International Federation of Pension Fund Administrators

Progress of the Pension Systems
June 2017 - July 2017
No. 4

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 June - July 2017 period, with emphasis on the development of the individually funded systems.

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Executive Summary by area of interest

New Pension Programs and Social Security Reforms (approved)

Pacific Alliance (AP): *The multilateral convention for avoiding double taxation of the pension funds in Pacific Alliance countries was subscribed on June 29.*
Malawi: *New rules and regulations require workers (newly hired workers and active workers below 35 years of age) to contribute 5% of their monthly salary to the occupational pension system. Employer contributions will remain at 10% of salary.*
Dominican Republic: *A law was passed allowing terminally ill members of the Contributory System living abroad to withdraw their contributions to the AFPs.*

Investments

Nigeria: *The Multifunds Structure (4 funds) in pensions should begin in December 2017. The fund managers are currently in a transition period.*
Peru: *The Central Reserve Bank (Banco Central de Reserva - BCR) approved the increase of the operative foreign investment limits of the AFPs from 44% to 46% (as of July 17, the limit is 45%, and will rise to 46% on August 17).*

Withdrawal of Funds

Peru: *According to an estimate by the Association of AFPs , if the current trend continues over the next nine years, and 120,000 people withdraw most of their funds each year, a total of approximately US$ 18 billion (9% of GDP) will leave the system. The majority of people withdrawing 95.5% of their funds, are not retirees (65% are in early retirement).*

Crisis in public PAYGO systems

Costa Rica: *Increasing contributions by 1% will not save the public PAYGO system; it has been proposed, instead, to review Social Security contributions, which represent 38% of the worker's salary, and make them general taxes, which would help to reduce the cost of formality.*
Spain: *According to the Association of Collective Investment Agencies and Pension Funds, the public pension replacement rate will be 27% by 2050, versus 82% today. It was also announced that population aging reached a new record, with 8.6 million people older than 65.*
Greece: *Parliament adopted a series of measures - including the freezing of pensions until 2022 — demanded by creditors within the framework of the second revision of the third bailout.*
Nicaragua: *According to the IMF, the liquid reserves of the Nicaraguan Social Security Institute (INSS) will be exhausted by 2019, due to which the retirement age, the minimum contribution period, and the contribution rate must be increased, among other measures.*

Retirement age

Netherlands: *The retirement age will increase from 67 to 68 as of January, 2018.*
United Kingdom: *The official retirement age will increase to 68 between 2037 and 2039 (7 years ahead of schedule). Retirement ages are currently 63 for women, and 65 for men.*

Population aging

An ECLAC study states that the Latin American and Caribbean population will drop due to aging by 2060. *Until the 70's, Latin America and the Caribbean was a young region with high fertility and birth rates (almost 6 children per woman), and low life expectancy. However, the fertility rate rapidly fell from 6 to 3 children per woman in 25 years, and is currently below the replacement rate (2.1 children per woman). It is therefore estimated that the population of the region will continue to grow until 2060, and will start decreasing thereafter.*

Reforms proposed or to be discussed

Colombia: *The Public Expenditure Committee must evaluate the pension system prior to the government deciding on the reform of the pension system. A project that reduces the weeks of contributions by women who earn less than twice the minimum wage (from 1,300 to 1,150), will in turn be contested by the Government. Finally, a government draft seeks to facilitate the use of the Minimum Pension Guarantee Fund (FGPM) for workers who do not have the resources to access Programmed Withdrawal or a Life Annuity. The Ministry of Finance, on the other hand, wants to create two portfolios within the Special Programmed Withdrawal Fund: a maintenance and a balanced portfolio (the idea is to transfer 5% of resources from the balanced to the maintenance portfolio, so that all resources will be in the latter portfolio 20 years after the law is passed).*
European Commission: *The creation of Pan-European private voluntary pension funds has been proposed.*
El Salvador: *Government submits a new proposal for the reform to the pension system, which includes the creation of a collective fund whereby the Executive would obtain resources for paying its existing pension commitments; the fund would be financed by taking 50% of the current savings of contributors, plus 8% of future contributions, in addition to the 5% that the Government would put up as a complement in each General Budget of the nation. According to Asafondos, these would be "notional accounts," i.e., fictitious accounts for each worker within a solidarity fund, but not backed by money, which in reality amounts to a confiscation.*
Spain: *Unespa proposes introducing "matching contribution" (conditional contributions by the employer or the State to encourage individual savings) in the pension system, in order to ensure its future.*
Hong Kong: *An agreement was announced for the creation of the new public life annuity system, which is expected to be implemented in mid-2018. In this system, people would invest a fixed premium amount between USD 6,411 and USD 128,216, for accessing a life annuity after they turn 65.*
Indonesia: *The authority wants to review the Pension Law to allow more non-banking financial institutions to offer pension funds and to develop products that can offer additional benefits (such as financing the education of children, or housing, among others).*
Ireland: *A new universal pension system based on personal accounts has been proposed, which would complement the State pension of two-thirds of the workers in the private sector, who it is estimated do not have other sources of income for retirement. The contributions for financing these pensions would be mandatory for workers and employers, and the State would offer tax incentives.*
Mexico: *A study has been published that forecasts that 70% of the population will not be entitled to a pension, since they are not formally employed. In response, specialists and the Mexican Association of Afores itself, insist on the need for a reform of the pension system that would include a gradual 4.5% increase in the contribution rate to individual accounts, and an increase in the official minimum retirement age (from 65 to 67). The OECD has pointed out that the pension system is heading for collapse if this comprehensive reform is not implemented. On the issue of investment, on the other hand, Afore Principal proposed switching from four Siefores based on age, to a system in which a life-cycle fund accompanies workers throughout their working lives, thus reducing exposure to risk as the worker approaches retirement.*
Poland: *In order to reduce the impact of the reduction in the retirement age (from 67 to 65 for men, and to 60 for women) on public finances, it was proposed to increase State benefits by 8% per year, for each year in which retirement is postponed.*
Dominican Republic: *The AFPs are calling for a new Social Security system for self-employed workers.*
Uruguay: *It has been proposed that workers who are currently between 50 and 59 years of age (who fell within the transition stage in 1996 when they were under 40 years of age and were forced to enroll in an AFAP due to their wage level), should return to the Social Security Bank (BPS). For the Association of AFAPs, the decision as to whether the worker should return to the former system or remain in the mixed system, should be taken just before retirement, and not in advance. Furthermore, the President of Uruguay, Tabaré Vázquez, announced the creation of an inter-ministerial task force entrusted with drawing up a comprehensive report on the Social Security situation.*

