International Federation of Pension Fund Administrators

Progress of the Pension Systems
June - July 2020

No. 4

. This document compiles the major changes that occurred in the pension systems in the June-July 2020 period, with emphasis on the development of the individually funded systems. Because of the relevance of events, information corresponding to the first week of August is included in some cases.
. 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

Reforms proposed or to be discussed

- ***Brazil:*** *Government considers allowing withdrawals from the pension funds of the public PAYGO system, due to the coronavirus crisis.*
- ***Chile:*** *Minister of Finance evaluates the option of including a mechanism for collecting contributions through consumption in the pension reform.*
- ***Costa Rica:*** *For the purpose of extending the life of the public PAYGO pension system (IVM) to 2061, the Pensions Commission proposes: (i) redirect employers' contributions from certain entities to the IVM; (ii) calculate the amount of the pension with contributions on all wages; and (iii) make retirement requirements equal for men and women, setting the retirement age at 62 in both cases (women can currently retire at 59 years and 11 months, with 450 contributions, and men at 61 years and 11 months, with 462 contributions).*
- ***Spain:*** *The Toledo Pact Commission has given the different groups until August to state their positions regarding the reform of the pension system. Economists agree that reforms could reduce the replacement rate level (from 88% to 70%), raise the retirement age (up to about 70), limit early retirement, and boost complementary private pension plans.*
- ***Netherlands:*** *Agreement has been reached on a reform which, if approved, will mean the introduction of personal pension accounts, defined contributions, life-cycle pension funds, an end to guaranteed pensions, which will now depend on return on investments, and a target pension of approximately 75% of the average salary after 40 years of service.*
- ***Mexico:*** *The government announced that it will submit a pension reform bill of law, proposing: (i) gradually increase the total contribution rate to the individually funded program from 6.5% to 15% of salary over a period of eight years; (ii) reduce the requirement for a guaranteed minimum pension from 1,250 to 750 weeks; and (iii) increase the amount of the minimum guaranteed pension, from an average of 3,289 pesos (approx. USD 148) to an average of 4,345 pesos (approx. USD 195).*
- ***Dominican Republic:*** *Diego Valero said that aspects of the Dominican pension system that require improvement, include:(i) develop a true minimum pension system that provides basic coverage without encouraging informality; (ii) analyze the establishment of unemployment funds; (iii) incorporate all self-employed workers into the system; (iv) establish voluntary savings mechanisms; (v) provide financial education for the population; and (vi) discourage informality in the labor market.*
- ***Uruguay:*** *An expert commission will soon be set up to reform the pension system. This committee will be coordinated by the Ministry of Labor and Social Security (MTSS) and the Planning and Budget Office (OPP). It will comprise15 members who must be thoroughly competent in pension, demographic, economic and legal matters.*

New pension programs and social security reforms (approved)

- ***Germany:*** *The law creating the basic pension, subject to means testing, has been approved as of 2021. The total amount of the basic pension will be paid to pensioners with monthly incomes (including salary, pensions, rental income, etc.) of up to EUR 1,250 (USD 1,400) for a single person or EUR 1,950 (USD 2,184) for a couple.*
- ***Bermuda:*** *Amendments allowing the withdrawal of part of the occupational pension funds, due to the Covid-19 emergency, have been implemented. Members under the age of 65 (the official retirement age) who are not yet retired, can apply for one-time withdrawals of up to $12,000 from their account balances.*
- ***Chile:*** *Law governing the withdrawal of 10% of AFP funds, as a mechanism for alleviating financial stress produced by the Covid-19 pandemic, is approved and implemented. The withdrawal is one-off and tax-free, with a cap of 150 UF (approx. USD 5,606), and a minimum of UF 35 (USD 1,308). There is a one-year application deadline.*
- ***Colombia:*** *Court declares unconstitutional the decree that suspended the May-June contributions to the pension system and required 20 thousand pensioners in the AFPs to transfer their savings to the administrator of the PAYGO system. It is not yet known whether both companies and members will be required to pay in the contributions not paid in those two months. What is clear is that the AFP pensioners will continue in their pension fund managers, receiving their life annuities as usual.*
- ***Costa Rica:*** *The bill of law reforming the Workers'' Protection Act (LPT) was approved. Among other things, it: (i) creates a new "Temporary Retirement" pension mode in the Mandatory Pension System; (ii) limits the minimum of the MPS pension to not less than 20% of the PAYGO system pension (IVM)**;** (iii) eliminates the period in which worker and employer contributions must remain in the Popular and Community Development Bank (now they will be paid directly into the individual account, generating returns); (iv) strengthens the non-contributory pension pillar focused on the most needy.*
- ***El Salvador:*** *A reform approved in July states that contributors who have withdrawn 25% of their savings and opt for retirement, can retire at the official retirement age without having to pay back or refund the money, receiving only the remaining 75%.*

