International Federation of Pension Fund Administrators

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Progress of the Pension Systems
February-March 2018
No. 2

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 February- March 2018 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.

Executive Summary by area of interest

New Pension Programs and Social Security Reforms (approved)

China: *Macao implements a centralized voluntary pension system. Enrollment in the system is automatic, but members can opt out. The new system is financed with contributions by the State, employers and employees. Its management is mixed (public and private).*

Denmark: *Reforms are introduced to the voluntary pension savings system, seeking to reduce financial pressure on the public pension system by encouraging longer working lives and greater private saving.*

Spain: *Government approves unlimited withdrawals from private savings and pension funds that are at least 10 years old. The measure seeks to encourage private contributions by making them liquid. However, the OECD has criticized the measure, arguing that it defeats the primary purpose of private plans, which is to complement public pensions.*

Uruguay: *Government passes a law that enables opting out of the AFAPs under certain conditions, especially aimed at individuals who were 50 or older on April 1, 2016, (the so-called "cincuentones" - people in their 50s). The funds that these members withdraw from the AFAPs will be managed by a Trust.*

Investment Options

Peru: *The foreign investment limit will increase to 48% as of May, 2018. Thus, the AFPs will have an additional USD 500 million to invest in foreign instruments.*

Labor Informality

Mexico: *According to the OECD, for the country to be able to achieve a more sustainable pension system with enhanced benefits for retirees, it must improve the structure of its labor market so that individuals can mandatorily and voluntarily contribute to the social security system, which would necessarily entail reducing the levels of labor informality in the country.*

Report on the Social Outlook for Latin America, 2017

ECLAC: *According to the report, almost one third of the inhabitants of the region are not entitled to a pension. Between 2002 and 2015, the proportion of Latin Americans over 65 entitled to some kind of pension, rose from 53.6% to 70.8%. This increase was mostly due to the expansion of the noncontributory pension systems. Despite considerable progress in the last couple of years, there is still much inequity in accessing benefits within the pension systems, and almost one third of the Latin American population is not entitled to any kind of pension.*

Reforms proposed or to be discussed

Chile: *The new government has confirmed that it will submit a bill of law to reform the pension system in the first half of 2018. The four main reform measures include: (i) Increase the pensions of all seniors, through a gradual increase of 4 percentage points in employers' contributions to their workers (paid into their individual accounts). (ii) Increase the fiscal contribution to the Solidarity Pillar by 42%. (iii) Increase the pensions of the middle class and women. (iv) Strengthen competition and services.*

Argentina: *Changes introduced in the pension reform have come into effect. The main changes introduced by the reform include the modification of the formula for calculating adjustments to pensions and Social Security programs, and an optional increase in the retirement age from 65 to 70 for men, and from 60 to 63 for women. In 2017, the Social Security system could only cover 60% of its obligations with its revenue, giving rise to a structural deficit of 4.7% of GDP. There are currently only 1.4 contributors for each pensioner, making the system unsustainable.*

Brazil: *Government suspends discussion of the reform of the pension system due to lack of support in Congress. Government statistics reveal that the Social Security deficit increased by 18.7% in 2017. The Fitch Risk Rating Agency Fitch reduced Brazil's classification after the failure of the pension reform. Moody's, in turn, announced that the measure represents a negative tendency for the country and that its rating is at risk of being corrected downwards.*

Canada: *In order to make the public pension program more sustainable, the province of Quebec approved a series of measures, including a 0.3% increase in the contribution rate in 2019, gradually increasing to 2% in 2023.*

Colombia: *Demographic transition and labor informality make the country's PAYGO system unviable. High informality and the increase in the number of elderly people compared to young people, makes the intergenerational solidarity mechanism on which the PAYGO systems are based inoperative.*

Ecuador: *The actuarial deficit of the public PAYGO system will exceed USD 20 billion by 2053. Given this situation, the possibility of increasing the retirement age and the monthly contribution of members to the system is being studied.*

