

International Federation of Pension Fund Administrators



Progress of the Pension Systems August - September 2016 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 August - September 2016 period, with emphasis on the development of the individually funded systems.

Document prepared by FIAP, based on press information. We thank FIAP member associations for the information and comments submitted. The content of this document may be fully or partially reproduced citing the source.

Executive summary by area of interest

New Pension Programs and Social Security Reforms (approved)

- ✓ **China:** The authority has decided to extend its reverse mortgage program to June, 2018, and apply it in all provincial capitals.
- ✓ **Honduras:** The AFP of the Private Contributions System (RAP) began operating in September, capturing 1.5% of wages over and above HNL 8,421 (approx. US\$ 364).
- ✓ **India:** The authority announced measures to encourage participation in the individually funded accounts program (mandatory only for public servants), reducing the annual minimum contribution required for maintaining an active retirement account from USD 90 to USD 15.
- ✓ **Japan:** The government approved the elimination of restrictions on participation in voluntary defined contribution plans for unemployed spouses and people covered only by defined benefit plans; workers who stop working will also be unable to withdraw all their money (as previously permitted); the contribution limit will be monthly, rather than annual, as of 2018.
- ✓ **Palestine:** The Social Security system for private sector workers started operating; 8.5% of the old age, disability and survival contribution rate is paid by the employer, and 7.5% by the worker.
- ✓ **Poland:** A new second-pillar program, denominated EPK (Employee Pension Kapital), managed by the State Industrial Development Fund, will start operating in January 2018; it will be mandatory for all enterprises with more than 19 workers to provide it (only to workers between 19 and 55, with automatic enrollment); the contribution rate to the program will be 4% (2% by the worker, and 2% by the employer).
- ✓ **Switzerland:** The 10% increase in the basic pensions of the public PAYGO pillar was rejected in a national referendum.
- ✓ **Turkey:** All dependent workers in the public and private sectors under the age of 45 will be automatically enrolled in private defined contribution plans (voluntary private occupational pensions system) as of January 1, 2017. Enrollment in these plans was strictly voluntary prior to the reform.

Crisis in public PAYGO systems

- ✓ **Costa Rica:** A reform for saving money in government-managed pension systems has been approved. The changes include the extension of the retirement age from 55 to 60, and the reform of luxury pensions, among others.
- ✓ **Panama:** The United Nations submitted the assessment of the Social Security Fund's pension system to the government; the Government has admitted that the financing of the system has been deteriorating by the day.

Decumulation/Withdrawal of funds on retirement / Pension modes

- ✓ **Slovakia:** The Ministry of Labor has proposed formulas for providing workers with additional fund decumulation options (they can currently only purchase a life annuity); the new rules would make it possible to withdraw funds in a number of ways. If approved, the new rules would take effect as of January 2017.
- ✓ **Netherlands:** Introduction of Variable Life Annuities approved; participants will thus be able to access a fixed life annuity with a guaranteed minimum income, a variable life annuity, or a combination between a fixed and a variable life annuity.
- ✓ **Peru:** With the approval of the [law](#) allowing the use of 25% of the AFP fund to make the down payment for purchasing a first housing unit, or pay off a mortgage loan, available information indicates that the large majority of people have chosen to use their resources in the latter alternative; disbursements have not been significant to date.