Crisis in public PAYGO systems

- ***Argentina:***
  - *Only 11.2% of women between 55 y 59 have contributed for more than 20 years. Thus, only one in 10 of them will be able to retire without recurring to benefits when they turn 60.*
  - *The agency that manages the public PAYGO systems (ANSES) accounts for 50% of public expenditure.*
- ***Ecuador:*** *The unemployment resulting from the Covid-19 pandemic has been reflected in members opting out of the Ecuadorian Social Security Institute (IESS), which manages the country's public PAYGO system, seriously affecting its fiscal sustainability and liquidity for paying pensions, and decapitalizing its reserves.*

Relevant studies

- *In its report "Retirement savings in the time of COVID-19", the OECD states that allowing early withdrawals of savings should be considered a last resort, based on the specific and individual exceptional circumstances of each country, since the purpose of the pension systems is to finance pensions.*

Relevant reports or presentations

In its latest report "[Allianz Global Pension Report 2020: The Silver Swan]", Allianz finds that on analyzing the sustainability and adequacy of 70 pension systems, only a few of them have managed to make their pension systems resilient to demographic changes, especially Sweden, Belgium and Denmark. The report gauges pension systems worldwide, based on the "Allianz Pension Index" (API) pensions indicator. The index follows a simple logic: it initiates the analysis with demographic and fiscal prerequisites and then continues to examine pension systems in their two crucial dimensions: sustainability and adequacy. The index is therefore based on three subscripts and 30 parameters graded on a scale of 1 to 7, with 1 being the best rating. By adding all the weighted subtotals, the API assigns a rating between 1 and 7 to each of the 70 countries analyzed, thus providing a comprehensive perception of the respective pension system. The first API sub-index combines demographic change and the public financial situation (financial margin). Unsurprisingly, many emerging countries in Africa or Asia perform quite well in this sub-index, since their populations are still young and public deficits and debts are quite low. Many European countries, such as Italy and Portugal, on the other hand, are among the countries with the worst results: countries with older populations have large debts. The second API sub-index is sustainability, which measures how systems react to demographic change: are there built-in stabilizers, or will the system collapse when the number of taxpayers decreases while the number of beneficiaries continues to increase? Retirement age is an important lever in this context. In the 1950s, the average 65-year-old man living in North America or Europe could expect to spend about 12.5 years in retirement. Today, the average additional life expectancy of a 65-year-old is 17.6 years, which is projected to increase to 20.8 years by 2050. Thus, the working-life-to-retirement ratio has declined considerably. The countries that decided to adjust the official retirement age or the increase in pension benefits to higher life expectancy, as in the Netherlands, therefore have a more sustainable pension system than countries where further postponement of retirement is still taboo. The third API sub-index gauges the adequacy of the pension system, questioning whether pension systems provide an adequate standard of living in old age. The important levers here are the coverage rate, the level of benefits the average pensioner receives, and the existence of capital-financed old-age benefits and other sources of income. The average overall score in the adequacy sub-index (3.7) is slightly better than in the sustainability sub-index (4.0), indicating that most systems still assign more weight to the well-being of the current generation of pensioners than that of the future generation of tax and social contribution contributors. The countries leading suitability ratings have fairly generous state pensions, such as Austria or Italy, or strong second and third pillars financed with capital, such as New Zealand or the Netherlands. The combination of the scores of the three API sub-indices gives the overall results: Sweden, Belgium and Denmark stand out, with the best pension systems in the world. ***(Source: www.allianz.com; Date: 28.05.2020).***

According to the latest edition of the report "Pension Market in Focus," preliminary data from 2019 show that the private pension funds amounted to USD 32.3 trillion in the OECD area and USD 0.7 trillion in 29 other reported jurisdictions. The document also states that the United States had the highest amount of pension fund assets at the end of 2019 (USD 18.8 billion), followed by the United Kingdom (USD 3.6 billion), Australia (USD 1.8 billion), the Netherlands (USD 1.7 billion), Canada (USD 1.5 billion), Japan (USD 1.4 billion) and Switzerland (USD 1.0 billion). This was due to solid real rates of return on investment during 2019, which exceeded 5% in 29 of the 46 jurisdictions studied that year, and even exceeded 10% in 13 of them (including the United States). However, the worldwide COVID-19 pandemic and its adverse effects on financial markets have likely reversed these gains. Early estimates suggest that pension fund assets at the end of the first quarter of 2020 may have dropped to USD 29.8 billion, 8% below their value at the end of 2019. *(Source: www.oecd.org; Date: 10.06.2020).*