Spain: *The deficit of the public pension system will be 16% of GDP in 2017. The government reduced benefits to make the system sustainable, giving rise to a series of protests among retirees.*

Relevant reports or presentations

According to the ECLAC report [Social Outlook for Latin America, 2017] almost one third of the inhabitants of the region are not entitled to a pension Between 2002 and 2015, the proportion of Latin Americans over 65 entitled to some kind of pension rose from 53.6% to 70.8%. This increase was mostly due to the expansion of the noncontributory pension systems. Despite considerable progress in the last couple of years, there is still much inequity in accessing benefits within the pension systems, and almost one third of the Latin American population is not entitled to any kind of pension, according to ECLAC. The report also highlights the rapid aging in the region in the last couple of years. Given the above, the report suggests that in order to achieve universal systems that reduce social differences and guarantee the right to social security and protection, governments should plan public policies with a long-term outlook, taking demographic processes into account. ***(Source: www.elobservador.com.uy; Date: 22.02.18).***

Relevant news of the period

Latin America, the Caribbean and North America

Pacific Alliance

Securities Market Regulators of the Pacific Alliance agree to create a task force to launch the funds passport. The securities market regulators met with representatives of the Ministries of Finance and Chilean, Colombian, Mexican and Peruvian market stakeholders to discuss a number of matters related to the development of financial markets within the block, such as the MILA common project, financial cooperation and the Fintech industry regulation law. There has been ongoing progress in the creation of the funds passport, a measure that would enable the free marketing of mutual funds in the four Pacific Alliance countries. Although the characteristics of this passport still have to be defined, Pacific Alliance regulators are already analyzing international models that the system could be based on. For the purpose of promoting greater financial integration in the Pacific Alliance, the Pension Supervisors have undertaken to create a task force to identify the practical and operating aspects affecting the marketing and movement of funds between the four-member countries. ***(Source: www.pulso.cl; 12.03.18; www.fundssociety.com; Date: 20.03.18).***

Argentina

Changes introduced in the pension reform have come into effect. The main changes introduced by the reform include the modification of the formula for calculating adjustments to pensions and Social Security programs, and an optional increase in the retirement age from 65 to 70 for men, and from 60 to 63 for women. Thus, companies will no longer be able to require male workers over 65 and female workers over 60 to retire. Workers can now decide whether they wish to continue working or not. ***(Source: www.cronista.com; Date: 07.02.18).***

The structural deficit of the ANSES was 4.7% of GDP Based on 2017 data, the Social Security system could only cover 60% of its obligations with its revenue, giving rise to a structural deficit of 4.7% of GDP, according to two private reports. Social Security in Argentina is structurally bankrupt, with more expenses than revenue for decades, increasing its deficit in the last few years. The bankruptcy of the system is evident from the fact that there are 11.3 million contributors for 8.3 million beneficiaries. Only 1.4 contributors per retiree make the system unviable if based only on contributions, even at record contribution rates, as pointed out in a report by Econométrica. ***(Source: www.fm899.com.ar; Date: 14.02.18).***

Brazil

Government suspends discussion of the reform of the pension system. Despite the government's insistence on the urgency of passing the pension reform bill of law as a measure for mitigating the country's budgetary deficit, it still does not have sufficient votes for approval in Congress, due to which the government decided to suspend the process, as announced last February 19. Thus, the reform will be left to the next government. Experts said that Brazil's deficit, driven mainly by pensions, is unsustainable. It more than doubled between 2014 and 2017, in terms of GDP. Government statistics reveal that the Social Security deficit increased by 18.7% in 2017, in a record amount of 268,800 million reals (USD 82,490 million). The repercussions of the failure of the pension reform have already been felt. The Fitch Risk Rating Agency downgraded Brazil's classification after the failure of the pension reform. Moody's, in turn, announced that the measure represents a negative tendency for the country and that its rating is at risk of being corrected downwards. ***(Sources: http://elperiodicodemexico.com; Date: 06.02.18; www.telesurtv.net; Date: 19.02.18; www.df.cl; Date: 23.02.18; https://oglobo.globo.com; Date: 20.02.18).***