Reforms proposed or to be discussed

- ✓ **Chile:** In August the President of the Republic announced a series of proposals for reforming the pension system; one of them involves increasing the contribution rate by five percentage points (paid by the employer) over a period of 10 years, mainly to finance the solidarity pillar (current pensioners) and a new 4th Collective Savings pillar (future pensioners); in this context, the Superintendency of Pensions and the AFPs formed a technical panel for discussing some alternatives for improvement, such as: the creation of a "longevity insurance," resolving the issue of pension anomalies among public employees, and reducing social security gaps, among others. The proposals put forward by the Government are still being discussed.
- ✓ **Colombia:** All indications are that the pension reform will not be submitted to Congress this year (2016), since issues such as the tax reform and the plebiscite will dominate the legislative agenda and the media until the end of the year.
- ✓ **El Salvador:** The pension reform proposal of the Citizens' Initiative for Pensions (ICP) will be submitted in January 2017; Augusto Iglesias, the former Undersecretary of Social Security in Chile, will advise the ICP. There are no visible efforts by the government to move forward in the initially proposed reform, due to tax issues that must be resolved.
- ✓ **Spain:** Analysts recommend a thorough Social Security reform. The proposals include the establishment of a three-tier pension system (a) a minimum pension equal to the national minimum wage (EUR 655 per month; approx. USD 730); (b) "notional accounts" in the public system, for achieving actuarial balance (pension amounts based on contribution effort); (c) complementary private pension plans (corporate plans), mandatorily provided by companies to their workers (funded by both; workers can opt out as they see fit).
- ✓ **Georgia:** A bill of law that creates a defined-contribution pension system will be submitted at the end of 2016; contributions by employees will be voluntary, but there will be automatic enrollment.
- ✓ **Mexico:** The government proposed the creation of Collective Pension Fund Savings Managers (Afores), so that trade unions and trade associations can use the deductions for the benefit of their members (this benefit is currently individual), and generate a culture of voluntary savings in retirement plans.
- ✓ **Paraguay:** The Ministry of Labor has started working on a bill of law to reform social security.
- ✓ **Peru:** The AFP Trade Association announced some of the proposals it is preparing for improving the system, including equal conditions for accessing the minimum pension in the public and private systems, introducing mechanisms for encouraging competition between the AFPs, establishing new mortality tables based on technical studies and proposing a Longevity Insurance. The bench of Acción Popular also proposed creating a universal minimum pension equivalent to the National Minimum Wage (RMV) (approx. 250 USD).
- ✓ **Dominican Republic:** The AFP Trade Association proposed measures to help increase the levels of pensions, such as reinforcing the capacity for supervising collection, in order to combat evasion, diversifying the pension funds and constructing a more equitable Social Security System without privileges.
- ✓ **Uruguay:** The AFAP Trade Association submitted [several proposals](#) for changing the mixed Social Security system, including the reversal of market concentration (proposing that default assignments and transfers should be performed on the basis of "Net returns" and not "Management Fees"); providing pension mode options in addition to life annuities; improving the voluntary contributions system (see [report](#)); creating a third default Voluntary Fund ("Growth Subfund"), for young people; creating a unified pension calculation simulator; and improving the attractiveness of the Account Statement.

Retirement Age

- ✓ **Brazil:** The new government has promised to revive the economy through government spending cuts and a reform of the pension system. One of the proposals is to establish a minimum retirement age of 65 for men and women (there is currently no minimum retirement age, only the years of contribution requirements for receiving a full pension).
- ✓ **Morocco:** If finally approved in Congress, the retirement age will increase gradually from 60 to 63 between 2017 and 2022.

News highlights in this issue



In August the President of the Republic announced a series of proposals for reforming the pension system. One of them involves increasing the contribution rate by five percentage points (paid by the employer) over a period of 10 years, mainly to finance the solidarity pillar (current pensioners) and a new 4th Collective Savings pillar (future pensioners). Following these announcements, and within the framework of the talks for reaching a national agreement, the Superintendency of Pensions and the AFPs formed a technical panel for discussing some alternatives for improvement, such as: the creation of a "longevity insurance," resolving the issue of pension anomalies among public employees, reducing social security gaps, the incorporation of self-employed workers into the system, and declared and unpaid contributions. The measures proposed by the Government are still being discussed by academics and the industry, and within the Government itself.



All indications are that the pension reform will not be submitted to Congress this year (2016), since issues such as the tax reform and the plebiscite will dominate the legislative agenda and the media until the end of the year. This discussion was supposed to have been held in March this year, since several financial actors had proposed the elimination of the Average Premium Plan (RPM; public PAYGO system) and the strengthening of the private pension funds.



The government proposed the creation of Collective Pension Fund Savings Managers (Afores), so that trade unions and trade associations can use the deductions for the benefit of their members (this benefit is currently individual), and generate a culture of voluntary savings in retirement plans.



The AFP Trade Association announced some of its proposals for improving the system, among them: (i) equal conditions for accessing the minimum pension in the public and private systems; (ii) digitalize the disability assessment procedure in all cases, and also speed up the response in the case of terminal illness; (iii) introduce mechanisms for encouraging competition between the AFPs, in terms of price and the development of new products and services; (iv) establish new mortality tables based on technical studies that truly reflect the current sociodemographic reality of the country; and (v) propose a Longevity Insurance which would cover those people who live beyond ninety years of age, at which there is greater incidence of death.

