is the first Ibero-American international instrument that protects the rights of millions of migrant workers, enabling the portability of pension funds.
- ✓ **Russia:** Due to budget constraints, the Government decided to: (i) suspend indexing of public pensions based on inflation, and will instead make a one-off payment of US\$ 77 to all pensioners; (ii) switch the 6 percentage points of contribution to the second individually funded pillar, financed by employers, to the first public PAYGO pillar (contributions to the system total 22%).

Crisis in public PAYGO systems

- ✓ **Costa Rica:** Study of the public PAYGO system will be published at the end of November, enabling the definition of strategies to be followed in coming years.
- ✓ **Panama:** Government engaged international consultants to assess the financial status of the public PAYGO system managed by the Social Security Fund (CSS).

Sustainability of the pension systems

- ✓ The new version of the Allianz Pension Index ranks the top 10 countries with the most sustainable pension systems: (i) Australia; (ii) Denmark; (iii) Sweden; (iv) Holland; (v) Norway; (vi) New Zealand; (vii) Latvia; (viii) Estonia; (ix) US; and (x) Chile. Among the countries with the most unsustainable pension systems are Brazil and Greece

Investment options / Multifunds

- ✓ **India:** Two new pension fund investment options offered to private sector workers: (i) "aggressive," which increases the maximum limit of investment in shares from 50% to 75%; (ii) "conservative," which limits investment in shares to 25%; with both options, the maximum level of investment in shares will be reached at 35 years of age, thereafter gradually reducing the investment in equity limit as members approach retirement age.

Retirement Age

- ✓ **Denmark:** Government proposed increasing the retirement age from 67 to 67.5 by 2025, and to 68 by 2030. It also proposed increasing the early retirement age from 63 to 63.5 by 2021.
- ✓ **Poland:** Reduction in the retirement age to 65 for men and 60 for women approved as of October 2017. The previous Government had passed a law in 2012 to gradually increase the retirement age to 67 for men and women. The measure has given rise to criticism, since it increases the deficit and lack of sustainability of the system.

Reforms proposed or to be discussed

- ✓ **Chile:** IMF states that the AFP system should be preserved, the contribution rate and the retirement age should be increased, and contributions by the self-employed should be mandatory, among other measures. Given fiscal constraints, any increase in benefits must take into account future commitments related to aging.
- ✓ **Colombia:** Asofondos has stated that complementing the existing public and private regimes is a priority, which in practice would mean that the public PAYGO pillar would be directed to the poorest segment of the population to complement individual accounts, which may be funded or notional. It also proposes introducing institutional changes in the pension system, concentrating subsidies to the poorest elderly population, and reforming the labor market due to the high informality rates.
- ✓ **Denmark:** The proposed agenda for reforming the pension system has been published; among other measures, it states that workers who are not yet saving 6% of their income in a pension scheme must contribute 2% to a retirement savings plan.
- ✓ **El Salvador:** Citizens' Initiative for Pensions (ICP) proposes reducing investment in government securities to a maximum of 20% (this limit is currently 40%).
- ✓ **Spain:** The Toledo Pact Committee started its work on far-reaching reforms in the public pension system. The proposals include creating a specific tax to finance Social Security and making it mandatory for companies to offer workers accounts for saving part of their monthly wages (the accounts would be portable between the companies where workers are employed).
- ✓ **Mexico:** The Afores Trade Association will continue to pressure the authorities to carry out a reform of the pension system to review the parameters of the Social Security Law. Studies suggest that the country should increase mandatory tripartite contributions to 15%.
- ✓ **Dominican Republic:** Government accelerates the agenda for reforming Social Security Law 87-01. The proposals include extending the coverage of services offered to members, and improvements in pensions and compensation for occupational hazards.
- ✓ **Uruguay:** The Social Security Bank (BPS) requested the Central Bank to issue new mortality tables for calculating AFAP pillar pensions. This change would entail an average increase of two years in life expectancy, with the consequent negative effect on life annuity amounts

New products

- ✓ **Mexico:** AFORE XXI Banorte is the country's first fund manager for children, aimed at encouraging saving from an early age and allowing parents to finance studies and other needs of their children. Savings will be considered a voluntary contribution, and the accumulated capital can be withdrawn whenever the parents decide to do so. When the child comes of age and works, he can save and pay his mandatory contributions into the same account.