An IPEA study shows alarming Brazilian Social Security figures. A study by the Applied Economics Research Institute (IPEA, its Portuguese acronym) shows that pensions expenditure quadrupled between 1995 and

2017 (discounting inflation). In 2017 alone, the expenses of the Applied Economics Research Institute were 63% of total government expenditure, after paying the debt. Without a reform, it is estimated that this percentage could increase to 80% by 2026. The study warns of the serious consequences of postponing the pension reform. At the same time, President Temer reiterated the need to approve the reform of the pension system, warning that the current system is “socially unfair” and “financially unsustainable.” ***(Source: http://g1.globo.com; Date: 05.02.18; http://spanish.peopledaily.com.cn; Date: 07.02.18)***

Canada

The National Assembly of Quebec passed a law extending the Quebec Pension Plan. In order to make the public pension program more sustainable, the province of Québec approved a series of measures last February 22, including: (i) a 0.3% increase in the contribution rate in 2019 (the current contribution rate is 10.8%), gradually increasing to 2% by 2023 (shared equally between employers and employees). (ii) Make benefits more generous by increasing the replacement rate from 25% of average monthly income to 33%. (iii) In order to ensure fiscal sustainability, the law authorizes future contribution rate increases. ***(Source: Social Security International Update; Date: March 2018).***

Chile

The new government has confirmed that it will submit a bill of law to reform the pension system in the first half of 2018. The current Minister of Labor, Nicolás Monckeberg, confirmed that the pension reform will be a priority for the new government and that it hopes to present the initiative in the first half of the year. The four main reform measures include: (i) Increase the pensions of all senior citizens through a gradual increase of 4% in employers’ contributions to their employees (paid into their individual accounts). (ii) Jointly and severally improve the pensions of the most vulnerable senior citizens, increasing the fiscal contribution to the Solidarity Pillar by 42%, seeking to increase the Basic Solidarity Pension (PBS) by between 10% and 50%, and the Solidarity Pension Contribution by between 30% and 150%. (iii) Increase the pensions of the middle class and women, by expanding the coverage of the solidarity pillar for older pensioners (benefiting 45,000 new pensioners) and pay a pension bonus to middle class contributors who decide to postpone their retirement age (for men and women with more than 20 and 16 years of contributions, respectively). Furthermore, the pensions of Programmed Withdrawal pensioners in the Solidarity Pillar will remain constant (without reductions over time). (iv) Strengthen competition and services through the authorization of a freely available amount for individuals who postpone their retirement age and provide new incentives for opening voluntary pension savings plans. ***(Source: www.icare.cl; Date: 27.03.18).***

Government proposes the entry of new actors in pension fund management. Among the reforms that the new government will propose, will be the entry of new actors in pension fund management, but maintaining the sole purpose and operating under the same rules and regulations as the existing AFPs. According to the government, encouraging greater competition in the pension funds management market will improve the service to contributors and pensioners and enable lowering the fees that members must pay. The new actors can be for-profit or non-profit agencies, but always subject to the same rules and regulations. The AFP industry has stated that competition is always welcome, as long as the rules apply equally to all, according to the declarations of Andrés Santa Cruz, Chairman of the Association of AFPs. Some detractors have pointed out that the underlying problems of the pension system cannot be resolved with more fund managers. ***(Source: www.pulso.cl; Date: 26.03.18).***

Experts say that the bidding system must be maintained. After AFP PlanVital, the winner of the last two new-member-bidding processes, announced that it would increase its management commission from 0.41% to 1.16% doubts have arisen regarding the viability of maintaining the current bidding system. Spokesmen for the incoming Government have said that the tendering system must be improved by extending the period tendered for an additional year and allowing the AFPs to offer a differentiated commission to new and former workers. A number of academics have stated that the bidding process has fulfilled its purpose: to lower the commissions paid by workers entering the formal labor market. ***(Source: www.df.cl; Date: 06.02.18).***

