Internacional Federation of Pension Funds Administrators

Progress of the Pension Systems
October - November 2018
No. 6

Executive Summary by area of interest

New Pension Programs and Social Security Reforms (approved)

Georgia: *The introduction of a mandatory individual accounts program was approved. It will start operating as of January 1, 2019.*

Peru*: Members of the AFPs who withdrew 95.5% of their funds, can return to the pension system, partially or fully returning the withdrawn amounts for purchasing a family life annuity, or negotiating a programmed withdrawal.*

United Kingdom*: The official retirement age for men and women was set at 65. The measure seeks to make the public pension system more sustainable.*

Russia*: The normal retirement age will increase gradually from 60 to 65 for men and from 55 to 60 for women.*

Investment options

Costa Rica: *The maximum investment limit in public debt of the Pension Operators increased from 50 to 80% of the total amount of the funds. The change coincides with a critical moment for the State's public finances, which face ever more challenges for meeting their obligations. The measure is contrary to the effort made by the sector to reduce the concentration in these instruments many years ago.*

Reforms proposed or to be discussed

Brazil: *Although the new Government has still not provided greater details on the possible pension reform, it has acknowledged that it seeks to introduce the individually funded model, following the Chilean model. It is worth mentioning that the deficit of the pension system reached a record of USD 83,968 million in 2017.*

Chile: *Government presents pension reform project. The proposals include: (i) a gradual increase of 10 to 14% in the contribution rate, with the employer assuming the additional contribution; (ii) entry of new stakeholders in the management of the additional contribution, in order to encourage competition; (iii) strengthening the solidary pillar; (iv) incentives for workers to voluntarily postpone their retirement age; and (v) creation of insurance for severe dependency situations.*

Mexico: *CONSAR proposes creating a Universal Complementary Pension, based on the Chilean model, which will enable improving the level and quality of coverage in the system.*

Dominican Republic: *The Dominican Association of AFPs (ADAFP) has proposed four pillars for better pensions: (i) more can be saved in workers' accounts, without them having to increase their contributions; (ii) increase savings coverage; (iii) simplify the way the AFPs collect their commissions.*

Crisis in public PAYGO systems

Argentina: *The retirement system ranked last in the Melbourne Mercer World Pension Index. It is worth mentioning that in 2008, the Government confiscated the funds of the individual accounts and re-established a PAYGO system.*

Ecuador: *Increase in the number of pensioners brings pressure to bear on the finances of the Ecuadorian Social Security Institute. It is estimated that by 2019, the Treasury's pension expenditure will be USD 1,754 million.*

Spain: *The Government must resort to a EUR 6,630 million loan (approximately US $ 7,580 million) to pay the Christmas bonus to retirees, in addition to another EUR 3,000 million (USD 3,430 million) from the Pension Reserve Fund, the so-called "pensions piggy bank." According to the OECD, by 2050 there will be 1.3 active workers for every retiree in Spain, which would be the world's highest dependency ratio.*

Nicaragua: *Government resorts to internal borrowing to cover part of the deficit of the Nicaraguan Institute of Social Security, which will exceed US$ 97 million in 2018.*

Peru: *The national pension system has a structural deficit of US$ 34,000 million.*

Relevant reports or presentations

2018 Mercer-Melbourne World Pension Index. While the Chilean system has consolidated as the most robust in Latin America (eighth worldwide), Colombia and Peru are advancing towards sustainability; Mexico has weaknesses or significant omissions; Brazil is positioned near the average assessment and Argentina is ranked last in the world. The Northern European countries are the best positioned in the index: Holland (1), Denmark (2), Finland (3), Switzerland (5), and Norway (6); Australia is located in the fourth overall position. The document concludes that there is still a significant gap in the level of savings needed for retirement and that the private pension systems need to expand to include the entire labor force. ***(Source: www.latam.mercer.com; Date: 22.10.18).***

IDB: Present and Future of Pensions in Latin America and the Caribbean. The document highlights the fact that above and beyond the present huge challenges of coverage, adequacy and sustainability, two major trends will test the design of pension systems in Latin America and the Caribbean in the coming decades, namely: population aging and the impact of technological changes (automation) in the labor market, as a pillar for the financing of pension systems. The pension contribution model is currently anchored in the relationship between the employee and his employer through a formal salaried job. Technological changes tend to blur this relationship. How to design pension systems to address these trends will be one of the fundamental lines of debate of public policies in Latin America and the Caribbean in the coming decades. The paper concludes that it is important to review the design of pension systems to ensure, on the one hand, that benefits are as generous as desired and, on the other hand, to eliminate unwanted redistributive elements. ***(Source: www.americaeconomia.com; Date: 26.11.18).***