Relevant reports or presentations

A Mercer Study **proposes eliminating the retirement age to improve pensions.** In the document "Bold Ideas for Mending the Long-Term Savings Gap," Mercer finds that there are several problems that companies must address for people to be able to access better pensions, including higher life expectancy and a lower birth rate. According to Mercer, there is a global deficit of US$ 70 billion in retirement savings, describing the situation as "one of the major crises of our times." One of the key ideas of the consulting firm for raising pension amounts, is the need to redefine work and retirement, which would include incentives for deciding on when and how to work, and what retirement entails. According to the report, this could involve raising, or even eliminating, the retirement age, since people live longer now than they did in the past. This could contribute significantly to improving the solvency of pension systems, and people retiring with higher retirement savings. ***(Source: www.mercer.com; www.df.cl; Date: 18.07.2017).***

International Longevity Center (ILC-UK) publishes study on the pension savings gap in 30 countries. The report, "The Global Savings Gap," explores pension systems in 30 high-income countries, measuring performance according to future sustainability, the ability to deliver adequate future pensions, and intergenerational law. The main results of the study are: (i) All systems are under pressure from aging, and in response, many countries are reducing the generosity of State pensions; this means that unless workers can complement these pensions with their individual savings, they will face serious retirement savings deficits; (ii) Depending solely on the State pension provision will not suffice for accessing an adequate pension; in the majority of countries surveyed, workers will have to save an additional percentage of their annual wages; in countries such as the United Kingdom, the United States and Canada, workers will have to save between 11% and 18% of their salaries each year to access a pension that will provide a comfortable standard of living; (iii) almost all developed countries face an inter-generational savings gap (in all OECD countries, workers currently entering the labor market will have worse pensions in future than current retirees). The report concludes that in order to promote the development of sustainable pension systems that provide adequate pensions, it will be necessary to: (i) Increase the coverage of private pensions and contributions; (ii) Increase the financial capacity of workers; (iii) Use technology for assisting in financial decision-making; (iv) Facilitate longer working careers through flexible working practices; and (v) Reduce pension inequalities through sustainable non-contributory pensions programs that encourage savings; the most generous benefits must target those with low levels of income throughout their working lives. ***(Source: www.ilcuk.org.uk; Date: 19.07.2017).***

ECLAC: Aging will cause a drop in the population of Latin America and the Caribbean by 2060. In the tenth chapter of the "ECLAC Horizons" program, Paulo Saad, Director of the Latin American and Caribbean Demographic Center (CELADE) - Population Division of the Economic Commission for Latin America and the Caribbean (ECLAC), pointed out that by 2040 the percentage of people aged 60 or more will surpass those aged 15 or less, which will entail a new age structure. Until the 1970's, Latin America and the Caribbean was a young region with high fertility and birth rates, with a regional average of almost 6 children per woman, and low life expectancy. However, the fertility rate fell rapidly from 6 to 3 children per woman in 25 years, and is currently below the replacement rate (2.1 children per woman). Given this trend, ECLAC's projections estimate that the population of the region will continue to grow until 2060, and will begin to decrease thereafter. (Source***: www.cepal.org; Date: 22.06.2017).***

OECD publishes report on social protection in Asia. The report examines several socio-economic and demographic trends in 24 Asian countries, between 2005 and 2015, as well as the problems facing social protection programs. The report starts by pointing out that economic growth has led to a reduction in dire poverty, especially in China, Indonesia and Viet Nam. At the same time, economic growth has contributed to reductions in fertility rates and increases in life expectancy, which has increased concerns regarding population aging. The overall fertility rate in Asia now averages 2.2 children per woman (slightly above the replacement level, 2.1), and life expectancy at birth is 73. Both factors are expected to contribute to a drop in the elderly support ratio (working age population between 15 and 64, vs. population of 65 or more), from 10.5 in 2015, to 6.6 in 2030. With regard to social security coverage, the report points out that only 20% or less of the working-age population is effectively involved in the pension systems. While efforts have been made to expand coverage, practical difficulties have been encountered, such as limited administrative capacity. Given the future aging of the population, social security coverage will continue to be a challenge. ***(Source: Social Security International Update, June 2017; Date: June 2017).***

PwC published the latest edition of the "Golden Age Index". The study calculates a weighted average of seven indicators that reflect the impact on the labor market of workers over 55 in the OECD countries, including employment, income and education. Iceland, New

Zealand, Israel and Sweden rank in the first four places of the index this year. The purpose is to quantify to what extent different economies take advantage of the potential of their most experienced workers. According to the report, the fact that more experienced people carry on working, not only increases the GDP of the OECD, but also contributes to consumer purchasing power and the tax revenues of countries. The consulting firm's estimates show that it could also help to improve the health and well-being of the elderly, by keeping them physically and mentally active. PwC recommends, among other actions: (i) To take measures for promoting learning and training throughout working life, that will help all generations to cope with rapid technological progress; (ii) Adopt flexible working policies and partial retirement options to help meet the needs and changing preferences of older workers. PwC estimated that the potential increase of GDP in the OECD countries, after extending the working lives of people over 55 to levels similar to the country in the fourth-place in the index (Sweden), could be around USD 2 billion. ***(Source: http://eleconomista.com.mx; Date: 26.06.2017).***

Relevant news of the period

Latin America, the Caribbean and North America

The Pacific Alliance (PA)

Pacific Alliance pension funds will not be subject to double taxation. On June 29, the Colombian Minister of Finance, Mauricio Cardenas, his Mexican counterpart, José Antonio Meade and the Peruvian and Chilean Deputy Ministers, Claudia Cooper and Alejandro Micco, subscribed the multilateral convention for avoiding double taxation of the AFPs in the Pacific Alliance countries, which altogether have resources exceeding US$ 450 billion. The signing occurred within the framework of the meetings of the High-Level Group of the Pacific Alliance. ***(Source: https://alianzapacifico.net; Date: 30.06.2017).***