OECD urges Chile to equal retirement ages and strengthen the pensions solidarity pillar. In the presentation of its report, Economic Study of Chile, the OECD has urged the country to increase the retirement age and strength and the pensions solidarity pillar. According to the document, the Chilean private pension system provides modest pensions for average income individuals, due to low contribution rates, low retirement ages (60 for women and 65 for men), and significant contribution gaps, that finally end up reducing the funds available for retirement. According to the institution, increasing the retirement age, especially in the case of women, could increase the GDP per capita by 0.6% in 10 years. Linking the retirement age to life expectancy will also contribute to maintaining reasonable pension replacement rates and improving sustainability in the midterm. Added to the above, the OECD says that increasing the Basic Solidarity Pension and the Solidarity Pension Contribution even more would reduce poverty in old age but warns that a significant increase could generate negative effects on public finances, household savings and formal employment. In this regard, the agency also recommends separating the sources of financing for contributory and noncontributory pensions. ***(Source: www.previsionparatodos.cl; Date: 26.02.18).***

Pension funds are already 83% of GDP and could increase in the midterm. The higher returns of the Multifunds would explain the significant progress of the indicator, which was USD 219 billion in January this year, 83. % of GDP, a historical level since records have been kept. The Association of AFPs says that the returns of the funds in 2017 explain the significant increase in the last year. In fact, 70% of the total amounts of pension funds are explained by returns, and the remaining 30% by contributions. Thus, the pension funds are expected to equal GDP within three to four years and surpass it in the mid-term. ***(Source: www.economiaynegocios.cl; Date: 08.03.18).***

National Economic Prosecutor's Office: Life annuity distortions affect pension amounts by between 2% and 3.5%. The National Economic Prosecutor's Office (FNE) published the final report of the Life Annuities Market Study - initiated in 2017- the purpose of which was to examine the distortions existing in this area. The results show that there is a difference that affects retirement pension amounts by between 2% and 3.5%. These figures are slightly below the preliminary estimates (between 2.4% and 4.8%). According to the FNE there are significant distortions in the life annuities market, which give rise to a reduction in the pension amounts of beneficiaries, possibly attributable to the low intensity of competition in the market. This lack of competition is consistent with the regulatory issues in different areas, such as the operation of the system, the payment of consulting fees and the information provided in offer certificates. Some of the solutions suggested by the supervising agency include changing the legal provisions and rules and regulations of the system. ***(Source: www.pulso.cl; Date: 07.03.18).***

Central Bank publishes the final rules and regulations governing the secondary formal external markets (MSFEs) in which the pension funds can invest. The issuing agency resolved to include in the regulations, as an additional category to the stock markets known as MSFEs, the stock markets located in jurisdictions with a current sovereign risk equal to Categories "A" and "BBB" in markets. "Recognized" by the Superintendency of Securities and Insurance. Countries with this ranking include Colombia, Panama, Russia and South Korea. This amendment of the rules and regulations has been reviewed and approved by the Superintendency of Pensions. ***(Source: Central Bank Press Release, Date: 18.08.17).***

Colombia

Demographic transition and labor informality make the country's PAYGO system unviable. The PAYGO systems are based on "intergenerational solidarity," i.e. today's young people finance the pensions of current retirees. Nonetheless, due to the demographic transition in which the number of senior citizens is catching up with the number of young people, this solidarity mechanism is no longer viable. In other words, today's young people will not benefit from the solidarity of young people in the future. Added to the above is the high level of informality of the labor market, since informal workers do not contribute to social security, and are therefore not a source for financing the pensions of the elderly. For these two reasons, the Chairman of ASOFONDOS, Santiago Montenegro, emphatically decries the unviability of a reform that returns the Colombian pension system to a PAYGO system or justifies a pure PAYGO pillar in a mixed system. ***(Source: www.eltiempo.com; Date: 18.02.18).***

Costa Rica

Government owes USD 148 million to the retirement fund. The balance of the government's debt with the Disability, Old Age and Death (IVM) system at the end of 2017 was USD 148 million. This is a five-fold increase compared to 2016. This significant increase in the amount of the debt is due to the fact that the Ministry of Finance refuses to pay the increase in the government's contribution determined by the Board of Directors of the Costa Rican Social Security Fund (CCSS). (The government's contribution increased from 0.58% to 1.24%). The government currently deposits only 0.58%, equivalent to the contributions of the 1.5 million workers enrolled in the IVM. The Ministry of Finance still refuses to pay in the additional amount, arguing that there were no negotiations with the government, and also due to the government's tight fiscal situation.