OCDE: Pension Markets in Focus 2018. This report presents the evolution of the individually funded pension systems, whether publicly or privately managed. The individually funded systems have earned a place in the OECD countries, achieving managed assets well above the GDP in some of them: 208% of GDP in Denmark, 184% in the Netherlands and 165% in Iceland. On average, the assets managed in these systems represent 51% of the GDP of the OECD. Furthermore, 70% of workers in the OECD, on average, are covered by some kind of funded pension plan. Another conclusion of the report is that automatic enrollment has improved coverage rates in New Zealand and the United Kingdom, although not in Italy and Turkey. ***(Source: Social Security International Update; Date: November, 2018).***

Relevant news of the period

Latin America, the Caribbean and North America

Argentina

The Argentine retirement system came last in the worldwide ranking. The Melbourne Mercer World Pension Index measures the pension systems of 34 countries to determine which of them are better prepared to cope with population aging. The Argentine retirement system came last in the ranking, headed by the Netherlands, Denmark and Finland. It is worth mentioning that in 2008, the Government confiscated the funds of the individual accounts in Argentina in order to re-establish a PAYGO system. ***(Source: www.eldiariodelarepublica.com; Date: 22.10.18).***

Bolivia

Public Fund Manager will start operating in 2019. According to the Vice Ministry of Pensions, the government agency is expected to start managing the mandatory contribution funds as of March, 2019, since the details of workers' contributions to the private fund managers are still being migrated to the Public Fund Manager. The Public Social Security Fund Manager began paying the "Renta Dignidad" (Dignity Pension) in October, constituting the first activity of this government agency. The Universal Old Age Pension Fund was run by the Pension and Insurance Oversight and Control Authority for more than two years. The Public Fund Manager must now pay the Dignity Pension to more than one million people over the age of 60, from that fund. ***(Source: www.eldeber.com.bo; Date: 16.10.18).***

Brazil

A retirement agreement was subscribed with the United States. The agreement will enable pension contributions to be paid only in the company's country of origin. I.e., Brazilian multinationals will only pay contributions in Brazil, while U.S. companies will only pay social security contributions in their country of origin. To keep a Brazilian employee in the United States, Brazilian companies previously had to pay contributions in both countries. The agreement between the two countries is expected to reduce the cost of social security burdens by 39%. Brazil has similar bilateral agreements with Germany, Belgium, Canada, Chile, South Korea, Spain, France, Greece, Italy, Japan, Luxembourg and Portugal. The country also has agreements with multinationals blocks such as the Mercosur (Argentina, Uruguay and Paraguay) and Latin American countries (including Bolivia, El Salvador, Ecuador and Peru). ***(Source: www.em.com.br; Date: 01.10.18).***

President-elect Bolsonaro is assessing the Chilean AFP model for reforms in Brazil. Although Bolsonaro has not provided any details of his proposed pension reform, the president-elect has said that he wants to introduce individual funding in Brazil. In his program, he acknowledges that "reforms will be necessary for improving the existing model and introducing the new model" and that changes will be "gradual." Brazil currently has a PAYGO pension model. Active workers in the formal market contribute to a common fund which pays pensions, i.e. one generation finances the retirement of the next generation. In Brazil one can also retire at 55 with 70% of the last salary. This reality makes the system unsustainable. The deficit reached a record of USD 83,968 million in 2017, according to the Ministry of Finance, and the country destines one third of government expenditure to that end. "Brazil has one of the most generous systems in the world," said Chris Garman, Administrative Manager for the Americas of the Eurasia Group, due to which Brazil is headed for "bankruptcy" if there is no pension reform. ***(Source: www.latercera.com; Date: 24.10.18).***

Switching to an individually funded system would have a high transition cost. The deficit of the existing PAYGO pension system amounts to USD 53,200 million, due to which the current Government is assessing the adoption of an individually funded regime for the Brazilian social security system. However, the Ministry of Social Security has warned that this will require a very well-designed transition, because due to the commitments of the existing system, the transition will entail high costs. ***(Source: www.poder360.com.br; Date: 16.11.18).***

World Bank: Social security reform must be swift and substantial. The agency's experts have warned that the Social Security reform must the "swift and substantial," otherwise the potential for growth of the Brazilian economy could be limited to somewhere around 2% per year. A substantial reform would entail achieving minimum fiscal savings of 1.8% of GDP in 10 years. The World Bank conducted a study on public expenditure in Brazil and concluded that pension expenditure is what is driving imbalance. The study also concluded that the Brazilian retirement system is unfair, because 35% of the money used for funding the system benefits the richest 20%. ***(Source: www.valor.com.br; Date: 21.11.18).***

