Federación Internacional de Administradoras de Fondos de Pensiones

Progress of the Pension Systems
April - May 2017
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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 April 2017 - May 2017 period, with emphasis on the development of the individually-funded pension systems.

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Executive Summary by area of interest

New Pension Programs and Social Security Reforms (approved)

Colombia: *Policy changes will allow more workers to enroll in the Periodic Economic Benefits Program (BEPS) and save for their future in a voluntary and flexible way, when they do not have the option of contributing to pension savings.*

Austria: *Reform of the public pension system introduces late retirement incentives and allows working parents to cede up to 50% of their contributions to the parent who is taking care of a child up to 7 years of age.*

Crisis in public PAYGO systems

General: *According to estimates by the World Economic Forum, the deficit of the public pension systems would amount to US $ 400 billion by 2050, due to population aging and low returns on investments.*

Colombia: *According to IMF estimates, even if Colombia increases the retirement age by 5 years, the deficit in the public pension system would only be resolved by the year 2050. The analysis gave the same result when proposing an increase in contributions or a decrease in benefits. The pension deficit is currently 3.5% of GDP.*

Nicaragua: *The future of Social Security is still uncertain, and the Government has not taken steps to improve the situation. The International Monetary Fund (IMF) has warned the government that it must make adjustments to Social Security to save it from insolvency.*

Paraguay: *Government officials have warned that the deficit accumulated by the Treasury makes a Social Security reform urgent.*

Puerto Rico: *The country asked a Federal Court for assistance in restructuring the debt of its public employee pension system, which could run out of funds this year.*

Spain: *The deficit of the public PAYGO system would reach EUR 16,650 million this year . In order to avoid exhausting the system's reserve fund, the Ministry of Finance will ask for a loan of more than EUR 10,000 million.*

Reforms proposed or to be discussed

Brazil: *Approval of pension reform will be delayed by corruption scandals in the country and failure to agree on the minimum retirement age for women.*

Chile: *Government finally defines assignment of 5% of additional contribution charged to the employer: 3% will go to the individual accounts of workers and will be inheritable, and 2% to a collective insurance for solidarity purposes. It was also announced that all of the additional contributions would be managed by an autonomous public agency.*

Costa Rica: *The Special Pensions Commission admitted a new and more severe bill of law to discuss the reform of the Pensions and Retirement System of the Judicial Branch, after a deficit of approximately USD 10 billion was revealed, due to the great advantages it offers officials of the judiciary.*

Panama: *The introduction of individual accounts to replace the public PAYGO system has been proposed as an alternative for addressing the actuarial deficit of the system in place.*

Germany: *The pension reform that replaces defined benefit plans with defined contribution plans will come into effect in 2018.*

Investment options.

Peru: *The Central Reserve Bank of Peru (BCR) increased the foreign investment limits for AFP funds from 42% to 43%, as of May 1 this year. It will increase to 44% as of next June.*

China: *Government allows pension funds to invest up to 30% of their funds in local equity. Previously they were only allowed to invest in low-risk/return assets, such as bank deposits and government bonds.*

Hong Kong: *Beginning April 1, the Hong Kong Government introduced the Default Investment Strategy for members of the Mandatory Provident Fund (MPF) who do not select an investment strategy for their accounts.*

Relevant reports or presentations

Institute AVIVA published the study Pensions in Transition, which examines the challenges of the different pension systems worldwide, given current demographic trends. On the one hand, low birth rates and increased life expectancy undermine the financial basis of the PAYGO systems, questioning their sustainability and, ultimately, their financial viability. On the other hand, due to increased life expectancy, the individually funded savings systems, as they are currently structured, will provide ever lower, although sustainable pensions, so that accumulated capital can be extended as life expectancy increases. ***(Source: www.eleconomista.es; Date: 27.04.2017).***

UN publishes report on Aging in Asia and the Pacific. The document summarizes the demographic trends and policies related to population aging in Asia and the Pacific. Among the main conclusions of the study are: (i) the rapid drop in the fertility rate and the constant increase in life expectancy are driving population aging in the region. The fertility rate has fallen by more than 50% in the past 40 years, while life expectancy is expected to increase by 20 years by 2050. (ii) Women are more likely to live longer than men, and to be alone in their old age. On average, women in the region live 4 years longer than men. (iii) Although the elderly live longer, they suffer from serious illnesses or disabilities for a greater number of years in old age. ***(Source: Social Security International Update; Date: May 2017).***