Brazil

Government hints that the pension reform will be implemented before the next legislative recess. The Government is seeking to implement the pension reform that sets the minimum retirement age for men and women at 65, before a legislative recess scheduled for late July. The reform was already approved in first instance by the Chamber of Deputies in the first half of the year. The proposal to reform the costly Brazilian social security system is seen by investors as a crucial step for balancing the country's budget in the long term. However, its approval is in the balance after the President was investigated by the Federal Supreme Court last May. The reform must be approved in both chambers of Congress to become law. ***(Source:*** www.swissinfo.ch***; Date: 20.06.17).***

Chile

Minister Secretary General of the Presidency, Nicolás Eyzaguirre, said that there will be only one bill of law for reforming the pension system, which is undergoing final adjustments, and will be submitted in August. The Minister also said that the Chilean pension system must continue to be based on individual funding, since it will continue to contribute to the growth of the country (through new investments and new jobs in the economy). He also said that the PAYGO system is similar to a pyramid system, because eventually someone will end up with nothing. ***(Source: www.economiaynegocios.cl; Date: 26.07.2017).***

Senate approves bill of law to eliminate the commission on unpaid contributions. This bill proposed modifying Decree Law No. 3,500 of 1980, which until now stipulated that whenever the AFPs collect unpaid contributions, they obtain the collection costs and the equivalent to 20% of the interests that would have accrued by applying simple interest on the owed amount. With the passing of the new legislation, the AFPs will only obtain the collection costs and the rest will go to the individual accounts of workers in the AFP. ***(Source: www.df.cl; Date: 16.06.2017).***

Survey shows that the Common Solidarity Fund does not convince AFP users. Within the context of the discussion on the reform of the pension system, CADEM (the main market research and public opinion company) conducted a survey of the men and women living in the country's 73 urban zones, to gauge their opinion regarding the assignment and management of the additional 5% pension contribution. 59% of AFP users said that they would prefer the additional 5% to be fully assigned to the individual account. 32%, on the other hand, preferred the option of distributing it equally between the individual account and the Common Solidarity Fund. Only 7% thought that it should be fully assigned to the Common Solidarity Fund. As to whether the 5% additional contribution should be managed by a public agency or by the AFPs, the results were inclined to favor the AFPs. 58% of users expressed such preference, well above the 29% who opted for management by a public agency, and the possibility of paying an additional commission in this case. ***(Source: http://www.eldinamo.cl; Date: 14.06.2017).***

Treasury pays USD 500 million to the Pension Reserve Fund (FRP), taking it to an all-time high. According to a decree signed on May 2 by the Minister of Finance, Rodrigo Valdés, this contribution, equivalent to 0.2% of GDP, will be paid annually by the government to the FRP, by law. The Treasury revealed that FRP resources will be used to pay pensions for the first time in 2017. This falls within the framework of the 10% increase in the amounts of the Basic Solidarity Pension (PBS) announced as of January this year. ***(Source: www.df.cl; Date: 09.06.2017).***

Colombia

The Public Expenditure Committee must evaluate the pension system prior to the government deciding on the reform of the pension system. When the Public Expenditure Committee was created in this country, it was announced that one of the issues that it would have to evaluate was the pension system, since the majority of subsidies granted for this benefit are assigned to higher income pensioners, and generate high public spending. This was one of the topics discussed in a seminar between the President of Peru, Pedro Pablo Kuczynski, the Chairman of the Peruvian Association of Pension Funds, Giovanna Prialé, Santiago Montenegro, the Chairman of the Trade Association of AFPs in Colombia, and two of the experts sitting on the aforementioned Committee. All sectors agree on the need for a pension reform that guarantees the sustainability of the system and reduces the aforementioned deficit. Nonetheless, the Government has clearly stated that it will wait for the report of the Public Expenditure Committee and that, as it said on the occasion of the tax reform, the draft of the new law will have to be "broadly discussed" with all Colombians. ***(Source: http://www.dinero.com; Date: 21.06.2017).***

Bill of law that reduces the number of weeks of pension contributions by women will be contested by the Government. The implementation of the bill of law, approved in the Senate, that would allow women who earn less than twice the minimum wage to retire with 1,150 weeks of contributions (instead of 1,300), would generate a negative fiscal impact. The Ministry of Finance estimated that the measure would increase the number of pensions and the average subsidy level, generating a pension liability with additional fiscal impact, with a present value of COP 66.2 billion in 2017 (approx. US$ 22 million), about 7.3% of GDP. ***(Source: www.lanacion.com.co; Date: 17.06.2017).***

A draft ordinance would facilitate the use of the Minimum Pension Guarantee Fund (FGPM) for workers who cannot access a Programmed Withdrawal (PW) or Life Annuity (LA) pension. The government made it clear that the draft ordinance for modifying Resolution 3099 of 2015 (subject to comments until June 9) will not change the official retirement age, nor the required number of weeks of contributions, nor the amount of saved resources. Its purpose is for people who are unable to accumulate sufficient resources for opting for the Programmed Withdrawal (RP) mode, to avoid the risk of the old age pension in this mode being exhausted, and in turn, being able to retire in the Life Annuity (RV) mode, or through the Minimum Pension Guarantee Fund (FGPM). The amendment aims to improve the recognition system, so that more people who have the necessary weeks of contributions and cannot access a Programmed Withdrawal (PW) or Life Annuity (LA) pension in the insurance market, can access a pension through the FGPM at the ages laid down in the regulation in force (62 for men, and 57 for women), since many of these people are forced to request a lump sum payout of their balance, which is not ideal in a pension system. ***(Source: www.portafolio.co; Date: 11.06.2017).***

Ministry of Finance will create the maintenance and balance portfolio in the Special Programmed Retirement Fund of the mandatory pension funds. The Pension Fund Managers are currently obligated to offer three types of funds to their members: conservative, moderate, and greater risk, as well as a fourth segment denominated Special Programmed Withdrawal Fund, designed for retired members and the beneficiaries of Survival Pensions. The Financial Regulation Unit of the Ministry of Finance has a draft ordinance in the comments stage, that amends Decree 2555 of 2010 governing the investment system of the Special Programmed Withdrawal Fund, also enacting other provisions. It basically states that the Special Programmed Withdrawal Fund will be divided into two portfolios: balanced and maintenance. Retired members, or pension beneficiaries, will be assigned to one of these portfolios, under the following rules: for the old age/survival contingency at age 57 for men and 62 for women; for the disability contingency at age 44 for men, and 51 for women. Individuals below these established ages, will be assigned to the balanced portfolio. The fund managers will have to distribute the resources of those retiring after the official retirement age between both portfolios, according to age and gender, so that each year they can transfer 5% of their resources to the maintenance portfolio, which will hold all their resources 20 years after the new rules and regulations come into effect. ***(Source: www.dinero.com; www.minhacienda.gov.co; Date: 30.05.2017).***

Costa Rica

Increasing contributions by 1% will not save the public PAYGO system. The fact that workers contribute 1% more will not save the Disability, Old Age and Death System (IVM; public PAYGO system), which is the main source of retirement income of nearly 1.5 million workers. To fix this, the social security charges representing 38% of each worker's salary, whether public or private, must be reviewed, and become general taxes.