Chile

Government presents its pension reform bill of law. The government presented a pension reform bill aimed at increasing the income of pensioners. The bill aims to gradually increase monthly contributions from 10% to 14%, at the expense of the employer. Workers will also be able to freely decide whether to contribute all or part of the 4% increase in the mandatory contribution to their individual accounts in their AFPs, or to an individual account in complimentary pension savings fund managers created for such purposes (with which the Government seeks to increase competition in the sector). The Government has said that all fund managers must have a sole line of business and will be subject to the across the board supervision and oversight by the Chilean Pensions Commission. These managers can charge a commission on the managed balance and must maintain a reserve of 0.25% of accumulated funds to answer for any damages to members in the event of any infringement of their obligations. The creation of new entities to manage the additional contribution is the most controversial point of the reform, since it is still not clear how these fund managers will operate and how the equality of conditions between them and the existing AFPs would be guaranteed. The bill also seeks to strengthen the solidarity pillar, increasing the basic solidarity pension by 10%, or even up to 50%, depending on the age of the pensioner. The solidarity pension contribution will also increase by 15% immediately. Thus, the plan involves a financial commitment by the government of US $3,500 million. The reform also includes incentives for workers to voluntarily defer their retirement age. Finally, the reform mandates the creation of an insurance policy for covering severe dependency situations, and a subsidy for those who have not contributed, in a similar situation. The project has already been submitted*.* ***(Sources: Presidential Communiqué; Date: 29.10.18; www.latercera.com; Date: 06.11.18).***

Reform Bill could aggravate the bad practices of the sales staff of the AFPs. One of the prevailing issues in the system is the bad sales practices incurred by the sales staff of the AFPs in offering perks to workers for switching from one AFP to another. The Pensions Commission has detected that even forged signatures or false passports are sometimes used for online transfers. The reform proposed by the Government includes the possibility of discounts on commissions for long-term permanence in an AFP and group enrollment. This measure has caused concern among experts in the field, because it could encourage bad sales practices in the AFPs and the new fund managers managing the additional 4% of contributions. ***(Source: www.latercera.com; Date: 18.11.18).***

Moody´s approves the government's pension reform and says that the fiscal impact will be limited. Moody's Credit Rating Agency predicts a limited short-term impact on the Treasury resulting from increased spending on the pension reform. In fact, the Agency has stated that "we do not expect the reform to fundamentally alter the path of fiscal consolidation" outlined by the Executive, which seeks to reduce the structural deficit by 0.2% of GDP per year until 2022. It also points out that the gradual design will limit the impact on salaries and internal consumption. Nonetheless, it warns that the reform "will probably affect employment levels, wages and productivity, since it will increase labor costs," which "could hinder growth prospects in the mid-term, although this could be partially offset by higher private consumption by pensioners." ***(Source: www.df.cl; Date: 19.11.18).***

OECD defines the ideal fabric of the pension reform. According to Pablo Antolín, head of the OECD's Private Pensions Unit, the problem of low pensions in Chile is that contribution rates and densities are low, and accumulated pension savings amounts have to be distributed over a greater number of years, since life expectancy has increased. The expert says that "not much can be done" for those who are already retired. However, the government must contribute to raise the pensions of individuals with pensions below the poverty line, which must be charged to the budget. "Unfortunately, for those with low pensions, but above the poverty line, it is difficult to justify any supplement at the expense of the budget or the money of others," he says. According to Antolín, the core of a pension reform must include greater coverage, a gradual increase in contributions - from 10% to 18% and the implementation of mechanisms for reducing the costs of pension funds, such as savings management. Despite the fact that the bill submitted by the Government does not include all of the proposed core elements, he said that the proposal "is in the right direction." He specifically approved the proposal to allow other agencies to manage the additional 4%, provided that all players participate on equal terms and under the same regulatory framework. ***(Source: www.economiaynegocios.cl; Date: 27.11.18).***