In its recent report "Retirement savings in the time of COVID-19," the OECD states that allowing early retirement withdrawals should be considered a last resort, depending on the specific and individual exceptional circumstances in each country, since The purpose of the pension systems is to finance pensions. According to the report, the outbreak of the COVID-19 pandemic has led countries to introduce a number of measures aimed at limiting the materialization of short-term investment losses, ensuring the solvency of pension plans, providing subsidies to cover contributions, avoiding operational disruptions, protecting suppliers and participants from cyber risks and scams, and providing short-term relief to individuals or their employers. One of the report's final recommendations is that policymakers must ensure that people who save for retirement stay the course, since saving for retirement is a long-term commitment (one must avoid selling and taking losses in value). *(Source: www.oecd.org; Date: 22.06.2020).*

Latest edition of the OCDE Annual Survey on the regulation of pension fund investments shows that most countries had quantitative investment limits at the end of 2019. By contrast, some countries did not impose a specific limit: Australia, Austria, Belgium, Canada, the Netherlands, New Zealand, Norway, the United Kingdom and the United States in the OECD. However, these countries can expect pension providers to invest in accordance with the "prudent person principle" (as in Norway). The survey also shows that, among other things:

1. Investments in shares, particularly in unlisted shares, are limited in most countries that regulate pension providers' investments. There is an upper limit on equities in 19 of the 37 OECD countries and in 37 of the 47 non-OECD reporting jurisdictions. Investment limits are usually less stringent for listed shares than for unlisted shares, as in Finland, where there is a 10% limit for investments in unlisted shares, but a 50% limit for listed shares for corporate pension funds and pension funds across the industry.
2. Limits are less stringent for government bonds than for other types of bonds in countries that regulate bond investments. For example, in Greece, pension funds cannot invest more than 70% of their assets in corporate bonds, but there are no restrictions on government bonds. Likewise, in Hungary, there is no limit on government bond investments, but there is a 10% limit on corporate bonds and a 25% limit on mortgage bonds.

Several OECD and non-OECD surveyed jurisdictions set limits or completely prohibit investment in real estate, private investment funds or loans. Direct real estate investment is not permitted in Colombia, the Czech Republic, Italy, Japan, Lithuania, Mexico, Poland, Turkey, Albania, Armenia, Costa Rica, Croatia, Georgia, Hong Kong, India, Kazakhstan, Kosovo, Maldives, Nigeria, the Republic of Northern Macedonia, Pakistan, Peru, Russia, Thailand and Uruguay. However, in most of the countries listed above, only direct investment is prohibited and, for example, indirect investments in real estate through bonds and shares of real estate companies, or real estate investment trusts, are allowed. *(Source: www.oecd.org; Date: 27.07.2020).*

Relevant news of the period

Latin America, the Caribbean and North America

Argentina

In the public PAYGO system, almost 90% of women between the ages of 55 and 59 will not be able to retire when they turn 60. A report by the National Economy, Equality and Gender Bureau of the Ministry of Economy notes that only 11.2% of women at retirement age - between 55 and 59 - have contributed for more than 20 years. Thus, only 1 in 10 women will be able to retire at the age of 60, if they have 30 years of contributions. There are 1,095,777 women between 55 and 59, and of that total, 122,846 have more than 20 years of contributions, and another 147,738 only have between 10 and 20 years of contributions. There are also 348,954 with less than 10 years of contributions. This group of women includes women who have contributed to provincial systems, and woman with no contributions. Thus, even if more than 950,000 women between the ages of 55 and 59 start or continue to contribute, they will not qualify for retirement, unless they justify the missing years through a moratorium. *(Source: https://www.iprofesional.com; Date: 21.07.2020).*

The agency that manages the public PAYGO pension system (ANSES) accounts for half of public expenditure. In the first half of the year, ANSES accounted for nearly 50 of 100 pesos of State expenditure, either for PAYGO system pensions or the latest IFEs (Emergency Family Incomes) and the ATP program (Emergency Labor and Production Assistance Program). *(Source: https://www.perfil.com; **Date: 24.07.2020).***