Moving in this direction would reduce the cost of formality and increase the coverage of the IVM, said Edgar Robles, ex-superintendent of pensions. The burden of any measure taken to rectify this system would fall directly on the workers, and therefore a sectoral agreement has still not been reached. Three measures have been mentioned: increase the retirement age from 60 to 68; increase workers' contributions, and strengthen the second pension pillar (mandatory), but the most important thing is that the decision taken must not be isolated. The decision of the Costa Rican Social Security Fund (CCSS) to increase workers' contributions by 1% can be repealed by the Government; otherwise, workers must contribute 0.5% more to the IVM system, starting in the first half of July, increasing by the same percentage in January, 2018, to complete the 1% per month increase. ***(Source: www.larepublica.net; Date: 22.06.2017).***

El Salvador

Government sends new bill of law for reforming the pension system to the Legislative Assembly. The new proposal includes the creation of a collective fund with which the Executive would obtain the resources to solve the problems that will arise with the payment of ISSS and INPEP pensions, the beneficiaries of Decree 100 and the people that were in the former system and decided to switch to the AFPs, but continue to receive benefits for having been in the public system. This fund would be financed by taking 50% of the current saving of contributors, equivalent to about $5 billion, plus 8% of future contributions, in addition to the 5% that the Government would add as a complement in each General Budget of the Nation. However, according to economists, this would generate serious problems for the individually funded accounts of contributors, since the proposal aims to reduce the percentage of individual savings contributions to 5.5% (contributions are currently 10.8%, and if young contributors wish to save more, they will have to increase their contributions). According to economists, this will still be a mixed system, except that it addresses "the savings of contributors more aggressively," mostly affecting new young workers. Young people in the new system will have lower pensions, because half of what they contribute to the individual savings accounts will be taken from them. According to Asafondos, the AFPs Trade Association, in the case of the Collective Fund, these would be "notional accounts," i.e., fictitious accounts for each worker within a solidarity fund, but not backed by money, which, in reality amounts to a confiscation. ***(Sources: www.laprensagrafica.com; http://elmundo.sv; Dates: 15.07.2017; 20.07.2017).***

Pension reform negotiations advance and the Government prepares new "notional accounts" law to provide for pension savings. The political parties GANA and FMLN have advanced in negotiating a pension reform; there appear to be four "coincidences" between the parties: reduction of AFP commissions; increase in retirees' benefits; that the acquired rights of the beneficiaries of Decree 100 (optional) should not be affected; and maintain individual accounts. Furthermore, according to sources involved in the discussion, at the highest level and with much secrecy, the Government has taken another look at the ideas contained in the proposal submitted by the Citizens' Initiative for Pensions (ICP) and has re-edited them; the new version proposes converting half of the workers' individual accounts into "notional accounts," whereby contributions are recorded in the name of each worker, but ultimately still have no financial backup. ***(Sources: http://www.elsalvador.com; http://elmundo.sv; Dates: 25.06.2017; 11.07.2017).***

All agree that the mixed system is not viable and the World Bank comments on the reform proposed by the Citizens' Initiative for Pensions (ICP). Rafael Lemus, an economist involved in the Finance Committee of the Legislative Assembly, where at least four proposals for reforming the pension system are being discussed, says that the studies of the Inter-American Development Bank (IDB), the World Bank (WB), and the Superintendency of the Financial System reject the Government's proposal to create a mixed pension system, because it only provides financial relief in the short term, and in order to make the model sustainable, the contributions deducted from the wages of workers would have to be raised, and the retirement age would have to be increased. The proposal of the ICP, in the private sector, claims that it is the most viable because it would generate less pension deficit (31.4%) and would allow workers to retire with a relatively higher pension. According to the World Bank, the ICP model is robust, based on its results, but it recommends including an adjustment in the retirement age (currently 55 for women and 60 for men), introducing a pensions ceiling not exceeding USD 1,500, lowering the minimum period of contributions for obtaining a pension from 25 to 23 years (legally required time, either continuously or discontinuously), and reduce AFP Commissions from 2.2% to 1.8%. The World Bank has also insisted on incorporating sustainability indicators which must be regularly reviewed and physically "shield" the proposal against political decisions that could alter the social security balance. ***(Sources: www.laprensagrafica.com; http://www.estrategiaynegocios.net; Dates: 21.06.17; 12.07.2017).***

Mexico

The Afores investment regime will be extended. In the next few months, the Pension Savings Fund Managers (Afores) will have a broader investment regime, designed for greater investment in the country's infrastructure, announced Vanessa Rubio, Undersecretary of the Treasury. The idea is to improve existing vehicles (Fibras, CKDs, Cerpis, and others) that could trigger greater participation of private capital funds and make the investment regime more flexible, to enable increased investment in certain vehicles that can generate higher yields for workers. This regulatory change in infrastructure projects will be ready in August. ***(Source: http://www.elpulsolaboral.com.mx; Date: 20.07.2017).***