Colombia

AFPs call for the end of the PAYGO regime. The AFPs propose a three-pillar system, maintaining Colpensiones but eliminating the Average Premium Plan (PAYGO). Barely 26% of senior citizens are covered under the existing pension system. According to Government estimates, pension expenditure by 2019 will be COP 39,400 million (US $ 12.35 million) in the public system, even higher than expenditure on education. Hence, the AFPs propose a three-pillar system: the first one would be the solidarity pillar, which would run the Colombia Seniors and Periodic Economic Benefits (Beps) programs, both with their respective improvements. The second pillar would comprise a contributory savings system with individual accounts, instead of an average premium plan like the one currently in place. The third pillar would be a voluntary savings pillar. That would mean the end of the Average Premium Plan managed by Colpensiones, an entity that will have to continue paying its current obligations and submit to the transition regime established by the Government and Congress for implementing the new pension system. ***(Source: www.dinero.com; Date: 10.09.18).***

Asofondos criticizes the idea of levying taxes on pensions. The Chairman of Asofondos, Santiago Montenegro, described the Government's decision to include a tax on individual savings account in the Financing Law as "very worrying." He described this decision as a "blow to savings," which would also negatively affect voluntary pension savings. He also expressed concern regarding the intention of taxing pensions exceeding $ 1,500 and suggested that the tax should only be levied on the high subsidized pensions of the public system. ***(Source: http://caracol.com.co; Date: 08.11.18).***

Costa Rica

The National Financial Stability Oversight Council (Conassif) increased the maximum limit of investment in public debt of the Pension Operators. The cap will rise from 50% to 80% of the funds managed by the Mandatory Complementary Pension System. This change coincides with a critical moment for the public finances of the State, which is facing increasing challenges to meet its obligations. The decision is also contrary to the sector's efforts years ago to reduce the concentration in these transactions, reflected in previously implemented regulations. However, the Pension Operators are well aware of the imbalance facing public finances and the growing level of debt, so the risk of investing in government bonds is growing.
Source: www.elfinancierocr.com; Date: 18.10.18).

The Constitutional Court of Costa Rica endorses the cap on "luxury pensions." The Constitutional Court endorsed a cap of US$ 3,700 per month on the highest pensions in the country, financed by the general budget. This measure, introduced by the Government, seeks to cut public spending and tackle the fiscal deficit. The measure would apply to all pensions approved after 1998, reducing the pensions of about 900 people who currently receive pensions exceeding that amount.
(Source: www.eleconomsita.net; Date: 15.11.18).

Ecuador

Increase in the number of pensioners brings pressure to bear on the finances of the Ecuadorian Social Security Institute (IESS). The number of IESS pensioners is increasing at an accelerated rate, while the agency's revenues are falling short. The number of retirees began growing rapidly as of 2012 and broke the record in 2016, when they increased by 11%. Last year the agency recorded 456,048 pensioners. On the other hand, the number of enrolled members, who are the ones who contribute to the payment of these pensions, grew until 2014, but dropped off after that. Last year 73,189 contributors less than in 2014 were recorded. This situation brings pressure to bear on the finances of the IESS and the State, which will again pay 40% of pensions as of 2019. It is estimated that by 2019, the Treasury's pension expenditure will be USD 1,754 million. ***(Source: www.elcomercio.com; Date: 13.11.18).***

Mexico

AFORES call on the government to raise the contribution rate. They want the contribution rate to be 13.5% of wages (instead of the current 6.5%), to raise the future pensions of workers. Given the challenge that the pension system will entail for the government of Andrés Manuel López Obrador, specialists have already outlined a route that they hope the next government will follow: increasing pension contributions. Specialists are particularly concerned about the future of the Mexican pension system, especially because no government has yet proposed any amendment to the system in the 10 years it has been operating. This change is expected to lead to higher replacement rates of around 55 - 60%. ***(Source: www.lapoliticaonline.com.mx; Date: 30.09.18).***

The National Commission for the Retirement Savings System (CONSAR) proposes a Complementary Universal Pension for senior citizens. CONSAR has called for the creation of a Universal Complementary Pension, based on the Chilean model, which will enable improving the scale and quality of the coverage of the system. In its study "Integration of the Contributory and Non-contributory Pillars in Mexico's Pension System: a look at the Chilean Model," it explains that the purpose of this pension would be to merge the contributory and non-contributory pillars. With this model it seeks to replace the Senior Citizens' Pension Program with a scheme complementary to the Retirement Savings System (SAR), which guarantees that all individuals will have access to a pension, regardless of their contribution history. Thus, individuals who do not have an individual account would be entitled to a basic pension. Those who have contributed to their individual accounts, but whose pensions are too low (i.e., less than the Guaranteed Minimum Pension), would receive a subsidy. ***(Source: www.elpulsolaboral.com.mx; Date: 03.10.18).).***