Bermuda

Amendments allowing the withdrawal of part of the occupational pension funds, due to the Covid-19 emergency, have been implemented. On June 1, the government implemented two amendments to the National Occupational Pensions System Law of 1998, which allows members of defined contribution occupational pension plans to withdraw a portion of their account balances in a lump sum. Members under the age of 65 (the official retirement age) who have not yet retired, can apply for one-time withdrawals of up to \$12,000 from their account balances. The deadline for applications is June 30, 2021, and pension plan managers must process withdrawals within 20 business days of an application being approved. Retired members of 65 or more can also apply for one-off withdrawals of up to 25% of their account balances (retirement benefits were previously paid only as monthly pensions based on the insured's average income or the amount of the insured's accumulated capital, depending on the specific pension plan rules). ***(Source: Social Security Administration; Date: June 2020).***

Brazil

Government considers allowing withdrawals from pension funds of the public PAYGO system, due to the coronavirus crisis, according to the Secretary of the Brazilian Treasury, Bruno Funchal, although he warned that this was still being discussed and would entail costs that would have to be assessed. He also warned that the government was committed not to increase overall public expenditure this year, meaning that any support would have to be balanced. Brazil's debt-to-GDP ratio will be 98% by the end of this year. *(Source: **www.latercera.com; Date: 17.07.2020).***

Chile

Law governing the withdrawal of 10% of AFP funds, as a mechanism for alleviating financial stress produced by the Covid-19 pandemic, is approved and implemented. After the Senate approved the bill of law allowing the withdrawal of up to 10% of savings from mandatory individually funded accounts, Congress enacted the law, which was finally promulgated on July 24, 2020. Workers started applying for the withdrawal of their funds on Thursday, July 30. The main points of the law are the following:

- The withdrawal is one-off and tax-free, with a cap of 150 UF (approx. USD 5,606), to be paid in 2 installments of a maximum of 75 UF (approx. USD 2,803) each. There is a one-year application deadline. The first installment will be paid within 10 working days of submittal of the application, and the second one within 30 working days of the first payment. Those with less than 35 UF (approx. USD 1,308) in their accounts, will be able to withdraw all of their funds. This means that most members will be able to withdraw more than 10%.
- Old age, disability and survival pensioners in the Programmed Retirement mode will also be able to withdraw their savings.
- Withdrawals may be deposited in AFP Account 2, without management commissions, in any bank account or Compensation Fund (without discounting debt, except for arrears in alimony payments).
- Those who decide to withdraw funds from their individually funded accounts may also qualify for other state assistance.

The Law does not include any mechanism for reimbursing the withdrawn funds (the creation of a Collective Solidarity Pension Fund was initially considered, but rejected). It is estimated that 27% of AFP members will withdraw 100% of their savings; 42% will withdraw between 10% and 100%; 24% will withdraw 10% and 6% of members will withdraw less than 6% of their balance. With regard to the impact of the law on the amount of future self-funded old-age pensions, it is projected that for those who contribute on the minimum wage, these would drop between 7.3% and 13.2% for men, and between 8.6% and 18.8% for women, mainly affecting young people and those who are close to retirement. In turn, for those who contribute on the taxable ceiling, the pension would be reduced between 1.9% and 4.9% for men, and between 2.6% and 6.3% for women. *(Source: **Ciedess, La Tercera, El Mercurio; www.spensiones.cl**; Date: July 2020).*

Minister of Finance evaluates the option of including a mechanism for collecting contributions through consumption in the pension reform. The Minister of Finance, Ignacio Briones, pointed out that not all workers have a formal job in which the employer retains 10%, but all workers consume, so one could perfectly well consider formulas for collecting contributions through consumption, while eliminating regression for the most vulnerable. Countries such as Spain and Japan have already implemented this measure. *(Source: **www.df.cl; Date: 24.07.2020).***

Colombia

Court declares Decree 558 of 2020 unconstitutional. This Decree suspended contributions to the pension system during May and June (following the Covid-19 crisis) and required 20 thousand pensioners in the AFPs to transfer their savings (equivalent to \$5 billion) to Colpensions (administrator of the public PAYGO system). The scope of the Court's ruling, and whether both companies and members will be required to pay in the contributions not paid in those two months, is not yet known. What is clear is that the AFP pensioners will continue in their pension fund managers, receiving their life annuities as usual. According to ASOFONDOS, the Court's ruling respects the individual rights of members, while confirming the importance of individual savings for the peace of mind of workers in retirement. Further details here. ***(Source: ASOFONDOS, www.portafolio.co; Date: July 2020).***

Asofondos joins the commitment to implement responsible investment strategies in the country. The Declaration in favor of Responsible Investment in Colombia was officially launched during the 2020 Third Responsible Investment Conference, organized by the Responsible Investment Task Force. This will encourage financial decision-making incorporating sustainability criteria aimed at contributing to the sustainable development of the country, reinforcing the risk management of financial institutions and protecting the value of our members' investments. Asofondos is part of the 17 organizations that will formally announce their adherence to this declaration, thus promoting the objective of moving towards an economy with companies that include responsible investment components in the processes: Environment, Social and Corporate Governance and promoting the improvement of reports and information related to these topics. *(Source: **ASOFONDOS; Date: 24.07.2020).***