The Ministry of Finance has refused to increase the government's contribution to the IVM since mid-2016. At the time, the Ministry of Finance called the Board of Directors of the Fund 'irresponsible' for increasing the fiscal deficit of public finances. The CCSS, on the other hand, claims that the increase is necessary for financing the difference between the pension amounts of retirees and the minimum pension (amounting to USD 230). ***(Source: www.nacion.com; Date: 12.03.18).***

Ecuador

The actuarial deficit of the public PAYGO system will exceed USD 20 billion by 2053. The pensions actuarial deficit of the Ecuadorian Social Security Institute (IESS) will be USD 20.464 billion by 2053. This was the conclusion of an actuarial study by the Volrisk Consulting Firm published by the agency last March. According to the study, the resources of the disability, old-age and death insurance fund would cover disbursements for benefits until 2045, after which it would enter a deficit phase. The IESS is studying the possibility of increasing the retirement age and the monthly contributions of members as a measure for resolving the agency's critical situation. ***(Sources: www.elcomercio.com;Date: 06.03.18; www.ecuadorinmediato.com; Date: 27.03.18).***

El Salvador

Country risk is reduced by the pension reform. El Salvador's country risk decreased by one third in the last year, according to the Emerging Markets Bond Index (EMBI). The three main risk rating agencies (Moody's, Standard and Poor, and Fitch Ratings) also raised the country's rating. According to the Central Reserve Bank (BCR), this was due to the political agreements reached in the last few months for reducing fiscal pressure. The BCR explained that the pension reform approved at the end of September 2017, as well as the political agreements regarding the 2018 budget and the obtainment of long-term financing, have a bearing on the reduction of country risk. ***(Source: http://elmundo.sv; Date: 06.03.18).***

IMF recommends increasing the retirement age. The international agency said that although the pension reform approved last year is a step in the right direction, it does not address issues such as low coverage and inequity. Thus, according to the agency, El Salvador must increase the retirement age, improve coverage and correct the inequity of the system. The FMI also said that the pension funds' commissions are still high and must be reduced, given the low investment risk profile concentrated in government bonds. ***(Source: http://elmundo.sv; Date: 28.03.18).***

Mexico

The Chairman of Consar has warned of the need for a pension reform. Agencies such as ECLAC and the United Nations have warned of accelerated population aging worldwide, including the Mexican population. Individuals over 60 who are now less than10% of the Mexican population, will be close to 25% of the population by 2050. Carlos Ramírez, Chairman of the National Commission for the Retirement Savings System (Consar), has warned that it will be difficult for Mexicans to address this demographic change with the existing pension system. The BCR explained that the pension reform approved at the end of September 2017, as well as the political agreements regarding the 2018 budget and the obtainment of long-term financing, had a bearing on the reduction of country risk. According to the regulator, the following changes are also necessary: (i) include self-employed workers in the pension system; (ii) extend the foreign investment limits from the current 20% of the portfolio to at least 60%; and (iii) address the issue of the sustainability of the self-financed pension systems (public universities, state-run companies, etc.). ***(Sourcehttps://expansion.mx; Date: 06.02.18).***

Enrolled members will receive pension estimates. About 21 million workers will receive a customized calculation of their future pension at their homes in February, along with their account statement, as part of the Financial Education Program launched by CONSAR. The pension projection document shows an estimate of the pension that savers will receive at the end of their working lives, based on their current wages and balances, as well as some assumptions regarding contribution densities and net returns. The information seeks to inform savers – well in advance - of the amount they will receive on retiring, so they will be better able to prepare for the future. ***(Source: www.jornada.unam.mx; Date: 08.02.18).***