Relevant news of the period

Miscellaneous

The deficit of the public pension systems will reach USD 400 billion by 2050. According to estimates by the World Economic Forum, the deficit of the public pension systems would amount to US $ 400 billion by 2050, due to population aging and low returns on investments. USD 224,000 million of this deficit corresponds to six countries (the United States, the United Kingdom, Japan, the Netherlands, Canada, and Australia), while China and India account for the rest. ***(Source: www.gestion.pe; Date: 27.05.2017).***

UN warns governments of worldwide population aging. During the opening ceremony of the 50th Session of the Commission on Population and Development of the United Nations, the Secretary-General warned of the fiscal consequences of population aging, which should lead governments to raise the retirement age. He also said that migration could attenuate the impact of aging at a global level, since immigrants tend to be younger than the average population of the host country, due to which he urged countries to adopt policies to facilitate their entry in a safe, orderly and regular manner. ***(Source: www.telesurtv.net ; Date: 03.04.2017).***

Latin America, the Caribbean and North America

Bolivia

The Public Agency that will replace the AFPs has still not started operating due to lack of regulation. According to government authorities, the missing regulations are being prepared. The Public Agency that will replace the AFPs will therefore start operating by the end of this year, although this must still be confirmed. It is estimated that this Public Agency could manage approximately USD 15 billion in retirement funds, and will also be responsible for the payment of the "Renta Dignidad" (or Universal Old Age Income). ***(Sources: http://abyayala.tv.bo, Date: 05.04.2017; www.elpaisonline.com, Date: 29.05.2017).***

Only eight of every 100 members of the AFPs are self-employed. According to information provided by the Pension and Insurance Monitoring and Inspection Authority (APS), by the end of February, the total number of long-term social security affiliates was 2,109,934, of which 181,944 were self-employed, i.e., only 8.6%. Law 065 stipulates that self-employed workers with no employment relationship can voluntarily enroll in the Integrated Pension System (SIP) through an AFP. ***(Source: http://eju.tv/ ; Date: 28.05.2017).***

Brazil

The Brazilian Minister of Finance foresees a short delay in the discussion of the pension reform. According to the Minister of Finance, the recent corruption scandals that have shaken the government would only briefly delay the pension reform. However, it is doubtful whether the government will be able to meet its target of approving a labor and social security reform this year. Another point that is still delaying approval is the retirement age for women. The project considers a minimum retirement age of 65, but some pressure groups want it to be 62 or 63. It is worth mentioning that Brazil is one of the few countries in the world without a minimum retirement age. ***(Sources: www.economiahoy.mx; Date: 19.04.207 and www.americaeconomia.com; Date: 22.05.2017).***

Chile

Government proposes that the 5% additional contribution be managed by a fund similar to the one in Canada. The Minister of Finance suggested that the 5%

additional contribution (by the employer) proposed by the Government should be managed by a fund similar to the Canada Pension Plan Investment Board (CPPIB). This is a State Fund that manages the mandatory contribution of Canadian workers to individual accounts. Although the CPPIB has real returns similar to those obtained by the funds managed by the Chilean AFPs (6.8% between 2007-2016, vs. 6.9% obtained by the AFPs during the same period), it's administrative costs are almost double (1.1% of the managed fund, vs. 0.60% of the total funds managed by the AFPs). This makes it evident that entrusting the management of at least a part of the additional 5% contribution to an agency of this type (rather than the existing AFPs) is solely due to ideological reasons. ***(Source: www.emol.com; Date: 07.04.2017).***

Government finally defines the assignment of the additional 5% contribution. On April 12, the Government announced its decision that the 5% additional contribution (by the employer) will be managed by an autonomous public agency. 3% will go directly to the worker's account, and will be in inheritable, and the other 2% will go to a collective savings insurance for solidarity purposes (intergenerational and in support of women). Some of the measures announced are: (i) the participation of members in investment policies and conflict resolution; (ii) the creation of incentives for women to (voluntarily) defer their retirement age to 65; (iii) establishment of a benchmark to evaluate the performance of the AFPs; (iv) mandatory contributions by the self-employed within a period of 8 years. ***(Source: www.24horas.cl; Date: 12.04.2017).***

Chairman of the Association of AFPs says that the government's proposal does not guarantee better pensions. Following the president's announcement, Andrés Santa Cruz expressed his disappointment that the proposal does not aim to provide better pensions for all contributors. The employer's additional contribution should go entirely to the individual accounts of workers, while the solidarity component should be financed with general taxes, as in the case of the solidarity pillar, he said. ***(Source: www.entornointeligente.com; Date: 14.04.2017).***