Costa Rica

The Pensions Commission proposes reforming employers' contributions to extend the life of the public PAYGO pension system (IVM) to 2061. The Pensions Commission (Supen) proposed redirecting employer's contributions (totaling 7.25% of salary) to the Development and Family Allowance Fund (Fodesaf), the Joint Social Aid Institute (IMAS), the National Institute of Learning (INA) and Banco Popular, to strengthen the Disability, Old Age and Death Regime (IVM, public PAYGO pension system), managed by the Costa Rican Social Security Fund (CCSS). The measure also considered calculating the amount of the pension with all the wages on which contributions were paid, and making retirement requirements equal for men and women, setting the retirement age at 62 in both cases (women can currently retire at 59 years and 11 months, with 450 contributions, and men at 61 and 11 months, with 462 contributions). According to Supén's actuarial estimates, combining both measures would enable extending the fund's life to 2061, adding 25 years to the date on which the system is expected to be exhausted (2036, according to the last actuarial study of 2018). The IVM reform scenarios provide for the redistribution of social security contributions as of 2022. The authorities have pointed out that the Coronavirus crisis has aggravated the regime's problems, and solutions must be put forward to help reduce the insufficiency of resources for paying pensions. The latest actuarial study of the IVM by the CCSS, determined that the fund's current deficit (75-year horizon) is ₡100 billion (approx. US$163,064 million), or three times GDP. Furthermore, the worker, employer and state contributions would be insufficient to pay pensions in 2027, and by 2030 the system's reserve would have to start being used, and would be exhausted six years later. Further details regarding the proposed reform here. ***(Source: www.supen.fi.cr; Date: 31.07.2020).***

The bill of law reforming the Workers' Protection Law (LPT) was approved. After several proposed reforms in the Legislative Assembly, a draft reform to the Workers' Protection Law (LPT) was unanimously adopted at the end of June, safeguarding the purpose of the Mandatory Pension System (ROP), namely to complement the benefits of the PAYGO system (IVM). The reform comprises the following points:

(i) New "Temporary Withdrawal" pension mode. This consists in calculating the pension amount every year, based on the pensioner's life expectancy at his/her age. Thus, the pension is not calculated as in the Programmed Withdrawal option, which considers the maximum survival possibility at the time of retirement, and the probability of reaching it.

(ii) The minimum ROP pension is set at not less than 20% of the corresponding pension in the IVM System. If that amount cannot be achieved, the fund is paid out monthly, in that amount, until it is exhausted.

(iii) To improve pension amounts:

a) The period in which worker and employer contributions must remain in the Popular and Community Development Bank is eliminated. Prior to the LPT, these contributions were used for capitalizing the agency. With this reform, they will the deposited directly into workers' accounts, increasing the funds accruing interests in their favor[1];

b) The commissions charged by the Centralized Collection System (SICERE) for its services in collecting the contributions of employers and workers for the ROP, were submitted to the approval of Supén.

(iv) During the ROP maturation period, until 18 February 2030 (30 years after the approval of the LPT), retirees will be able to receive their pensions in temporary installments for a period equal to the number of years in which they contributed. Thus, people who contributed for only a few years will be able to receive their pensions in reasonable monthly instalments.

(v) To compensate for the absence of a rule similar to that which is required until the maturation of the ROP, people who do not withdraw the balance of their pension by the end of this year, 2020, will be allowed to withdraw it in three annual instalments.

(vi) The Non-Contributory Pension Pillar, that grants pensions to those who have none, or poor people at retirement age, is reinforced with resources deposited in the ROP that could not be assigned to a personal account after 10 years. Funds that have not been withdrawn 10 years after the death of the beneficiary, will also be deposited in the Non-Contributory Pension Pillar.