News highlights in this issue



Law passed that provides for a special adjustment of 10% in the Basic Solidarity Pension (from US\$ 134 to US\$ 152). The law will become effective as of January 1, 2017, also increasing the benefits of the Solidarity Pension Contribution and Disability Pensions. Both amendments will benefit about 1 million 400 thousand pensioners and will entail an additional cost to the State of CLP 135 billion (approx. US\$ 199 million).



Asofondos has stated that complementing the existing public and private regimes is a priority, which in practice would mean that the public PAYGO pillar would focus on the poorest segment of the population to complement individual accounts, which may be funded or notional. It also proposes introducing institutional changes in the pension system, concentrating subsidies to the poorest elderly population, and reforming the labor market, given the high informality rates.



The Afores Trade Association will continue to pressure the authorities to carry out a reform of the pension system to review the parameters of the Social Security Law. Studies suggest that the country should increase mandatory contributions to individual accounts by workers, employers, and the government, to 15%. There are several initiatives in this regard in Congress, but they were not included in the legislative agenda this year.



The agreement for the Application of the Multilateral Ibero-American Social Security Convention was subscribed. There are now 11 countries in which the Convention has been effectively implemented. This Convention is the first Ibero-American international instrument that protects the rights of millions of migrant workers, enabling the portability of pension funds.

Reports or relevant presentations

The IMF states that the AFP system should be preserved, the contribution rate and the retirement age should be increased, and contributions by the self-employed should be mandatory, among other measures. This proposal is included in the latest [conclusions of the IMF mission](#). According to the agency, the new pension reform should maintain and strengthen the existing system, considering the following points: (i) the contribution rate must be increased above 10% to ensure adequate pensions; (ii) given the fact that life expectancy at retirement is expected to increase by approximately 5 years by 2050, a gradual increase in the mandatory retirement age must be considered, especially for women; (iii) contributions by self-employed workers must be mandatory to increase the coverage of the system; and (iv) the minimum pension benefits of current retirees must be increased, and the non-contributory solidarity pillar must be expanded. Given fiscal constraints, any increase of benefits must take into account future commitments related to aging. The IMF suggests that a package of pension reforms financed by a combination of higher contribution rates and indirect taxes would entail lower costs of growth than one solely funded by higher contribution rates. (Source: [www.imf.org](#); Date: 02.11.2016).

World Bank outlines challenges of pension systems worldwide. At the [Seventh Savings and Pensions Conference](#) held in September, a series of challenges emerged that must be addressed to improve the level of pension savings worldwide, including: (i) increase the coverage of systems, particularly in the informal sectors of the economy; (ii) persuade people (especially low and medium income) to save during their active lives, in order to be better able to face retirement in 20 or 30 years from now; (iii) ways must be found to strengthen the returns on the investments of the pension funds, through the promotion of investment in productive activities (such as infrastructure); (iv) improve the design of systems for preserving or enhancing the value of pensions of current retirees, and ensure the sustainability, justice and equity of the system in the long term. You can review the presentations delivered [here](#). (Source: [www.worldbank.org](#); Date: 04.11.2016)

Allianz published a new version of the [Pensions Sustainability Index \(PSI\)](#). This indicator uses three sub-indicators (demographics; public finance, and the design of the pension system) for systematically measuring the long-term sustainability of a pension system. The ranking of the top 10 countries with the most sustainable pensions systems includes: (i) Australia; (ii) Denmark; (iii) Sweden; (iv) Holland; (v) Norway; (vi) New Zealand; (vii) Latvia; (viii) Estonia; (ix) US; and (x) Chile, whereas at the other extreme, the 10 countries with the most highly unsustainable pension

systems are: (i) Thailand; (ii) China; (iii) Slovenia; (iv) Greece; (v) Brazil; (vi) Italy; (vii) India; (viii) Malta; (ix) Japan; and (x) Spain. (Source: [www.allianz.com](#); Date: September 2016).

The latest edition of the OECD's [Pension Market in Focus](#) estimates the amount of assets managed by private pension funds worldwide in 2015 at USD 38 billion. Of this total, \$ 36.9 billion correspond to 35 countries of the OECD, and USD 1.3 trillion to a sample of 45 non-OECD countries. The largest volumes of pension fund assets are in the United States, Canada, United Kingdom, Holland, Switzerland, Australia and Japan. The size of the funds is also high compared to the size of the local economy in some countries such as Chile (70% of GDP), Denmark (206% of GDP) and South Africa (97% of GDP). However, in more than 50 countries the size of the funds is still 20% of GDP or less. Other trends found in the report are the following: (i) the real returns of the pension funds (net of investment expenses) were positive in most countries in 2015, but less than those obtained in 2014; (ii) the number of pension funds has declined, especially in Europe; (iii) countries with relatively lower numbers of pension funds performed better than those with a higher number of pension funds, in the 2005-2015 period. (Source: [www.oecd.org](#); Date: 31.10.2016).