Medium to high-income contributors will be the most affected by the proposed pension reform. The government's initiative does not only address the 5% contribution increase, but also raises the tax ceiling of 75 UF (approx. 2.910 USD) to 111 UF (approx. 4.293 USD), whereby there will be a double impact on the amounts of the contributions of approximately 295 thousand medium to high-income contributors. According to the economist Bernardo Fontaine, the government decided to raise the tax ceiling, not because it wanted this segment to save more, but because the 5% additional contribution would otherwise not suffice for financing its reform. ***(Source: www.economiaynegocios.cl; Date: 25.04.2017).***

A Criteria Research survey reveals that the overwhelming majority of Chileans believe that there will be no reform of the pension system in this government. The survey shows that a large majority believes that there will be no reform of the pension system in this administration. 92% consider it "very unlikely" that this administration will reform the pension system. The purpose of this study was to gauge opinions, knowledge, and perceptions regarding the measures proposed by the Government for reforming the system. These proposals include an increase in contributions by employers from 10 to 15%, that this additional amount should not be managed by the AFPs, and that part of it should go to a PAYGO fund. The results also confirm the results of other surveys regarding the government's proposal, in that most people want the additional 5% to go to the individual accounts of contributors. The Criteria Research survey shows that 59% favor that option, and that 26% prefer that less than 2% should be destined to the collective insurance. Moreover, 77% of workers would prefer to decide who will manage the additional 5% contribution, while nearly 20% would prefer the State to make the decision. The answer is relatively consistent in all the age groups and socio-economic levels surveyed. ***(Source: www.elmostrador.com; Date: 22.05.2017).***

The National Economic Prosecutor's Office (FNE) will conduct a market study on life annuities. The FNE announced the start of a market study on life annuities, to assess the competitive evolution of this option, which is of utmost importance for the country, since approximately 60% of those who can choose between programmed withdrawal and a life annuity, choose the latter mode for retirement. ***(Source: Boletín Diario de Seguros de América Latina; Date: 31.05.2017).***

Colombia

Policy changes will allow more workers to enroll in the Periodic Economic Benefits Program (BEPS). Decree 295 modified the requirements for enrolling in the BEPS program of the Colombian Pensions Administrator (Colpensiones), whereby more citizens can join this program and save for their future in a voluntary and flexible way, when they do not have the option of contributing to pension savings. Now one need only be Colombian, of age, with earnings of less than one minimum wage, to enroll in the BEPS. One must also be enrolled in the subsidized or contributory health system. Previously, one had to be classified in the lowest income levels to enter, and members of indigenous communities had to be registered in the Census listing. ***(Source: www.eldiario.com.co; Date: 11.04.2017).***

The reduction of the number of weeks of contributions required for women to access a pension, is advancing in Congress. An initiative that seeks fewer weeks of contributions for women to be able to retire in the public PAYGO system, has been advancing in Congress since last year. The aim is that on reaching the required retirement age - 57 - women can retire with 1150 weeks of contributions, instead of the 1300 currently required. Those who retire with 1150 weeks of contributions can opt for a pension of 60% of their salary, while those who choose to retire with 1300 weeks of contributions, can opt for a pension of 65% of their salary. ***(Source: www.eluniversal.com.co; Date: 20.05.2017).***

Deficit of the public pension system will not be resolved before 2050. According to IMF estimates, even if Columbia increases the retirement age by 5 years, the deficit in the public pension system would only be resolved by the year 2050. *The analysis gave the same result when proposing an increase in contributions or a decrease in benefits. The pension deficit is currently 3.5% of GDP.* Given this scenario, Asofondos has called for an urgent pension reform to prevent the collapse of the system. ***(Source: www.contamos.com.co; Date: 19.05.2017).***

Costa Rica

Bill of law seeks to reduce the pension benefits of Judicial Branch employees. The Special Pensions Commission admitted a new and more severe bill of law to discuss the reform of the Pensions and Retirement System of the Judicial Branch, after a deficit of approximately USD 10 billion was revealed, due to the great advantages it offers officials of the judiciary. The main changes proposed are as follows. (i) Calculation of pensions: pensions will no longer be calculated on the basis of the last 24 best salaries, as is currently the case, but on all the wages received throughout working life. Specifically, it has been proposed that pensions should be equal to 100% of the average of all wages received as a judicial officer, adjusted to present value. (ii) Retirement age: The minimum retirement age would be increased: the retirement age will no longer be 60 for women and 62 for men, but 65 for both of them. (iii) Maximum ceiling: A ceiling close to USD 7,500 on pensions would be imposed. (iv) Solidarity contribution of 50% of pensions that are above this ceiling. ***(Source: www.nacion.com; Date: 01.04.2017).***