AFOREs must improve the services offered to their members. According to a new regulation proposed by CONSAR, the AFOREs must enhance the services they offer. Pursuant to these provisions, the AFOREs must present the worker with a Bill of Rights, informing users of their rights, such as the issuing of account statements, attention to and follow-up of requests for service and access to information; provision of a list of service channels; description of the process of entering and following up on queries, clarifications and complaints submitted by the user to the Fund Manager, as well as their response times. The AFOREs must also prepare an annual countrywide customer care coverage program, and keep a central record for monitoring service requests, among other requirements. Likewise, the AFOREs must establish procedures for attending to users' requests, as well as a maximum term for attending to complaints. ***(Source: www.elfinanciero.com.mx; Date: 03.10.18).***

OECD: Pension reform must be comprehensive and not only partial. The pension reform proposed by the incoming government of Andrés Manuel López Obrador should be comprehensive and not only partial, according to Pablo Antolín, Economist of the OECD Pensions Unit. "In the OECD we believe that any reform of a pension system has to be comprehensive, avoiding a little bit here and a little bit there. You either do it all, or you don't do anything, because whatever you do in one area, will have an impact on other areas. You have to do everything comprehensively," he said. He made these comments referring to the fact that the incoming government seeks to conduct a pension reform, based on two main axes: review the investment regimes and the commissions charged by the pension fund managers (Afores). "What the new Government proposes is one part of the comprehensive reform required by the pension system, but is not the only measure required for resolving the issues the country must address in these matters," he said. He also mentioned that the contributions paid in by Mexican workers to their retirement savings are the lowest among the OECD countries, and that this is a problem that cannot be ignored by the new Government. Antolín emphasized that one of the issues apparently not being considered by the current or incoming administration, is the transition from the former system (defined benefit) to the new system (defined contribution). The OECD Economist concluded that if nothing is done in this regard, the major risk of the Mexican pension system is that it will have to face a high social and economic cost, since it will have several generations of pensioners retiring in two different pension systems. ***(Source: www.eleconomista.com.mx; Date: 21.10.18).***

CONSAR calls for increasing the retirement age. CONSAR presented the study "Life expectancy and retirement in Mexico and the world," which analyzes aging and retirement age issues in Mexico. The document highlights the fact that the minimum retirement age in the Retirement Savings System (60) is among the lowest in the world when compared to other pension systems, and their recent efforts to increase it. He also points out that analyzing the minimum retirement age requires not only defining a new retirement age, but also establishing the date on which it would begin to increase, as well as the speed at which it would do so. ***(Source: https://www.gob.mx; Date: 24.10.18).***

Alternative assets are relevant in the investments of the pension funds. At the end of September this year, the total funds invested in alternative assets amounted to USD 196,862 million, in 97 structured instruments, according to CONSAR. The Commission pointed out that the investments made through such instruments in Mexico have enabled channeling resources to different sectors. These include livestock and agriculture, roadways, commerce, e-commerce, communications, education, energy, renewable energy, entertainment, among others. Financial regulations in Mexico have allowed the Pension Fund Managers (AFOREs) to invest in these types of assets since 2007. The Commission stressed that investments in alternative assets can now be made by means of Development Capital Certificates (CKD) and Investment Project Certificates (Cerpi). He said that the benefits of allowing investment through these alternative instruments include enhanced performance by workers, diversification of the investment portfolio, contribution to the economic development of the country and the promotion and creation of jobs. The agency underscored the fact that having saved sufficient funds on reaching the official retirement age is one of the most important issues for pension systems worldwide. Its fund managers are therefore continuously searching for investment alternatives that offer attractive returns with adequate risk levels ***(Source: www.20minutos.com.mx; Date: 13.11.18).***

Diversification of the portfolios of the AFOREs must be broadened. According to Roberto Walker, President of Principal for Latin America, the AFORES must improve portfolio diversification, which requires changing current investment limits. Whereas in Chile the AFPs can invest up to 80% in foreign assets, the AFOREs can only invest 20%. This generates high investment concentrations, particularly in government debt, which accounts for 50% of managed funds. ***(Source: www.eleconomista.com.mx; Date: 25.11.18).***

Nicaragua

Government resorts to domestic borrowing to cover the deficit of the Nicaraguan Social Security Institute (INSS). The government's annual budget estimated that the INSS would end 2018 with a deficit of approximately USD 69 million, but now it is estimated that it could exceed USD 97 million. Thus, for the sixth year in a row, the government is headed to ending the year with one of the worst deficits in the last decade. The Ministry of Finance and Public Credit ordered the conversion of an amount of USD 4.65 million into internal public debt, which was transferred to the ailing finances of the INSS to cover the payment of special pensions and State contributions. The deterioration of the INSS is so severe, that in order to balance its finances without having to transfer budget funds, an increase of 7.4% in contributions would be required, either from companies or workers, according to the Nicaraguan Foundation for Economic and Social Development (Funides). ***(Source: www.laprensa.com.ni; Date: 05.10.18)***