70% of Mexicans will not be entitled to a pension in retirement and the OECD foresees a collapse in pensions if a comprehensive reform is not undertaken. Within the context of the 20th anniversary of the new pension law, Lockton Mexico, a private insurance consultant and broker, conducted the study "What has not worked in the Afores model?" The study foresees that 70% of the population will not be entitled to a pension, since it is not formally employed. The contribution to the individual account is 6.5% of the worker's taxable income, which is low considering that approximately 75% of workers contribute on less than 5 times the minimum wage, and will receive the minimum pension when they retire. The study proposes that workers should create savings, or an equity that complements the Social Security benefit. Moreover, the OECD has pointed out that the Mexican pension system is heading for collapse if a comprehensive reform is not implemented. Beyond analyzing whether contributions can be increased or not, what is really urgent is to reform the entire system, warns Pablo Antolin Nicolás, economist of the agency’s Private Pensions Unit. Changes should raise contributions, raise wages, promote voluntary saving, improve old age assistance programs and streamline the pension system. Another challenge that Mexico must address, which the majority of OECD countries have in place, is the creation of a pension system for self-employed workers, which will require some kind of law making it mandatory, or some means of automatic enrollment, either through the tax system, or by domicile, whichever is considered more appropriate. ***(Sources: www.forbes.com.mx; http://www.entornointeligente.com; Dates: 06.07.2017; 11.07.2017).***

Afore Principal proposes modifying the investment model to allow investment in higher risk and yield instruments, through a Life Cycle Fund. The Afores have been criticized because their portfolios are not diversified and they put most of the money of the workers in a single basket: government bonds, which are less risky, but provide lower returns. Workers can currently choose between four investment companies (Siefores) to place their retirement savings, but they remain divided by age. When switching funds, the Afores have to liquidate assets to move them from one fund to another, which prevents them from making long-term investments and diversifying their portfolios. In response, Afore Principal proposed a solution to the regulator to do away with this lack of appetite for risk, thus improving the returns on savers’ assets. The proposal consists in switching from four Siefores divided by age, to a system in which workers have one fund throughout their working lives, thus reducing exposure to risk as they approach retirement. In this proposal, rather than workers switching Siefores according to their age, or having the option of switching to other Siefores, the Siefores would adjust their portfolios depending on their age. This Life Cycle Fund will allow the Afores to invest in higher risk and return instruments, such as equity or foreign securities, Development Capital Certificates (CKD), among other structured instruments (12% invested in these instruments, instead of 6%, for example). ***(Source: http://expansion.mx; Date: 06.07.2017).***

The Afores Trade Association says that pension contributions can be increased, but legislators ignore the proposal. Given the urgency of increasing pension amounts to guarantee a dignified old age, private sector specialists insist on reforming the existing pension system, introducing an increase in the retirement age and a gradual increase of 4.5% in the mandatory minimum contribution of workers. Although the proposal, promoted by the Mexican Association of Afores (AMAFORE), has been announced and submitted to the legislators, there has been no response to date. The reason is the lack of political interests prior to the elections, according to Carlos Noriega Curtis, the Chairman of AMAFORE. The proposed reform includes raising the retirement age, from 65 to 67, which would increase workers’ pensions by up to 20 percent, and gradually increase the mandatory contribution by workers, employers and the government by 4.5%, without affecting anyone’s finances, by means of a mandatory enrollment system for all workers, allowing those who do not want to be included to opt out. ***(Sources: www.cronica.com.mx; www.elpulsolaboral.com.mx; Dates: 19.06.2017; 17.07.2017).***

Proposal for switching Infonavit savings to the AFOREs. The proposal seeks to include 5% of contributions to the housing sub-account in the mandatory contributions of 6.5% to the Afores, improving workers’ pensions on retirement. This change was pending in the Social Security reform approved in the Chamber of Deputies in 2014, and was frozen in the Senate of the Republic. The Espinosa Yglesias Studies Center (EECY) said that the decision to move the housing sub-account to the resources destined to pensions through the AFOREs must be taken by workers as part of an improvement in their retirement savings, pointing out that this alternative would provide a better pension to workers, mainly those who have resolved their housing requirements. ***(Source: www.eluniversal.com.mx; Date: 14.06.2017).***

Nicaragua

IMF: Reform of the Social Security system is "priority and urgent." The Executive Board of the International Monetary Fund (IMF) concluded that reform of the Social Security system should be a priority, and urgent, since the liquid reserves of the Nicaraguan Social Security Institute (INSS) will be exhausted by 2019, which would make it necessary to increase public transfers to fund retirement and health benefits. A technical delegation suggested coordinated actions, such as: trim and rationalize the health and operating costs of the INSS, increase the retirement age, increase the minimum contribution period, increase the employers' and workers' contribution, review pension adjustment mechanisms, reduce the benefits granted and have the Government assume expenses such as, for example, reduced and special pensions. Although the Government has still not announced a date for discussing the new reform of the INSS, it has already ruled out increasing the retirement age and the number of weeks of contributions for accessing a full minimum pension. If projections are met, the INSS will end this year with five years of insolvency, and a financial deficit surpassing NIO 1,500 million (approx. US$ 49 million). ***(Source: www.laprensa.com.ni; Date: 26.06.2017).***

Peru

The foreign investment limit of the AFPs was raised. In order to promote greater diversification of the pension funds, the Central Reserve Bank (BCR) approved the increase of the foreign investment operating limits of the Private Pension Fund Managers (AFPs) from 44% to 46%. Thus, the limit will be 45% as of July 17, and will rise to 46% on August 17. ***(Source: www.elperuano.pe; Date: 14.07.2017).***

Regulator proposes improving information in the AFP statements. The Superintendency (SBS) has proposed amendments to the rules and regulations governing the Private Pension System (SPP), to regulate the minimum content of the statements sent to members of the AFPs. The aim is to improve the information in the statements sent to members and provide greater transparency with respect to contributions, returns and the commissions applied in each period. These are the main points referred to in the bill of law: (i) A new layout of the statement. The accumulated returns from the time the member enrolled in the system will be recorded, to inform him of the returns that his AFP has earned on his pension savings throughout his working life in the SPP; (ii) Comparative spreadsheet. This information will include the annualized returns of a member's fund type versus the industry average; (iii) Digitization. Pensioners' statements (those in programmed withdrawal or in the temporary part of a deferred life annuity) would be delivered by electronic means, unless the retiree decides to receive this information in hard copy; (iv) Additional information. The AFP may also submit information for months prior to the corresponding four-month period. This provides members with a longer-term detail of their pension situation (one year, for example); (v) Creation of a movements section. The aim is to facilitate the member's reading of the fund input and output records in each four-month period, also including the returns obtained in the four-month period. ***(Source: http://elcomercio.pe; Date: 10.07.2017).***