Relevant news of the period

Latin America, the Caribbean and North America

Chile

Law passed that provides for a special adjustment of 10% in the Basic Solidarity Pension. The law, which will become effective as of January 1, 2017, establishes a special adjustment of 10% in the amount of the Basic Old Age and Disability Solidarity Pension, from CLP 93,543 to CLP 102,897 (approx. USD 134 to USD 152), and increases the benefits of the Solidarity Pension Contribution and Disability Pensions. Both amendments will benefit about 1 million 400 thousand pensioners, and will entail an additional cost to the State of CLP 135 billion (approx. US\$ 199 million). (Source: [www.latercera.com](#); Date: 28.11.2016).

Colombia

Asofondos' priority objectives are adjustments to the Periodic Economic Benefits Program (BEPS), and for public and private pension systems to complement one another. The AFPs Trade Association stated in a seminar that the extensive informal economy existing in the country (about 65%) and higher life expectancy, make the public pension system unsustainable, due to the way it is designed. According to the Chairman of Asofondos, Santiago Montenegro, before raising the retirement age, Colombia must: (i) introduce institutional changes in the

pension system; (ii) focus subsidies on the poorest elderly population; (iii) reform the labor market due to the high informal economy. The Trade Association sees the need to complement the existing public and private pension systems as a priority. In practice, this would entail that the public PAYGO pillar would focus on the poorest segment of the population to complement individual accounts, which may be funded or notional. Regarding the Periodic Economic Benefits Program (BEPS), which is an individually funded savings system for protecting more low-income people in old age, it proposed that it should not be means-tested via Sisben I, II, III (as is currently the case), in order to give more scope to the program, and that it should be mandatory, i.e., instead of providing a lump sum payment of balances or a complementary compensation, it should allow access to a BEPS to guarantee a minimum degree of protection in old age. (Source: www.asofondos.org.co; Date: 12.11.2016).

Costa Rica

Study of the public PAYGO system will be published at the end of November. The returns of the Disability, Old Age and Death Pension System (IVM) will be published at the end of November, after the University of Costa Rica (UCR) completes the actuarial study it is currently engaged in. With this study, the Costa Rican Social Security Fund (CCSS) will define the strategies it will implement for making the public PAYGO system sustainable for longer. (Source: www.laprensa libre.cr; Date: 15.11.2016).

El Salvador

Citizens' Initiative for Pensions (ICP) proposes reducing investment in government securities to a maximum of 20% The different institutions comprising the ICP completed two workshops which sought suggestions and contributions for the presentation of a proposal to reform the Pension Law. Despite the fact that no firm proposal has been put forward, there has been consensus regarding the following ideas: (i) limit the investment in government securities (Pension Investment Certificates, CIP)¹ to a maximum of 20% of the funds (the limit is currently 40%); (ii) opposition to the Government seizing savings to solve its fiscal crisis caused by its own inefficiency. According to the ICP's agenda, the firm proposals it is drawing up will be completed by the end of January, 2017. (Source: www.eleconomista.net; Date: 18.11.2016).

Honduras

Bill of Law to regulate the AFPs is ready and could be submitted to Congress this year. This law must be passed by March 4, 2017, at the latest, and once it comes into effect, workers can choose to which of the 3 existing AFPs they will pay their contributions. It is worth mentioning that the Social Security Framework Law came into effect on September 4, 2015, and ordered the Private Contributions System (RAP) to create an AFP and thus be able to capture the contributions of workers, and compete with the other 2 AFPs existing in the country. (Source: www.laprensa.hn; Date: 21.11.2016).

Mexico

The corporate governance of the AFOREs is strengthened by the new regulations governing compliance officers. The new [General Provisions applicable to Compliance Officers of the AFOREs](#) were published in the Official Gazette of the Federation. These provisions strengthen the role of Compliance Officers, ensuring better performance of their duties and improving key aspects of the corporate governance of the AFOREs. Compliance officers play a fundamental role, since they are responsible for enforcing full compliance with the internal and external rules and regulations governing the AFOREs. (Source: www.consar.gob.mx; Date: 29.11.2016).