These reforms strengthen the system and eliminate the temptation to destroy the ROP, seriously affecting social security. *(Source: **www.larepublica.net**; Date: 29.06.2020).*

Ecuador

The Covid 19 crisis has made the sustainability of the Disability, Old Age and Death Pension Insurance Fund even more complicated. Unemployment caused by the Covid-19 pandemic has been reflected in members opting out of the Ecuadorian Institute of Social Security (IESS), which manages the country's public PAYGO system, thus aggravating its fiscal sustainability. The IESS has lost nearly 270,000 members in 2020 because of layoffs due to the pandemic. An actuarial study by the International Labor Organization (ILO) in 2018 announced the future financing issues that the IESS Pension Fund would have, even before the advent of Covid 19: the number of assets per pensioner would be reduced from 6.38 in 2020 to 2.11 in 2058. These figures will undoubtedly worsen due to the effects of the pandemic. Added to the above is the government's debt arising from the non-payment of its 40% contribution to the Fund since October 2019, amounting to USD 3,815 million. According to the regulations, the Fund is financed by employers' and members' contributions, and the 40% government contribution. The government's failure to pay its contribution for paying IESS pensions, has led to liquidity issues in the agency. While waiting for the state to pay its debt, the IESS will have to take USD 1,477 million from members' savings to pay pensions in 2020, decapitalizing the fund. ***(Source: www.eltelegrafo.com.ec; www.elcomercio.com; Date: July 2020).***

El Salvador

First voluntary pension savings fund starts operating. One of the two Voluntary Pension Savings Funds (FAPV) registered in the Superintendency of the Financial System (SSF) started operating on July 1, 2020. In March 2020, the SSF authorized the entry of the first FAPV in the Commercial Registry. The second fund was authorized and registered in June, 2020. With the first Fund now operating, members have the option of saving in an FAPV, in an account other than their individual account in the AFP. Those who made voluntary contributions to an AFP prior to the creation of the FAPVs, can choose between keeping them in their Individual Pension Savings Account or transferring them to an FAPV, without paying any kind of tax or commission. *(Source: **https://ssf.gob.sv/**; Date: July 2020).*

Assembly approves reforms to the Pensions Law, so that those who applied for an advance will not have to reimburse it. In El Salvador there is what is called the "Balance Advance" benefit of up to 25% of savings (it came into effect on October 06, 2017). Those who wish to access this benefit must have at least 10 years of continuous or discontinuous contributions to an AFP, and not be retired. The regulations establish an age limit for accessing this benefit until 2024. From 2025

[1] Employers and workers now jointly contribute 4.25% to the ROP every month, but most of this amount is not immediately deposited into the worker's individual fund. First of all, 1.5 percentage points are paid into the Labor Capitalization Fund (FCL) and then transferred to the ROP in March each year, while another 1.25 percentage points are paid into the Banco Popular. The proposed reform provides for the money to be paid directly into each worker's individual account, whereby it would start earning better returns and generating better pensions for members.

onwards, everyone can access this benefit, regardless of age. Members must fully reimburse the funds withdrawn in advance, plus the returns they would have earned if they had not been withdrawn, prior to retirement age, so as not to affect their pension amounts. The reform approved in July states that contributors who withdrew 25% of their savings and choose to retire, can retire at the official retirement age without having to pay back or reimburse the money, but will only receive the remaining 75%. ***(Source: www.contrapunto.com.sv; Date: 16.07.2020).***

Mexico

Government announces reform to the pension system that will improve retirement conditions for workers. On July 22, the Mexican government announced that it will submit a bill of law to reform the Social Security Law. The reform aims to improve workers' pensions and increase the percentage of workers with a guaranteed minimum pension, which will help to improve their well-being.

First of all, the initiative proposes gradually increasing the total contribution rate to the individually funded program from 6.5% to 15% of salary, over an 8-year period, as follows:

- The worker's contribution will remain at 1.125% of salary (no change).
- The composition of the government's contribution (0.225% of salary plus a social contribution) is modified to benefit only lower-income workers, but without increasing its total amount.
- The employer's contribution will absorb the total increase (from 5.15% today to 13.875%).

Secondly, the initiative proposes reducing the requirement for a guaranteed minimum pension for the first generations from 1,250 weeks to 750 weeks, and then gradually increasing it, over a period of 10 years, to 1,000 weeks. This will significantly increase the percentage of workers who can access this benefit.

And thirdly, it also proposes increasing the amount of the minimum guaranteed pension, from an average of 3,289 pesos (approx. USD 148) to an average of 4,345 pesos (approx. USD 195). This new minimum pension will be paid based on age, the number of weeks of contributions and the taxable base salary.