OECD: Reducing informality is key for improving pensions. According to Monika Queisser, director of the OECD's social policy division, for Mexico to be able to achieve a more sustainable pension system with enhanced benefits for retirees, it must improve the structure of its labor market so that individuals can mandatorily and voluntarily contribute to the social security system, which would necessarily entail reducing the levels of labor informality in the country. Another aspect that needs to be addressed in the individual accounts system is increasing the retirement savings contributions. Mexico is the country with the lowest contributions in the OECD, at 6.5%. The specialist also emphasized that it must aspire to achieve a more homogenous pension system in which private and public-sector retirees have the same benefits. ***(Source: www.eleconomista.com.mx; Date: 18.03.18).***

Nicaragua

IMF insists on the need to reform the public pension system. In order to reduce Nicaragua's Social Security deficit, the multilateral agency recommends that the government should take a series of measures, such as increasing the retirement age, providing pensions for less time, and/or reducing pension amounts. The deficit of the National Social Security Institute in 2016 was USD 51 million, having increased to USD 70 million by November 2017, due to which the IMF recommends that the reform program should guarantee the long-term viability of this institution, correcting the imbalances in the system in the short-term. Nonetheless, the government has discarded the possibility of increasing the retirement age. ***(Source: www.elnuevodiario.com; Date: 07.02.18).***

Peru

The foreign investment limit will increase to 48%. The Central Reserve Bank (BCR) agreed to raise the foreign investment limit of the Private Pension Fund Managers (AFPs) to 47% as of March. It will then increase to 47.5% as of April 1, and to 48% as of May 1. With this measure, the AFPs will have an additional USD 500 million to invest in international investment instruments. The BCR Is expected to continue increasing the foreign investment operating limit for the AFPs, and once it reaches the legal limit (50%) it will be up to Congress to determine whether or not to increase the limit. The Chairwoman of the Association of AFPs, Giovanna Prialé, urged the authorities to increase the investment limit of the pension fund managers so they can diversify their portfolios and***: http://mercadosyregiones.com; Date: 13.02.18; https://elcomercio.pe; Date: 25.03.18).***

Uruguay

UniónCapital AFAP becomes the first South American pension fund to adopt the CFA code. UniónCapital AFAP, a Uruguayan pension fund managing 2,700 dollars of assets, equivalent to 5% of the GDP of Uruguay, is now one of the more than 1,400 companies worldwide that adhere to the code. The CFA code sets out the ethical and professional responsibilities of the pension funds or companies that manage assets in favor of their clients. It provides a point of reference for investors regarding the behavior expected of asset managers and offers a greater level of trust. UniónCapital is the first Uruguayan and Latin American company adhering to the code, thus reinforcing its commitment to raising the standards of the investment industry in the country by concentrating on the values and the behavior of investors. ***(Source: www.fundssociety.com; Date: 06.03.18).***

The Executive Branch regulated the law that enables opting out of the AFAPs. The executive branch regulated Law 19.590 that enables opting out of the AFAPs under certain conditions. It particularly states that "individuals who were 50 or older on April 1, 2016, and that at the time of the promulgation of this law had been forcefully included in the mandatory individual savings pension system (Law No. 16.713, of September 3, 1995), will be able to opt out of the system retroactively on the date of their enrollment therein, and be included in the proposed transition system." The regulations stipulate that members can opt out only once, irrevocably, which will be formalized before the Social Protection Bank. The effect on the so-called "50s" group was determined by comparing the conditions under which they would now retire in the mixed system and the conditions under which they could have retired in the former system. The funds withdrawn from the AFAPs will be managed by a trust. The Association of AFAPs (ANAFAP) has stated that it agrees that members should be obligated to choose between one system and the other in conditions of uncertainty regarding future income and returns, bearing in mind that if the choice were made at the end of their active working lives, they could decide with all the elements in view. It also said that the fiscal cost of the creation and management of the trust for managing the funds of the "50-year-olds" who opted out is not clear, and that they could have been managed by the AFAPs themselves without any additional cost. ***(Sources: www.republica.com.uy; Date: 26.03.18; ANAFAP Press Release).***