Peru

The National Pensions System (HNS) requires US$ 58,204 million to be self-sustaining. The Minister of Economy and Finance, Carlos OIiva, said that, in order to be sustainable, the SNP (public PAYGO system) currently requires, at present value, PEN 196,832 million (about USD 58,204 million) to pay pensioners and active workers who will retire in the future. He said that the SNP has nearly 550,000 pensioners and there are more than 4,280,000 active workers. However, the income from the contributions of these active workers, adjusted to present value with respect to their remaining years of work, is PEN 83,000 million (USD 24,500 million), hence the system has a structural deficit of PEN 114,000 million (USD 34,000 million). Thus, the money collected by the SNP does not suffice, since it is structurally flawed, and the state must therefore use part of its tax revenue to cover this actuarial***: www.eleconomistaamerica.pe; Date: 03.10.18).***

Pension Standardization Office (ONP) should abandon the PAYGO system and become a public AFP. The Chairman of the ONP, Alejandro Arrieta, warned that the agency has to abandon the PAYGO system under which it currently operates, and adopt the individually funded accounts system in place in the Private Pension System (SPP). It would thus become a "public AFP," with the goal of providing a solution for returning the savings of those who do not meet the required 20 years of contributions (who currently receive no pension and cannot recover their contributions). Giovanna Prialé, Chairman of the Association of AFPs (AAFP), said that the Executive***: https://elcomercio.pe; Date: 02.10.18).***

Fourth bidding will enable ongoing lowering of commissions. The fourth bidding for members, scheduled for next December 13, will enable the ongoing lowering of the commissions paid by contributors to the AFPs. Parallel to the above, there will be an auction of members for the commission on the burial expenses, disability and survival Insurance. According to the Chairman of the Association of AFPs, Giovanna Prialé, the conditions for developing an insurance market in the country must be created, since the commission on the disability, survival and funeral expenses insurance ended up increasing in the last bidding for members. ***(Source: https://andina.pe; Date: 02.10.18).***

The Banks, Insurance and Pensions Commission (SBS) believes that the foreign investment limit of the AFPs can be increased to 80%. One of the proposals for improving the performance of the pension funds is to continue extending the foreign investment limit of the AFPs, according to Jorge Mogrovejo, Deputy Superintendent of AFPs in the SBS, who believes that this measure will generate better returns and lower volatility for the funds of the Private Pension System (SPP). The foreign investment operating limit of the AFPs has increased from 20% in 2009 to 50% last September. This level is now equal to the existing legal limit (50%), so any future increase will require the approval of Congress. According to the regulator's calculations, returns could increase by 138 basis points if the limit is extended. ***(Source: http://mercadosyregiones.com; Date: 03.10.18).***

Extending the Early Retirement Regime (REJA) would affect the country's fiscal sustainability. REJA allows individuals who have been unemployed for at least one year to retire before the age of 65. This special regime expires this year. However, the government has raised the possibility of extending it until 2021. Authorities of the country's 4 AFPs agree that extending it once again will have a negative impact on the country's fiscal accounts. It would also not be justified, considering the current level of unemployment. The possible extension of REJA and the "95.5 Law," which allows for the withdrawal of 95.5% of pension funds, is a potential hazard for the country's macroeconomic stability. The withdrawal of funds from the AFPs will result in an additional cost for the public sector. "These laws do not only affect the sustainability of the Private Pension System (SPP) but also of fiscal accounts," said the CEO of AFP Profuturo. As a result of the "95.5 Law" approximately PEN 7,000 million (US $ 2,064 million) were withdrawn per year, equivalent to 2% of GDP. Furthermore, according to SPP data, only 1% of workers leave the total amount of their fund to receive a pension, 5% opt for withdrawing part of the fund and leaving the rest for payment of the pension, while the vast majority (94%) decide to withdraw all their funds. In addition, two of every three members withdrawing their funds are under 65 years of age, according to the Association of AFPs. ***(Source: http://semanaeconomica.com; Date: 23.10.18; https://gestion.pe; Date: 09.10.18).***