Relevant studies or reports

Study shows that the default options in the design of pensions are more effective in younger and lower-income people. The default options in the design of pensions have proved to be effective in increasing the contribution rate of participants. In the study "[Who is Easier to Nudge?](http://scholar.harvard.edu)", Beshears et al (2016) show that this is valid in particular for young and low-income people. If there is only one default option to be applied to all participants of a Fund, the study argues that policy makers should assign more weight to the preferences of individuals who are most affected by these defaults, i.e. young people and the poor. (Source: <http://scholar.harvard.edu>; Date: 27.05.2016).

The U.S. Census Bureau published a [report](#) on the global aging of the population. The report provides full details on the various trends related to global aging, including the speed of aging and the size of the more elderly population (65 or more) in different regions of the world. According to the report, the world population is aging rapidly. The percentage of the population aged 65 or older is expected to double between 2015 and 2050, from 8.5 per cent (617 million) in 2015 to 16.7% (1,600 million) by 2050. Europe is the most aged region today, with about 17 percent of its population of 65 or more, and is expected to remain so in the year 2050, when it is estimated that 27.8% of its population will be in this age group. This global aging trend is mainly due to the increase in life expectancy and lower fertility rates, which are close to or below the replacement level of 2.1 in all regions except Africa. (Source: *Social Security International Update*; Date: August 2016).

IDB study finds that the expansion of non-contributory pensions has helped reduce poverty in old age. This document reviews the relationship between pensions and poverty in old age in Latin America after the recent expansion of coverage through non-contributory pensions, focusing on eighteen countries around the year 2012. Based on administrative data and household surveys, the strategies adopted are reviewed and the present situation of the elderly is assessed. The results indicate that the selected schemes reflect the different realities. The growth of non-contributory pensions is linked to the reduction of poverty in old age, but there are still gaps that must be closed. (Source: <http://revistas.up.edu.pe>; Date: first half of 2016).

Relevant news of the period

Latin America, the Caribbean and North America

Argentina

An increase of 14.16% in the pensions of the public PAYGO system has been announced. Thus, as of September 2016, the minimum pension will increase from ARS 4,958 to ARS 5,661 (approx. USD 379), while the maximum pension will rise from ARS 36,330 to ARS 41,474 (approx. USD 2,780). (Source: www.larazondechivilcoy.com.ar; Date: 12.08.2016).

Brazil

Government will set the minimum retirement age. The new Brazilian President, Michel Temer, promised to revive the economy through government spending cuts based on austerity measures, and a reform of the pension system. Some of the proposals put forward were to establish a minimum retirement age at 65 for men and women (there is currently no minimum retirement age, only the years of contribution requirements for receiving a full pension), and eliminating sick leave. Regarding the fiscal deficit proposal of some BRL 170,500 million (approx. USD 55.2 million) announced by the Executive, Moody's believes that it will be difficult to comply with the public spending limits without a prior reform of the pension system. The public PAYGO system explains part of Brazil's fiscal deterioration (public spending on pensions rose from 4.6% of GDP in 1995 to 6.7 percent of GDP in 2014, according to Bradesco BBI). (Source: <http://www.elnuevodia.com>; <http://spanish.peopledaily.com.cn>; www.latercera.com; Date: September 2016).

Chile

The new AFP commission, which won the tender for managing the portfolio of newly enrolled members, began operating. New workers entering the pension system will be mandatory enrolled in AFP Planvital as of August 1, and for the next two years, after this fund manager was awarded the tender for managing the portfolio of new members by offering the lowest commission: 0.41% of the monthly taxable income, which is also made extensive to the current members of the fund manager. This is the fourth such tender since passage of the Pension Reform in 2008. Since the first tender to this date, the minimum commission in the system has dropped from 1.36% to 0.41%, and a new AFP has also entered the market. (Source: www.spensiones.cl; Date: 01.08.2016).

Discussion of the reform of the pension system begins.