Europe

Denmark

Reforms to the voluntary pension savings system are implemented. On January 1, Denmark implemented the reforms to the voluntary old-age savings system, which included adjusting the annual savings limits, extending payment options, raising the minimum and maximum retirement ages, and eliminating the effects of private pension savings on public benefits. The savings accumulated in old-age savings accounts will no longer affect the participant's rights to public benefits. Formerly, old age savings payouts could result in a reduction or loss of public pension benefits. These reforms are the first stage of a broader reform agenda (commonly known as plan 2025), aimed at reducing financial pressure on the public pension system and encouraging longer working lives and more private savings. ***(Source: Social Security International Update; Date: February 2018).***

Spain

Deficit of the public pension system will be 1.6% of GDP by 2017. According to preliminary estimates, the public pension system would end 2017 with a deficit of EUR 18.800 billion (approximately US $ 23.170 billion), equivalent to 1.61% of GDP. The deficit, in relative terms, was slightly less than the one observed in 2016, which was 1.6% of GDP. ***(Source: www.diarioinformacion.com; Date: 01.02.18).***

Pensioners protest against reduction of benefits in the public pension system. There have been numerous protests against the increase of only 0.25% in pension amounts, with pensioners demanding more decent pensions. The Pension Reform Law No. 23/2013 stipulates this 0.25% increase in case of a deficit in the system. The current deficit has been accumulating in Social Security over the past seven years, and the executive has had to take out loans to be able to pay pensions. The IMF has warned that according to its estimates, pensioners could lose up to 30% of their purchasing power if this 0.25% increase remains in place. This law also provides for the inclusion of a sustainability factor, applicable after 2019, which would entail a 0.4% reduction in pensions per year. The underlying issue is the unsustainability of the existing pensions model. Given this situation, the experts have proposed several alternatives: (i) a mixed individually funded and PAYGO system; (ii) a notional accounts system; (iii) a third option consisting in complementing the public and private systems, assuming that the public system would guarantee a decent minimum pension. ***(Source: https://es.blastingnews.com; Date: 01.03.18).***

INVERCO has called on the government to reveal the sources of mid and long-term funding of public pensions. Within the framework of the OECD's "Pension at a Glance" report last February 5, the Chairman of the Association of Collective Investment Agencies and Pension Funds (Inverco), Ángel Martínez-Aldama, said that the Pacto de Toledo Parliamentary Commission should reveal the short, medium and long-term sources of funding of the public pension system, in order to "clear up any doubts" as to whether the system is sustainable and provides decent pensions. In his presentation, Martínez-Aldama pointed out that the replacement rate in Spain, which measures the pension compared to the last salary, is 81% compared to the OECD's average of 42%. In his opinion, this situation leads one to ask what replacement rate can really be financed, and also evidences the need to introduce an individually funded component into the system, for pensions to be sustainable and adequate. ***(Source: www.teinteresa.es; Date: 05.02.18).***

Government approves unlimited withdrawals of savings from private savings and pension funds. As of 2025, members will be able to withdraw their contributions to voluntary pension plans or funds that are at least 10 years old, without any limitations. The measure, which was approved by Royal Decree on February 9, aims to encourage savings in private pension plans by making contributions liquid. Nonetheless, this measure has been criticized by the OECD, which considers that it does not meet the objective of encouraging retirement savings, which should be the sole purpose of any pension plan. According to Pablo Antolín, Chief of the Private Pensions Unit of the OECD, "The proposed liquidity of plans in Spain defeats the purpose of the product, which is to complement the public pension; the measure is not heading in the right direction if that is its objective." ***(Sources: www.eleconomista.es; Date: 06.02.18; www.20minutos.es; Date: 09.02.18; www.inese.es; Date: 07.02.18).***