AFP members who withdrew 95.5% of their funds may return to the pension system. The Congressional Economic Committee approved the ruling that would allow members who decided to withdraw up to 95.5% of their AFP funds to return those resources to the Private Pension System (SPP), on a voluntary basis, with a period of six months for making that decision. Two new modalities were incorporated with the approval of this ruling: 95.5 Return Programmed Withdrawal and the 95.5 Family Life Annuity. Members who withdrew 95.5% of the available balance of their Individually Funded Accounts (CIC), and who voluntarily decide to return all or part of the amount withdrawn from the SPP, will be given the one-off opportunity of returning those funds for management by an AFP. Those who opt for programmed withdrawal, may withdraw monthly amounts, depending on the withdrawal schedule agreed by the parties. Withdrawals are not subject to the Income Tax on pensioners, because the payment was made in advance. This modality grants coverage to the beneficiary, as well as his/her beneficiaries and survivors. Those who opt for the 95.5 Family Life Annuity modality, in turn, will receive a monthly income for life and survival pensions will be paid to their beneficiaries, as the case may be. ***(Source: https://gestion.pe; Date: 17.10.18).***

Patients with terminal illnesses can withdraw half of their AFP funds. The Congressional Economic Committee approved the law that would allow patients with terminal illness to withdraw up to 50% of their funds from their AFP. ***(Source: https://larepublica.pe; Date: 17.10.18).***

Dominican Republic

The Dominican Association of AFPs (ADAFP) proposes four pillars for better pensions. The Executive Chairman of the ADAFP, Kirsis Jáquez, presented a proposal to the Permanent Congressional Social Security Work and Pensions Committee for improving the pension system and achieving better pension amounts. The proposal has four main points: (i) that workers can save more in their account, without having to increase their contributions; (ii) increase savings coverage; (iii) simplify the commission collecting system of the AFPs; and (iv) diversify the pension funds managed by the AFPs. She also said that the ADAFP rejects any proposal for changing the pension system, because that would entail the elimination of the existing savings mechanism, and the State would have to pay the country's pensions, through the budget. "A proposal like that has no basis, is not sustainable, generates high costs for the State and there would be no way of sustaining it," she said. "What we have to do, since the advantages, returns, and sustainability of the individually funded system managed by the AFPs have been demonstrated, is to strengthen that system and create mechanisms and the facilities whereby people in the Dominican Republic, regardless of the type of work***: www.elcaribe.com.do; Date: 11.10.18).***

Uruguay

A retirement agreement was subscribed with the United States. Uruguay and the United States subscribed an agreement that will allow the number of years worked in both countries to be reflected in the work history and be taken into account on retirement. The agreement will come into effect on January 1, 2019. There are approximately 50,000 Uruguayans resident in United States and 5,000 Americans working in Uruguay. The agreement will facilitate the flow of workers between the two countries, as well as the operation of companies and international agencies. ***(Source: www.180.com.uy; Date: 23.10.18).***

Europe

Spain

The IMF warns that pegging pensions to the CPI can jeopardize the sustainability of the system. The IMF has warned that pegging pensions to the CPI, as recommended in the Toledo Pact, could jeopardize the financial sustainability of the public pension system, adding that a measure of this nature cannot be introduced if it is not part of a comprehensive package of reforms. The international agency has calculated that permanently pegging pensions to inflation would add an approximate cost of between 3% and 4% of GDP to pension expenditure by 2050, according to existing demographic and macroeconomic forecasts. According to the IMF, an increase of such magnitude in the structural expenditure must be compensated by other structural measures, such as for example, an increase in the minimum contribution of self-employed workers and the maximum taxable income, as well as directly linking the official retirement age to life expectancy. Hence "a sustainable and comprehensive package of pension measures is required to ease the tensions that plague the system," he reiterated. ***(Source: www.atlantico.net; Date: 03.10.18).***

The Government will implement a new financial transactions tax to cover the pension deficit. The government has raised the possibility of introducing a tax on financial transactions, assigned entirely to covering the deficit generated by the payment of pensions. The Finance Minister said that the details of the new tax are not yet known, because the final adjustments are still being made. It is estimated that this tax will generate about EUR 1,000 million, which would cover a fraction of the Social Security deficit of nearly EUR 19,000 million per year. ***(Source: www.larazon.es; Date: 10.10.18).***

Workers save little for their retirement. According to the OECD, by 2050 there will be 77.5 pensioners per 100 people of working age in Spain, i.e., 1.3 active workers for every retiree, which would be the world's highest dependency ratio. The existing public PAYGO system would be hard-pressed to cope with this situation. In this scenario of growing uncertainty regarding the pension amounts that many workers will receive, businesses have become increasingly aware of the need to launch private savings plans that complement pensions in future. However, only 26% of companies have private pension plans, which is far from the mean of the OECD countries, where 70 percent of workers are covered by a pension plan. The Congressional Committee for the Toledo Pact, created to analyze the sustainability of the pension system, is reviewing the guidelines for the upcoming reform, including one regarding complementary savings, which also seeks to encourage the pension plans that companies offer to their workers. ***(Source: https://confilegal.com; Date: 30.11.18).***