El Salvador

Government defaults on payment of pension debt. Last April 7, the Government defaulted on the payment of interests and principal on its Pension Investment Certificate obligations to members of the AFPs, in which it is obligated to invest the pension funds by law. The unpaid debt amounts to 55 million USD. Due to this default, the rating agencies Fitch Ratings, Moody's and Standard and Poor´s reduced the country's rating. The debt was repaid on April 28, by cutting national budget expenses by about US$ 56 million. ***(Source: www.elsalvador.com; Date: 09.04.2017; www.americaeconomia.com; Date: 14.04.2017).***

Mexico

The country's financial sector is designing voluntary savings plans for implementation in companies. The country's financial sector is designing voluntary savings plans for implementation in companies, to encourage workers to save. The proposal, drawn up by the Mexican Association of Banks (ABM), the Mexican Association of Stockbrokers (AMIB), the Mexican Association of Insurance Institutions (AMIS), and the Mexican Association of Pension Fund Managers (Amafore), was presented to the Secretary of the Treasury a few weeks ago, and is being discussed by members of the industry and the authorities. The purpose is for financial institutions to design attractive retirement products and that each company should choose those most suited for their workers. The Board of Directors of AMIB is currently discussing the regulatory aspects and conditions for involvement by financial institutions. However, it pointed out that the sector is very interested in designing products that are attractive for voluntary savings by workers. ***(Source: Boletín Diario de Seguros de América Latina; Date: 23.05.2017).***

Millennials are saving for retirement. According to a study by HSBC, Millennials, people who were born between 1980 and 1997, start saving for retirement at an early age and are more open to taking investment risks to ensure financial stability than the so-called Baby Boomers and Generation X. According to the study, Millennials start saving for retirement at age 24, on average. Likewise, 69% of Millennials have already begun saving to that end. ***(Source: www.fundssociety.com; Date:: 17.05.2017).***

Workers can learn how their AFORE invests. Contributors can learn how their AFORE is investing and generating returns, through the Interactive Afores Investment Table, created by the National Commission for the Retirement Savings System (Consar), in which they can see the composition of their portfolio, its returns performance, and the risks assumed. ***(Source: www.eleconomista.com.mx; Date: 23.05.2017).***

Nicaragua

The future of Social Security is still uncertain and the Government has not taken steps to improve the situation. *The International Monetary Fund (IMF) has* *warned the government that it must make adjustments to Social Security to save it from insolvency.* After achieving a record deficit last year, the Nicaraguan Social Security Institute (INSS) started this year with a sharp rise in its financing requirements, with its overall cash deficit at US$ 7.62 billion. ***(Source: www.laprensa.com.ni; Date: 11.04.2017).***

Panama

The introduction of individual accounts to replace the public PAYGO system has been proposed. The actuarial deficit of the public pensions program is USD 13,613 million for the next 17 years. Experts agree on the need to reform the system and introduce a publicly or privately managed individually funded program (individual accounts). ***(Source: www.laestrella.com.pa; Date: 12.05.2017).***

Paraguay

Social security reform is urgent. Government officials have warned that the deficit accumulated by the Treasury makes a Social Security reform urgent. In 2016 the Treasury had to contribute about USD 77 million to cover this shortfall. A bill of law on pension supervision is currently being discussed. This would be a first step in the reorganization and reform required in social security. ***(Source: www.abc.com.py; Date: 04.05.2017).***

Peru

Foreign investment limits increased. The Central Reserve Bank of Peru (BCR) increased the foreign investment limits for AFP funds from 42% to 43%, as of May 1 this year. It will increase to 44% as of next June. ***(Source: http://elcomercio.pe; Date: 02.05. 2017).***

Congress aims to advance the early retirement age for men in the AFPs. The Working Committee will discuss a project that lowers the early retirement age for men from 55 to 50, making it equal to the age required for women. It will also seek to give permanent status to the Special Early Retirement System (REJA) for the unemployed in the AFPs, since it expires on December 31, 2018. ***(Source: http://www.entornointeligente.com; Date: 13.05.2017).***