INVERCO proposes making private pension plans "semi-mandatory." The Chairman of INVERCO believes that the recently approved reform, which will enable recovering the money invested in a pension plan 10 years later, could serve as an incentive for private contribution to these pension savings products. Nonetheless, he considers the measure insufficient for avoiding the ongoing drop in the replacement rate of future pensions, which deteriorates by the day with the evolution of the existing PAYGO system. In order to revert this decline, Martínez-Aldama has invited the participants in the Toledo Pact to consider the model introduced in the United Kingdom. The government has introduced a "semi-mandatory" system in which all companies are obligated to have a pension fund for their employees. All companies, regardless of their size, must have a private pension plan and pay in contributions on behalf of their employees. Employees are free to accept this pension plan or not. ***(Source: www.lavanguardia.com; Date: 13.02.18).***

Ireland

Government announces a pension reform plan for the next five years. On February 28 the Irish government published guidelines for the reform of the pension system over the next five years, designed to address the key challenges of safe retirement. The new strategy includes a change in the public PAYGO pensions program (the state pension) to make it more transparent, fair and sustainable, and the implementation of the complementary retirement savings program in which employees not covered by a private pension will be automatically enrolled. The key proposals of the new strategy include: (i) replace the annual-average approach for calculating the right to a contributory state pension with a total-contributions approach (ECT), as of 2020. Under the annual-average system, the full state contributory pension is paid to individuals with an annual average of at least 48 weeks throughout their working lives; a partial benefit is paid to individuals with an annual average of 10 to 47 weeks of contributions. As a result, an individual with a short working life can qualify for a full pension, whereas an individual with a longer working life, but with significant gaps, can only receive a partial pension. Under the ECT, a full pension will be paid to individuals with at least 40 years of contributions, and the pension will be proportionately reduced for those with less than 40 years of contributions. (ii) Maintain the full state contributory pension for 34% of the worker's average earnings and link future increases to changes in the consumer price index. (iii) Maintain the planned increases in the retirement age from the current 66 to 67 in 2021, and to 68 by 2028, without any further increases before 2035. Changes will be linked to life expectancy increases as of 2035. (iv) Examine alternative approaches for financing the state pension in order to ensure that there are sufficient available funds. (v) Implement a complementary state-sponsored pension savings program by the year 2022, in which all workers over a certain age and without existing private pension coverage would be automatically enrolled. The contribution rate in the new system could be as high as 14% of income, with 2% paid by the government and the rest divided in equal parts between employers and employees. ***(Source: Social Security International Update; Date: March 2018).***

Asia and the Pacific

China

Macao implements a voluntary centralized pension fund system. On January 1, Macao launched the Central Pension Fund (CPF), a mixed (public and private) government-managed voluntary pension system. Under the CPF, all Macao residents aged18 or more will be automatically enrolled in CPF accounts. Funding for CPF accounts will come from two sources: (i) a single government contribution of USD 1,242 plus additional annual contributions based on the government budget surplus; and (ii) contributions made jointly by employers and employees, or individually by residents. The government will manage the funds comprising contributions to the CPF, whereas, employer and employee contributions will be managed by private pension fund managers. ***(Source: Social Security International Update; Date: February 2018).***

Vietnam

The formula for calculating old age pension benefits changes. On January 1, Vietnam introduced changes to the formula for calculating old age pension benefits in the public PAYGO system. Thus, old-age pensions are now calculated as 45% of the covered monthly earnings of the insured during the first 16 years (men, increasing to 20 years in 2022) or 15 years of contributions (women) plus 2% (men and women) of the average monthly income covered for each year that exceeds this minimum contribution period. The change in the benefits formula is part of a 2014 social security law that included several reforms aimed primarily at improving the long-term fiscal sustainability of the country's pension system. According to a 2012 report of the International Labor Organization, Vietnam's Social Security reserves would be exhausted by 2027 without these reforms. ***(Source: Social Security International Update; Date: February 2018).***