The proposed measures are expected to generate an increase in the replacement rate of 40% on average (103% for workers with an income of 1 minimum wage and 54% for workers with an income of 5 minimum wages). Further details of this proposal can be found in the presentation by the Mexican Ministry of Finance and Public Credit (download here), and its press release (download here). ***(Source: https://www.gob.mx; Date: 22.07.2020)***

Peru

Congressional Commission debates a bill of law to allow members who have not contributed for 12 successive months to withdraw 100% of their funds. According to the Association of AFPs, if this is approved, it would allow the withdrawal of PEN 62 million (approx. USD 17.3 billion) from the AFPs, amounting to 41% of the total portfolio managed by the Private Pension System (SPP), destroying pension savings in Peru and leaving more than 3.7 million Peruvians without an old age pension. It noted, in turn, that this bill of law is contrary to the proposals of the Special Multi-Party Commission, which was responsible for drawing up the reform of the pension system, because instead of extending coverage, it will allow the withdrawal of 100% of contributions, due to which coverage will be lower. Furthermore, one must bear in mind that the withdrawal of PEN 2,000 (approx. US$558) approved by the Executive branch and the 25% withdrawal established by Congress, have already affected the SPP, which in just four months had to disburse about PEN 25 billion (approx. US$ 6.795 million). ***(Source: https://andina.pe; Date: 04.08.2020).***

Dominican Republic

Two bills of law are being studied that will allow the withdrawal of a percentage of the funds in workers' individual accounts in the AFPs, due to the Covid-19 emergency. One of the bills of law (submitted in early April) allows the withdrawal of up to 30% of the funds (it was approved at second reading by the Chamber of Deputies, and its discussion is ongoing), while the second bill of law (submitted in mid-April) allows the withdrawal of up to 20% of the funds (currently under study in the Social Security, Work and Pensions Commission). The government and several economic sectors have opposed these bills of law on the grounds that they could destabilize government accounts, while the Association of Pension Fund Managers (Adafp) called for discussion of the projects to be subject to a process of analysis and dialogue with the participation of workers, employers and government authorities. The Adafp has called for reflection on a series of aspects, including: (i) that the pension funds were created to guarantee a decent retirement to members, and with the advance of a % of such funds, workers would have to assume the cost of the economic crisis caused by the Coronavirus pandemic with their own savings, when that is a duty of the State, which issued sovereign bonds denominated COVID-19 for DOP 40 billion; (ii) due to the negative impact it would have on the economy, raising prices and weakening the currency, workers' pension would drop to half of their present value. *(Source: https://hoy.com.do; www.eldinero.com.do; https://elnuevodiario.com.do; Date: July 2020).*

Expert identifies aspects to be improved in the Dominican pension system. In the opinion of Diego Valero, a pensions expert, the Dominican Republic's pension system has fundamental problems,17 years after its inception, which have led the people to raise their voices, pointing out that it does not favor them, or does not meet their expectations. One of the big problems facing the country is the level of informality in the labor market (above 60%), which shatters the contribution record of workers who switch between formality and informality, and ultimately pay in less than half of the expected contributions. According to the expert, a comprehensive process of discussion would be welcome, with serious technical studies and social dialogue to achieve a consensual improvement of the Social Security system, and that some points worthy of analysis are:

1. The development of a true system of contributory and universal minimum pensions, that do not constitute incentives for informality, but provide basic coverage to the population.
2. Analyze the establishment of unemployment funds;
3. Incorporate all self-employed workers into the system.
4. Establish voluntary savings mechanisms.
5. Provide financial education to the population.
6. Strengthen the institutional capacity to fight fraud.
7. Discourage informality in the labor market.
8. Review and eliminate administrative bureaucracy, especially in the granting of survivors' pensions.
9. Encourage investment in the development of the country's productive economy and generate more jobs.
10. Make all expenditure transparent, especially the privileged PAYGO systems existing in the country.

(Source: www.diariolibre.com; Date: 15.07.2020).

Uruguay

A commission of experts will soon be set up to reform the pension system. The Ministry of Labor and Social Security (MTSS) and the Planning and Budget Office (OPP) will be responsible for coordinating this Commission, comprising 15 members thoroughly acquainted with pensions, demographic, economic and legal issues, reflecting the diversity of points of view of social organizations and political parties in social security matters. The experts have pointed out that there are sufficient weaknesses to justify a comprehensive examination of the existing pension system, i.e. covering the Social Security Bank (BPS) the AFAP and parastatal funds (Banking, Police, Military, Notarial and Professional). *(Source: https://negocios.elpais.com.uy; Date: 05.08.2020).*

Europe

Germany[2]

Law passed that creates means-tested basic pension as of 2021. The law, aimed at complementing the old-age pension of the PAYGO pension system, was passed on July 2 and will be implemented on January 1, 2021. This new benefit aims to reduce the risk of poverty in old age among people who had below-average incomes in their working lives or who spent considerable time outside the workforce. The program is expected to benefit approximately 1.3 million pensioners, including many women (about 70% of potential beneficiaries), and is estimated to cost about EUR 1.3 billion (USD 1,460 million) per year as of 2021. The government will