The Fund Managers' Trade Association calls for reforms to the private pension system. The Chairman of the Mexican Association of Pension Fund Managers (Amafore), Carlos Noriega, has said that the association will continue to pressure the authorities to carry out a reform of the pension system to review the parameters of the Social Security Law. Several proposals and studies suggest that the country should increase mandatory contributions to individual accounts by workers, employers, and the government, to 15%. There are several initiatives in this regard in Congress, but they were not included in the legislative agenda this year. (Source: <http://www.eluniversal.com.mx>; Date: 14.11.2016).

An instrument for retirement savings from early childhood has been launched. AFORE XXI Banorte became the first fund manager for children in the country, aiming to encourage saving from an early age and enabling parents to finance studies and others needs of their children. As a promotion, the fund manager offers 100 pesos for each contribution paid in by the parents equal to their initial deposit on opening an account of this type for their children. This saving by children will be considered a voluntary contribution, and the accumulated capital can be withdrawn whenever the parents decide to do so. The account is in the name of the child from the

¹ The CIPs are government securities acquired by the AFPs with the savings of their contributors; it is a government debt to workers.

outset. When the child comes of age and works, he can save and pay his mandatory contributions into the same account. (Source: www.eluniversal.com.mx; Date: 04.11.2016).

Panama

Government engages international consultants to assess the financial status of the public PAYGO system managed by the Social Security Fund (CSS). The National Economic Council (CENA) of the Ministry allocated almost US\$ 2 million to engage the consulting services of Ernst and Young Limited, Deloitte Consulting, Price Water House Coopers and KPMG, to determine the situation of the CSS from 2011 to 2014. The purpose is to obtain real accounting data for determining the financial and actuarial status of the CSS and its risks and components, such as the Disability, Old Age and Death, Illness and Maternity, and Administration and Occupational Hazards programs. According to the IMF, the system will be bankrupt within the next decade. (Source: www.telemetro.com; Date: 10.11.2016).

Peru

The [Agreement for the Application](#) of the Multilateral Ibero-American Social Security Convention was subscribed and deposited. There are now 11 countries in which the Convention has been effectively implemented. The agreement was subscribed last October 20. This Convention is the first Ibero-American international instrument that protects the rights and economic benefits of millions of migrant workers, their families and the employees of multinational companies, by streamlining the legislation of different countries in pension matters, and guaranteeing economic security in old age, disability or death, protected under the social security systems of the different Ibero-American states. Further details [here](#). (Source: www.oiss.org; Date: 21.10.2016).

The AFPs agree on the need for a minimum pension in the private pension system. This was the main conclusion of the sixth edition of the Capital Markets Banking and Finance Day, 2016. The idea is that the system should guarantee a minimum pension to all individuals (in the public and private systems) who contributed over a certain period of time, but for some reason did not accumulate an amount that would allow them to access a pension. It should be based on a solidarity component, in which people with higher incomes contribute to build a fund for fulfilling this purpose. (Source: <http://diariocorreo.pe>; Date: 10.11.2016).

Dominican Republic

Government accelerates the agenda for reforming Social Security Law 87-01. Representatives of the Social Security System and the Minister of the Presidency, fine-tuned the details of a bill of law for reforming Law 87-01, to be submitted to Congress before December. The proposals include extending the coverage of services offered to members, and improvements in pensions and compensation for occupational hazards. The private sector's observations will be heard, but decisions will be taken by the National Social Security Council. (Source: <http://www.proceso.com.do>; Date: 11.11.2016).

Uruguay

The Social Security Bank (BPS) requested the Central Bank to issue new mortality tables for calculating AFAP pillar pensions. The Central Bank, which operates as the regulator of the AFAP and insurance market, announced that the mortality tables will be updated and will be regularly updated in future (INE data from 1994 and 1996 has been used to date). This will affect the calculation of the life annuities paid by insurance companies on the basis of pension savings in the AFAPs. According to the State Insurance Bank (BSE)- the sole actor in the life annuities market after the private sector companies withdrew - this will mean an increase of two years in life expectancy, on average. This has raised protests from some trade unionists, who believe that the modifications will end up reducing the amounts of life annuities. (Source: www.elpais.com.uy; Date: 21.10.2016).

Europe

Germany

Government approves bill of law on flexible transition from work to retirement. On October 21, Parliament passed this law ("Flexi-Rente"), which provides for the following measures:

- (1) Modify means testing for old age pensioners who work; under existing rules, individuals between 63 and 67 who carry on working receive a pension that depends on their level of wages; for those with monthly wages of up to USD 496, a full pension is paid, and for those with wage levels above that threshold, a partial pension is paid (up to 66% of the full pension); the penalty for working will be reduced as of July 2017: for those who earn up to US\$ 579 per month, the full pension is paid, and for those who earn over that threshold, the full pension is reduced by 40% of the amount of the salary exceeding US\$ 579.
- (2) Allow individuals who work beyond the normal retirement age (65 years and 5 months, gradually

increasing to 67 by 2029) to qualify for greater benefits on paying in contributions; those who work after the normal retirement age currently do not pay contributions; employers pay contributions on their behalf, but they have no effect on the amount of the benefits.