AAFPs request amending legislation for implementing new pension products. The Chairman of the Association of Pension Fund Managers (AAFPs), Giovanna Prialé, called on the authorities to amend the legislation of the SPP to facilitate the implementation of new pension products for the populations of emerging areas in Peru. The reform should eventually allow new pension products to combine health, pensions and education coverage to people who now have spending power, but are not enrolled in any social security system. ***(Source: http://gestion.pe; Date: 06.07.2017).***

Almost half of the pension funds will be lost by 2026 due to withdrawals by members. Since the rule allowing members of the SPP to withdraw up to 95.5% of their fund, 101,728 people have withdrawn PEN 6.697 million (approx. US$ 2.013 billion) from the AFPs by May this year. According to an estimate of AAFP, if this trend continues over the next nine years, and 120 thousand people withdraw most of their fund each year, a total of PEN 60 billion (approx. US$ 18,038 million) will leave the system (9% of GDP). This amount is equivalent to about 44% of the funds currently managed by the AFPs. In the same period, only 47,786 members chose to withdraw 25% of their fund for housing (less than half of those who withdrew 95.5%), and the vast majority (91%) used it to pay off a prior loan (only 9 of every 100 members requesting this percentage assigned it to purchasing a housing unit). Giovanna Prialé, Chairman of the AAFP, commented that these measures have changed the purpose of pension savings, and that one of the most worrying aspects is that the majority of 95.5% withdrawals were not by retirees (35% were legal retirees, and the remaining 65% were early retirees, between 50 and 64 years of age). ***(Source: http://diariocorreo.pe; Date: 07.07.2017).***

AFPs deepen the analysis of good corporate governance of the companies they invest in, to boost returns. The AFPs will invest in companies with good corporate governance, in order to reduce risks and thereby improve the returns of members. In the Forum "Promoting best corporate governance practices: The role of the AFPs," Aldo Ferrini explained that incorporating these variables in the analysis will prevent the exposure of members to loss of earnings in the funds due to 'reputational risk', as occurred with the Graña y Montero (GyM) shares earlier this year. The CEO of AFP Habitat, Mariano Álvarez, in turn, said that the AFP had decided months ago to invest only in companies with good corporate governance. He said that AFP Habitat follows up on the public information of companies in order to be permanently informed of good corporate governance practices. ***(Source: http://www.americaeconomia.com; Date: 18.06.17).***

[Bill of Law](#) **proposes extending the use of the 25% to pay off a mortgage.** If the amendment submitted to Congress last June 8 is passed, members who find themselves in trouble because they have mortgaged their only home as collateral for any kind of loan, could also use their pension fund. Thus, the available 25% of the personal fund accumulated in an AFP, will no longer be used solely for the initial down payment on a first home, or paying off the mortgage loan on a first home; but also to pay off "any kind of loan backed by the establishment of a mortgage on the sole property owned." This requested amendment is due to the 29% increase in the national delinquency rate and the economic slowdown, which "reduces the monetary income" of individuals and micro and small enterprises. ***(Source: http://diariocorreo.pe; Date: 12.06.2017).***

New members will be automatically enrolled in Prima AFP. As of last June 1, and for the next two years, new members of the SPP will be automatically enrolled in Prima AFP, after this fund manager won the bidding in December 2016. The AFP will receive all new members to the SPP enrolled as of June 1, 2017, who will pay the lowest mixed commission in the market. The commissions offered by the AFP that won the bidding are also applicable to existing members who chose the mixed commission, since there cannot be different mixed commissions within the same AFP. ***(Source: www.andina.com.pe; Date: 01.06.2017).***

Dominican Republic.

AFPs call for a new Social Security system for the self-employed. The AFPs have proposed that the Dominican Social Security system (SDSS) should consider a new contribution system, so that self-employed individuals or entrepreneurs can receive the health, pension and disability benefits contemplated in the law. The system they propose will be denominated the Individual Contribution System. The Dominican Association of Pension Fund Managers (ADAFP) put forward this proposal, and together with others, is currently involved in the discussion for amending Law 87-01 that created the Social Security System. ***(Source: http://hoy.com.do; Date: 27.06.2017).***

Reimbursement of contributions to members with terminal illnesses resident outside the country, has been authorized. The National Social Security Council (CNSS) ruled that members of the Individually Funded System of the Contributory Regime with terminal illnesses, and resident outside the country, may withdraw their contributions from the AFPs. Accumulated balances, including mandatory, voluntary, and extraordinary contributions, as well as interests, will be returned to these members. Terminal illnesses must be duly evaluated and qualified by Medical Commissions. ***(Source: http://almomento.net; Date: 16.06.2017).***

Uruguay

Working group to study social security created. The President of Uruguay, Tabaré Vázquez, announced the creation of an inter-ministerial task force entrusted with drawing up a complete report on the Social Security situation in the country. He announced that the upcoming meetings of the Council of Ministers will advance in the analysis of the issue. Regarding the Uruguayans who are concerned about their upcoming retirement, he explained that the decision had been taken to allow individuals to remain in the Pension Savings Fund Manager (AFAP) system, or switch to the Social Security Bank (BPS) system. ***(Source: www.prensa-latina.cu; Date: 28.06.2017).***

It has been proposed that people in their 50s should once again contribute to the Social Security Bank, but this would be the most costly solution, according to the Association of AFAPs. Ramón Ruiz, Chairman of the BPS, submitted a bill of law that that will provide a solution to the "fifty-year-olds" problem. The group comprises workers who are now between 50 and 59 (they were at the transition age in 1996 when they were under 40 and were forced to join the AFAP due to their wage level); when calculating their pensions, the Social Security Bank (BPS) does not acknowledge all the former contributions, only considering the amount up to the first level of the mixed system. According to the authority, this group will retire with 35% less than they would have obtained if they were allowed to return only to the BPS. In principle, the project covers active workers, and not the Uruguayans who already retired in the mixed system. However, the Association of Private AFAPs (all of them, except AFAP Republica) said that the Government was about to opt for the most costly solution for the State in the long term, and least beneficial to the fifty-year-olds. The Association's communiqué argues that the decision on whether to return to the former system or remain in the mixed system, should be taken just before retirement, and not in advance, in order to reduce the uncertainty of future retirees and the number of cases that the State must attend to. It also points out that the measure announced by the government would have a cost of 4.3 points of the GDP for future fiscal accounts. ***(Sources: www.elacontecer.com.uy; Date: 30.05.2017; http://www.180.com.uy; Dates: 12.07.2017).***