[2] Germany's PAYGO pension program covers employees; certain self-employed individuals; military personnel; certain caregivers; and certain beneficiaries of unemployment, sickness and other benefits. To qualify for an old-age pension, a person must have reached the official retirement age of 65 years and 9 months (gradually increasing to 67 by 2030) and have at least 5 years of contributions (the normal retirement age may be lower under certain conditions).

finance the full cost of the basic pension by increasing its PAYGO program subsidy. Key features of the new benefit include:

1. Eligibility Requirements: To qualify for the basic pension, a person must have at least 33 years of qualifying contributions. (the full basic pension is paid with at least 35 years of qualifying contributions). These qualifying contributions may include mandatory contributions paid during employment and self-employment, accredited contributions for parenting periods and other care, and contributions paid during illness or receiving rehabilitation benefits (voluntary contributions and contributions accredited during periods of unemployment are not considered). Furthermore, a person's average annual earnings during their working lives should not exceed 80% of the average annual earnings of all insured individuals during this period, and only the years in which the insured earned at least 30% of the average national income count towards the basic pension
2. Calculation of benefits: In Germany, old-age pensions are the product of: (1) total individual income points (calculated as the individual income of the insured for each year of contribution, divided by the average national income of all insured persons in the same year, multiplied by an entry factor); (2) the pension factor (typically 1.0, but increasing or decreasing depending on the age at which the insured person receives the pension for the first time); and (3) the value of the pension (the amount of the monthly benefit per 1 year of average covered income, adjusted for changes in average national income). Under the new program, the government will increase individual income points for qualifying pensioners as follows:
    - Full Basic Pension (35 years of qualifying contributions): Individual income points for each qualifying year will double, up to a maximum of 0.8 income points per year. The amount of the resulting pension will then be reduced by 12.5%.
    - Partial basic pension (33 to 34 years of eligible contributions): individual income points will be increased to a maximum of 0.4 income points with 33 years of eligible contributions; this maximum amount will gradually increase with each additional month of qualifying contributions to 0.8, with 35 years of qualifying contributions. The amount of the resulting pension will then be reduced by 12.5%
2. Proof of income: The total amount of the basic pension is paid to pensioners with monthly incomes (including salary, pensions, rental income, etc.) up to EUR 1,250 (USD 1,400) for a single person or EUR 1,950 (USD 2,184) for a couple. With monthly income above these amounts, but not exceeding EUR 1,600 (USD 1,792) for a single person or EUR 2,300 (USD 2,576) for a couple, the basic pension is reduced by 60% of monthly income above EUR 1,250 or EUR 1,950, respectively. Basic pensions are not paid with monthly incomes above EUR 1,600 for a single person or EUR 2,300 for a couple.

Spain

The Monitoring and Assessment of Agreements Commission of the Toledo Pact has assigned the month of August for the different groups to put forward their positions on a reform of the pension system. The idea is to close the submittal of positions in September. Economists, public finance experts, the Bank of Spain, the Tax Authority, the main analytical institutes such as BBVA Research, the Instituto Santalucía or Fedea, agree that the public pension system needs urgent reform to ensure its sustainability, eliminate the structural deficit and ensure that there are sufficient and decent pensions for current and future retirees. The economists interviewed agree that:

1. There will be pension freezes next year, and perhaps even cuts in their amounts if the post-COVID crisis is more severe than anticipated. Others go further, stating that the adjustment will mean computing all working life, lowering the replacement rate to at least 70% (the Spanish replacement rate at the moment stands at around 82% of the last wage), and without revaluation with the CPI.
2. The retirement age will increase, easily reaching 70 years.

3. Early retirement will be limited. The penalty for voluntary early retirement may increase to 9% for each year that the worker advances retirement.
4. Complementary private pension systems should be promoted through an individually funded pensions system complementary to the PAYGO system (similar to the British NEST).
   (Source: www.65ymas.com; Date: 27.07.2020)

The Netherland

Government announces pension reform based on individual funding and life cycle funds. The government and social stakeholders have agreed to reform the private occupational pension system, which currently includes mainly defined benefit plans and collective funds. The reform will include the introduction of personal pension accounts, defined contributions, life cycle pension funds, an end to guaranteed pensions, which will now depend on investment returns, and a pension target of approximately 75% of the average salary after 40 years of service. It will initially be mandatory for all plans, with certain exceptions. The terms of the agreement were settled on July 14 and will have to be submitted to the legislative branch. The cabinet will now resume drafting legislation to implement proposed pension changes, which will be submitted to parliament in early 2021, and are expected to come into effect on January 1, 2022. ***(Source: www.ipe.com; Date: July 2020).***