Government must resort to borrowing to pay "the bonus" to retirees. The Government approved a EUR 6,630 million (about US $ 7.580 million) loan to pay the November pensions payroll, which includes the Christmas bonus. Furthermore, since the amount is not enough to cover the payment of the bonus, the Executive will draw an additional EUR 3,000 million (USD 3,430 million) from the Pension Reserve Fund, the so-called "pension piggy bank." ***(Source: www.bolsamania.com; Date: 16.11.18).***

France

The Government is preparing a points-based pension system. The Government is working on a pension reform to introduce a points system, whereby points will be accumulated during the active lives of workers and will translate into a monthly income on retirement after the age of 62, a minimum age which will not be modified. At the time of retirement, the points will be translated into a monthly pension taking into account other criteria such as the number of years of contributions and the life expectancy in France at that time. This would be a sole system that will replace the 42 different regimes that currently exist in the private and public sectors. ***(Source: www.republica.com; Date: 10.10.18)***

Georgia

The introduction of a mandatory individual accounts program is approved. On September 1, the Government approved the Accumulated Pension System (APS), which will be launched on January 1, 2019. The Government created the new mandatory individual accounts program to complement the existing universal State pension (fixed amount), promote the development of the capital market and stimulate economic growth. The government pension currently only provides a subsistence benefit of approximately USD 69 per month and there are no tax incentives for retirement savings. The individual accounts program will be mandatory for all workers in the public and private sectors and for self-employed workers under 40 years of age. All workers under 60 will be automatically enrolled in the system, but those over 40 may opt out of the new system. The self-employed can also choose to opt out of the new system. The contribution rate will be 6% of gross salary, paid in equal parts by the employer, the worker and the State (up to a maximum of US $ 9,200). Self-employed workers will contribute 4% (and the State will contribute 2%). The Georgia Pensions Agency will be responsible for the overall management of the system. An Investment Board within the agency will carry out risk assessments and will oversee the investment regulations of the private companies managing the individual accounts. The National Bank of Georgia and a Supervisory Council will provide additional oversight of the individual accounts system. Once they reach retirement age, workers can choose to withdraw all of their accumulated funds, or purchase a life annuity. ***(Source: Social Security International Update; Date: October, 2018).***

Equal official retirement age for men and women. Last November 6, the United Kingdom increased the official retirement age for women in the public pension system from 60 to 65, thus equalizing the retirement ages of men and women. According to the government, these retirement age increases are necessary to ensure the financial sustainability of the pension system, since people are living longer. ***(Source: Social Security International Update; Date: November, 2018).***

Portugal

Eligibility for early retirement without fines is extended. On October 1, the government modified the early retirement rules governing public old-age pensions, to allow people who started working at the age of 16 or less, with at least 46 years of contributions, to receive full pension benefits (with no deductions) at the age of 60 (the official retirement age is 66 years and four months). Early retirement without penalties was previously available only to people with at least 48 years of contributions, or those who had at least 46 years of contributions if they had started working at the age of 14 or less. ***(Source: Social Security International Update; Date: October, 2018).***

Russia

New law increases the official retirement age and extends eligibility for early retirement. Last October 3, Russia's President enacted a pension reform law that gradually increases the official retirement ages and extends eligibility for early retirement within the framework of the country's Social Security program. As of January 1, 2019, the official retirement age will increase by 1 year each year, from 60 to 65 for men, and from 55 to 60 for women. In order to limit the effect of these changes on certain vulnerable groups, the law will allow men with at least 42 years of contributions, and women with at least 37 years of contributions, to retire up to 2 years before the official retirement age (but not before age 60 for men and 55 for women). Mothers with at least 15 years of contributions, with three or four children, will also be able to retire at the age of 57 (with three children) or 56 (with four children). ***(Source: Social Security International Update; Date: October, 2018).***

Asia

Vietnam

Mandatory social insurance coverage will be extended to certain foreign citizens. As of December 1, 2018, the Government of Viet Nam will require employers to enroll foreign workers under the retirement age (60 for women and foreign national employees) in the country's Social Security program, and pay contributions on behalf of employees. ***(Source: Social Security International Update; Date: November, 2018).***