- (3) Reduce the age at which workers can make “compensatory payments” that reduce the penalty for early retirement, from 55 to 50. For those who take early retirement, the pension is reduced by 0.3% per month for each calendar month prior to the normal retirement age. Compensatory payments are prepayments in cash of the contributions that workers can make in order to take early retirement without suffering a reduction in the amount of their pensions.

(Source: Social Security International Update; Date: November 2016).

Denmark

The agenda of the proposals for reforming the pension system was published; among other measures, it increases the retirement age to 68 by 2030. The Prime Minister published this agenda, which includes a series of proposals for reforming the system, such as: (i) workers who are not yet saving 6% of their income in a pension scheme must contribute 2% to a retirement savings plan; (ii) workers who are 5 years from the official retirement age, will be eligible to contribute to a special scheme for up to an annual amount of EUR 6,700; (iii) the retirement age will increase from 67 to 67.5 by 2025, and to 68 by 2030; the early retirement age will also increase from 63 to 63.5 by 2021.

Spain

The Toledo Pact Committee started its work on far-reaching reforms in the public pension system. The Government has informed the European Union that social protection will close this year, 2016, with a deficit of 19,000 million Euros, the highest in its history, equivalent to 1.7% of GDP. The Government has also taken it for granted that the Social Security Reserve Fund will be exhausted by 2017. Against this backdrop, the President, Mariano Rajoy, is seeking a broad political agreement for reforming the pension system. Among the possible reforms being considered are: (i) create a specific tax for financing Social Security (another possibility is that existing taxes, such as the VAT, will fulfill this requirement); (ii) an alternative to the first proposal is for taxes to finance only widows’ and orphans’ pensions, considering them as welfare; (iii) enforce social security contributions on the real amounts of salaries, with pensions therefore being equivalent to the contributory effort, without putting a ceiling on benefits; (iv) make it mandatory for companies to offer workers accounts for

saving part of their monthly wages (the accounts would be portable between the companies where workers are employed); (v) inform workers over 50 of the public pension they can access with the contributions they have paid in, in order to stimulate savings in voluntary pension plans. *(Source: <http://www.expansion.com>; Date: 22.11.2016).*

Finland

Contribution rates to the mandatory occupational system have been increased. This system is financed by the workers and employers, and is partially pay-as-you-go-financed and partly funded. The current total contribution rate is 23.7% (18 percentage points financed by the employer and 5.7 percentage points by workers under the age of 53); with these modifications, the total contribution rate will increase to 24.4% (17.15 points financed by the employer and 7.25 percentage points by workers under the age of 53). Thus, workers under the age of 53 must finance an additional 1.55 points of contributions. *(Source: Social Security International Update; Date: October 2016).*

Poland

Reduction in the retirement age to 65 for men and 60 for women approved as of October 2017. The law, of a nationalist hue, passed by Parliament on November 16, 2016, has generated criticism because it will negatively affect the employment rate and increase the fiscal deficit of the system. The previous government had passed a law in 2012 to gradually increase the retirement age to 67 for men and women. *(Source: www.lavanguardia.com; Date: 16.11.2016).*

Russia

Government decides to freeze the indexation of public pensions to inflation, and channels the contributions of the mandatory second pillar to the first public PAYGO pillar. Due to budget constraints, the Government decided to: (i) suspend the indexing of public pensions based on inflation, and will instead make a one-off payment of US\$ 77 to all pensioners; (ii) switch the 6 percentage points of contribution to the second individually funded pillar, financed by employers, to the first public PAYGO pillar (contributions to the PAYGO system total 22%). *(Source: Global Retirement Update AON; Date: September 2016)).*

Asia and the Pacific

India

Supervisory authority offers two new investment options for the investment of pension funds for workers in the private sector. One option is "aggressive," with higher returns and high risk, which increases the maximum limit of investment in shares from 50% to 75%. The second option is more conservative and will limit investment in shares to 25%. In both cases, a "life style" strategy will reach the maximum level of investment in equity at 35 years of age, and then gradually reduce the equity investment limit as members approach retirement age. (*Source: Global Retirement Update AON; Date: September 2016*).