Puerto Rico

Puerto Rico asks for help to save its pension system. The country asked a Federal Court for assistance in restructuring the debt of its public employee pension system, which could run out of funds this year. The Governor said that his government has not been able to reach an agreement with its creditors, with which it has a debt of about USD 3,000 million. He also said that retirees will be able to collect their pensions, and that the government will resort to its general fund once the pension system runs out of funds. The State is the largest employer in Puerto Rico, and the accumulated debts in its three main pension systems grew by US$ 10,000 million between 2009 and 2013, which has led successive Governments to raise the retirement age, reduce benefits and increase the contributions required from employees and employers. ***(Source:: www.terra.es; Date: 23.05.2017).***

Dominican Republic

ADAFP Chairman highlights the impact of the pension system on the country's social security system. The President of the Dominican Association of Pension Fund Managers (ADAFP), Kirsis Jáquez, highlighted the positive impact, and the qualitative and quantitative change in economic and social terms, of the Social Security system in the Dominican Republic. She said that even though there have been significant achievements in coverage and the creation of equity for workers, these advances are not enough. She said that following on these achievements, changes are required that will enable achieving more and better pensions to the benefit of workers. The pension reform proposed by the Government, in this regard, must strengthen the institutional framework and the sustainability of the system, so that its modification will be to the benefit of members and their families. ***(Source: http://hoy.com.do; Date: 15.05.2017).***

Europe

Austria

Reform of the public pension system introduces late retirement and the division of pensions between parents. As of January 1, a reform of the public pension system introduced incentives for late retirement, also modifying the rules for the division of pensions between parents. Among the incentives for those who opt to delay retirement, is a 4.2% increase in their pensions, and reduced contribution payments. On the other hand, it will allow a working parent to voluntarily transfer up to 50% of their contributions to their partners in the first 7 years of the child's life (parents were previously allowed to do so only in the first 4 years). This is expected to improve the pensions of parents who choose to care for their children during their childhood. ***(Source: Social Security International Update; Date: April 2017).***

Germany

The pension reform that replaces defined benefit plans with defined contribution plans will come into effect in 2018. The bill of law submitted in November 2016, could finally see the light of day in 2018. The reform would replace the existing defined-benefit plans with defined contribution plans. ***(Source: www.ipe.com; Date: April, 2017).***

Denmark

Government rules out raising the retirement age. The Danish Government abandoned its idea of increasing the retirement age by six months (from 67 to 67.5 by 2025), since the measure would not have sufficient political support. ***(Source: www.ipe.com; Date: 23.05.2017).***

Spain

The Ministry of Finance will request a loan of more than EUR 10,000 million to cover the pensions deficit. The deficit of the public PAYGO system would reach EUR 16,650 million this year. In order to avoid exhausting the system's reserve fund, (the so-called "piggy bank"), the Ministry of Finance has opted to request a loan of EUR 10,192 billion. ***(Source: http://economia.elpais.com; Date: 04.04.2017).***

Secretary of State acknowledges that social security system has a structural deficit. When appearing before the Budget Committee of the House of Deputies, the Secretary of State for the Budget admitted that the Spanish Social Security system has a structural deficit, despite the creation of jobs, due to which legislative decision-making is necessary to ensure its sustainability. ***(Source: www.noticiasdealava.com ; Date: 20.04.2017).***

Asia and the Pacific

China

China allows pension funds to invest in local equity. A recent Chinese Government reform allows the provincial pension funds to invest a proportion (up to 30% of the Fund) in local equity, through the National Council for Social Security Fund (NCSSF). The measure seeks to improve the performance of the provincial pension funds. Previously, these funds could only invest in low risk assets with low returns, such as bank deposits and government bonds. ***(Source: Social Security International Update; Date: April 2017).***

Philippines

The contribution rate and tax ceiling increase to improve the solvency of the reserve fund. Starting May 1, the Social Security System (SSS) increased the contribution rate of workers and employers (by 1.5% each), as well as the tax ceiling (from US$ 319 to US$ 399, approx.), to address reserve fund solvency pressures, arising after the increase in about US$ 20 of monthly pensions (implemented earlier this year). Both labor and corporate groups oppose the changes, arguing that the higher contributions would increase labor costs and would negatively affect economic and labor markets. ***(Source: Social Security International Update; Date: May 2017).***

Hong Kong

Hong Kong launches default investment strategy for the Mandatory Provident Fund. Beginning April 1, the Hong Kong Government introduced the Default Investment Strategy for members of the Mandatory Provident Fund (MPF) who do not select an investment strategy for their accounts. The government designed this strategy to reduce investment risk, reduce the commissions related to the funds, and help diversify investment portfolios. ***(Source: Social Security International Update; Date: April 2017).***