Experts and the opposition call for raising the retirement age. According to the government program of the Frente Amplio, when referring to the country as an aging society, it is necessary to very gradual change the retirement age (currently 60), anticipating and avoiding situations that may give rise to shock policies. However, no reforms in this regard are expected under the current administration. Several experts have pointed out the need for changes at different levels for enhancing the retirement system. The expert in demography, Juan José Calvo, said that policies should aim at increasing the productivity of workers in the long term, because there will be more dependent people, and it will be necessary to generate more wealth. The population will continue to age, in Uruguay and worldwide, and it would be best to prepare for that. The Chief Economist of the World Bank, Carlos Végh, said that a demographic analysis of the country is required, because the Uruguayan social security system was designed with a 20th century labor market in mind, and questioned whether it is "reasonable" to think of a society where the population works for 35 years (between 25 and 60) and is retired for another 30 years (based on projections to the year 2100). ***(Source: http://www.elobservador.com.uy; Date: 16.06.2017).***

Europe

European Commission

It has been proposed to create voluntary European private pensions plans. The European Commission has proposed the creation of private Pan-European pension plans (Pan-European Pension Product, PEPP,) with common basic features, which will be transferable between member countries and to which customers can contribute regardless of the EU country in which they reside. The purpose of this measure is to cope with the unprecedented demographic challenge facing the Community. These new voluntary financial products may be marketed by insurance companies, banks, investment funds or asset managers, and seek to complement national pension systems, and not replace them in any way. ***(Source: www.rtvcyl.es; Date: 29.06.2017).***

Spain

Unespa proposes introducing matching contribution in the pension system to ensure its future. During his speech in the "Workshop on Pensions and Insurance," the Chairman of Unespa, Pilar González de Frutos, explained the strong demographic impact that the pension system will be subject to. She therefore suggested that the time has come to introduce the concept of "matching contribution", which means that when someone makes the effort to save, that gesture activates another simultaneous gesture by a third party, whether the employer or the state, which contributes another equal amount to the benefit of the saver. The citizen therefore saves, knowing that his savings will automatically increase, due to the subsidy received. There is more than sufficient evidence that the system works. The combination of a conditional subsidy, plus the propensity of households to save, ends up generating much better pension savings practices than those seen in our country today, and this effect, moreover, is much more intense in lower income households. ***(Source: www.adndelseguro.com; Date: 13.07.2017).***

Pensions can only increase 0.25% per year until at least 2022. Social security pensions can only increase by the minimum annual amount established by law (0.25%) until at least 2022, according to calculations of the Independent Authority for Fiscal Responsibility (AIREF). The tax authority published its mandatory annual report on the revaluation of pensions in 2017, and agrees with the Government that this year it will be obligated to apply the minimum increase established by law (0.25%) because, otherwise, if the mathematical formula for reevaluation included in the same Law were to be applied, pensions would have to drop by about 3%. This is so because the law provides that pensions will continue to revalue at 0.25% while there is a deficit. ***(Source: www.elperiodico.com; Date: 13.07.2017).***

The number of people over 65 has reached an all-time high. Population aging continues to increase, with a new record: there are 8.6 million people over the age of 65 in the country, the highest figure recorded in decades. The main causes are fewer children being born, and longer lifespans. Since the all-time high birth rate in 2008 of 519,779 children, the number of births dropped by 21.4%, to 408.384, in 2016. Life expectancy, on the other hand, has now reached 83.2 years, after increasing by 0.5 years in 2016. What emerges from these data is the imbalance between pensioners and contributors. The contributor-pensioner ratio is currently 2.1, considering that 2.5 contributors per retiree is deemed a sustainable ratio. If this trend continues, it is estimated that by 2052 there will be slightly more than one person working for each inactive person, which certainly puts the sustainability of the system at risk. ***(Source: www.elmundo.es; Date: 06.07.2017).***

The replacement rate of public pensions could drop below 30% by 2050. Millennials, the generation born between 1981 and 2000, will most likely face a significantly different retirement to what exists today. If there are no new increases in the retirement age by then, today's young people will retire at 67 (65 for those who have contributed for at least 38 and a half years), and their pensions, on average, will be much lower than current pensions. According to Inverco, the Association of Collective Investment Agencies and Pension Funds, the public pension replacement rate by 2050 will be 27%, versus 82% today. Added to the above is the insufficiency of private savings: average savings in individual pension plans amount to EUR 10,000 (approx. USD 11,358), an amount that would only enable complementing the public pension with EUR 30 (approx. USD 34) per month. Saving is insufficient, and in view of these projections, young people must make a much greater effort. The year 2050 may be the pinnacle of stress for pensions in terms of demographic pressure, a situation that could be relieved by 2075, when the effect of the retirement of the "baby boom" generation has eased. ***(Source: www.jubilaciondefuturo.es; Date: 21.06.2017).***

Estonia

Ministry of Finance announces reductions in management commissions starting in 2018. In recently passed legislation, the Ministry decided to reduce management commissions as of January 1, 2018. ***(Source: Global Retirement Update AON Hewitt; Date. May 2017).***

Finland

A pension program for the long-term unemployed elderly has been introduced. This benefit, which provides monetary support to the elderly who have been unemployed for a long time, was introduced on June 1. To qualify for this benefit, individuals must have turned 60 before September 1, 2016; have been entitled to receive the unemployment benefit on August 31, 2016; and have contributed for at least 1,250 days from September 1, 2010, until August 31, 2016. Current old age and disability pensioners do not qualify for the benefit. Those who qualify will receive a monthly benefit equal to the minimum pension guarantee (EUR 760.26, approx. USD 854 in 2017). The benefit will stop being paid when the individual starts receiving an old-age pension, or turns 65 (the normal retirement age in the country's universal pension system). ***(Source: Social Security International Update, June 2017; Date: June 2017).***

France

Means testing for old age pensioners, who receive employment-related income and a pension from the public PAYGO system, will be eased. The measure has been in effect since April 1. The Government estimates that this change will encourage a larger number of pensioners to combine work and retirement. Under the new rules, the pensions of old-age pensioners who receive a partial pension and have employment income above a certain limit, will be reduced in the amount exceeding this threshold. This threshold is the highest value between the last pre-retirement wage and 160% of the mandatory minimum monthly wage (EUR 2,368.43, approx. USD 2,657). Prior to this legal change, the government completely suspended the payment of the old age pension if employment income exceeded this threshold. ***(Source: Social Security International Update, June 2017; Date: June 2017).***

Greece

More austerity measures have been approved. Parliament passed a series of additional measures - including the freezing of pensions until 2022 - demanded by creditors within the framework of the second revision of the third bailout. The measures include the postponement, from 2021 to 2022, of an eventual pension increase. However, before a possible increase in pensions, which will depend on the evolution of the GDP, retirees will suffer a further drop in their pensions in 2019, according to the plan agreed with international lenders, and voted on last May. The disbursement of a new tranche of aid of about EUR 10 billion (approx. USD 11,358 billion), is important for the government, since it faces debt maturities amounting to EUR 7,000 million (approx. US$ 7,951 million) in July. ***(Source: http://eleconomista.com.mx; Date: 11.06.2017).***

Netherlands

The retirement age will increase from 67 to 68 as of January, 2018. This increase is explained in the light of the new estimates of life expectancy increases on retirement. The decree increasing the retirement age, issued by the Government, will apply to all pension schemes. ***(Source: Global Retirement Update AON Hewitt; Date: May 2017).***

Ireland

New universal pension system based on personal accounts has been proposed. The Minister of Social Affairs proposed this system, which would complement the State pensions of two thirds of workers in the private sector, who it is estimated do not have other sources of retirement income. The contributions for financing these pensions would be mandatory for workers and employers, and the State would offer tax incentives. The personal account is portable whenever the worker changes jobs. Early retirement will be allowed only in case of first home purchases, and gaps in working life. The Superannuation system in Australia, and Singapore's Central Provident Fund have been cited as models. The authorities expect to be able to implement the system in 2021. ***(Source: Global Retirement Update AON Hewitt; Date: May 2017).***

Italy

New options for voluntary early retirement arrangements have been examined. According to a recently issued decree, new options for such arrangements will be introduced on a temporary basis between May 2017 and December 2018, for individuals aged 63 and older. To make the agreements more attractive, companies may participate in the financing of early retirement (fully or partially). ***(Source: Global Retirement Update AON Hewitt; Date. May 2017).***

Poland

Incentives for postponing the retirement age have been introduced. In order to diminish the impact of the reduction in the retirement age on the finances of the system, a proposal was put forward for increasing State benefits by 8% per year, for each year of delay in retirement. The reduction of the retirement age in October, 2017, from 67 to 65 for men, and 60 for women, was approved last year. ***(Source: Global Retirement Update AON Hewitt; Date. May 2017).***

United Kingdom

The increase in the retirement age to 68, was advanced by seven years. According to the new temporary framework envisaged by the Executive, the official retirement age will increase to 68 between 2037 and 2039, whereas the previous calendar expected it to increase between 2044 and 2046. The measure will affect all those born between April 6, 1970, and April 5, 1978, who will continue to receive a public pension for a longer period than previous generations, according to the Ministry of Labor and Pensions. The current retirement age is 63 for women and 65 for men, but in 2019 it will be 66 for men and women, and 67 as of 2026. ***(Source: www.lavanguardia.com; Date: 19.07.2017).***

Africa

Malawi

New Mandatory workers' contribution implemented. The new legislation makes it mandatory for workers (newly engaged and active workers below the age of 35) to contribute 5% of their monthly wages to the occupational pension scheme. Employer contributions will remain intact at 10% of wages. The Government hopes that all schemes will comply with this change in July. ***(Source: Global Retirement Update AON Hewitt; Date: June 2017).***

Nigeria

Transition period for the implementation of the Multifunds begins. The National Pensions Commission (PENCOM), the regulator in pension matters, has amended the pension fund investment regulations to required pension fund managers to offer a multi-fund structure for retirement savings accounts. These are 4 funds differentiated by their level of exposure to risk and age group. Fund 1 has up to 75% of investment in risky instruments, and is intended for employees of up to 49 years of age, while Fund IV is exclusively for retirees, with 90% of investments in conservative instruments. The transition period began in June, and all fund managers are expected to comply with the regulations in December 2017. ***(Source: Global Retirement Update AON Hewitt; Date: June 2017).***

Asia and the Pacific

China

Government assesses Chilean model to move towards an individually funded structure. Principal Financial Group and China Construction have an agreement to get the authorization to be partners in the development of the pension system in China. Based on this association, the Chinese authorities have coordinated with the executives of the US firm in the different countries in which it operates - among them Chile - to learn how the different pension models work. In the meetings held in Chile, it transpired that the Chinese authorities are interested in learning the oversight and regulation processes, and the interaction between the regulator and the pension fund managers. The Chinese authorities like the model Chilean pension due to its incentives, in which the individual who saves most, has the best pension. Even though it maintains a PAYGO-based State pension system, the Chinese government has progressed in strengthening the voluntary savings of its citizens. ***(Source: www.pulso.cl; Date: 04.07.2017).***

Hong Kong

The creation of a new life annuity system has been announced. This country's Mortgage Corporation announced an agreement four creating a public life annuity system, which is expected to be implemented in mid-2018. In this system, people would invest a fixed premium amount of between HKD 50,000 and HKD 1 million (between US$ 6,411 and USD 128,216) to purchase a life annuity available from age 65. There would be no management commission, and a death benefit equivalent to 105% of the total premium, minus the monthly amount of the life annuity already paid. ***(Source: Global Retirement Update AON Hewitt; Date: May 2017).***

Indonesia

The Financial Services Authority seeks to amend the law so that more non-banking financial institutions offer pension funds, and more benefits are granted. The authority wants a greater number of people in the workforce to participate in retirement schemes. Part of the solution is to reform the Pension Law to allow more non-banking financial institutions to offer pension funds. The draft of statutory changes would make the consolidation of retirement programs more effective for developing products that can offer additional benefits (such as financing the education of children, financing housing, disability, survival, health and unemployment benefits). ***(Source: Global Retirement Update AON Hewitt; Date: May 2017).***

Vietnam

The consultation for increasing the retirement age begins The Ministry of Labor, Disability and Social Affairs has started consultations on a proposal to increase the regular retirement age for men from 60 to 62, and for women from 55 to 60. The gradual increase of 6 months per year has been proposed, starting in 2021. ***(Source: Global Retirement Update AON Hewitt; http://e.vnexpress.net; Date: May 2017).***