In August the President of the Republic announced a series of proposals for reforming the pension system: (i) the contribution rate will increase by 5 percentage points, (paid by employers) over a period of 10 years, mainly to finance the solidarity pillar (current pensioners) and a new 4th Collective Savings pillar (future pensioners); (ii) strengthen the existing Solidarity Pillar (greater basic solidarity pension amounts and solidarity pension contributions; (iii) the mandatory contribution (10% of salaries) and the incentives for voluntary savings in the AFP system will remain in place; (iv) the AFPs would return commissions when returns are negative; (v) contributors to an AFP will be able elect representatives in the AFP involved in the investment policy and other decisions; (vi) transfer to the AFPs the mutual and investment fund intermediation commissions that are currently paid by the pension funds; (vii) put member portfolios out to tender to stimulate competition; (viii) advance in the State AFP project; (ix) improve the armed forces' PAYGO system and incorporate it into the individually funded system; (x) adapt pension systems to demographic changes, matching or increasing the retirement age for men (65) and women (60) and increasing the pensions tax ceiling by 50%; (xi) gradual mandatory contribution by self-employed workers is confirmed; (xii) a sole mortality table (unisex) is proposed. Following these announcements, and within the framework of the talks for reaching a national agreement, the Superintendency of Pensions and the AFPs formed a technical panel for discussing some alternatives for improvement, such as: the creation of a "longevity insurance," resolving the issue of pension anomalies among public employees, reducing social security gaps, the incorporation of self-employed workers into the system, and declared and unpaid contributions. The measures proposed by the Government are still being discussed by academics and the industry, and within the Government itself. (Source: FIAP, www.latercera.cl; Date: 30.08.2016).

Colombia

Pension reform delayed. All indications are that the pension reform will not be submitted to Congress this year (2016), since issues such as the tax reform and the plebiscite will dominate the legislative agenda and the media until the end of the year. The former Minister of Labor, Luis Eduardo Garzón said at the time that this discussion would be held in March this year, since several financial actors had proposed the elimination of the Average Premium Plan (RPM; public PAYGO system) and the strengthening of the private pension funds. (Source: www.eldiario.com.co; Date: 02.08.2016).

Costa Rica

A reform for saving money in government-managed pension systems has been approved. On August 16 the Executive signed a reform of the pension laws, aimed at saving money on pensions paid from the public budget. The changes include: (i) the extension of the retirement age of people enrolled in the National Budget regime from 55 to 60; (ii) reform of luxury pensions; (iii) a reform for preventing the children of legislators from inheriting their pensions for life, reducing the percentage for accessing the pension; and (iv) the reform of the rules and regulations governing special pension schemes, eliminating the assessment mechanisms that create inequality compared to the average percentages of other pensions. See further details [here](http://www.laprensalibre.cr). (Source: www.laprensalibre.cr; Date: 17.08.2016).

Same-sex couples will be allowed to share pensions. The wife and children currently receive 50% and 25%, respectively. The Fund is discussing the changes that will be made to the regulations in force. See video [here](http://www.repretel.com). (Source: <http://www.repretel.com>; Date: 10/08/2016).

El Salvador

The pension reform proposal of the Citizens' Initiative for Pensions (ICP) will be submitted in January 2017. According to the Salvadoran Association of Pension Fund Managers (ASAFONDOS), the work of the ICP has progressed with the holding of consultations with about 30 civil organizations, including trade unions, trade associations, associations of pensioners, and think tanks, among others. Augusto Iglesias, the former Undersecretary of Social Security in Chile, will advise the ICP in all matters related to the formulation of the proposals and diagnosis, and a fully-formulated proposal is expected in January 2017. Nonetheless, there are no visible efforts by the government for promoting its pension reform, probably because it is focused on sensitive issues, including a fiscal crisis that could possibly lead to a default if it fails to reach political agreement with the opposition. In fact, the Technical Secretary of the Presidency, Roberto Lorenzana, has said that the government's priority is to approve a tax reform which will give it financial liquidity and that the issue of pensions will be addressed at a later date; even the analysts have pointed out that the country would fall into "default" if it does not obtain the necessary funds for [paying off part of its debt in Social Security Investment Certificates](http://www.estrategiaynegocios.net) (CIP)¹. (Source: ASAFONDOS; <http://www.estrategiaynegocios.net>; Date: September 2016).

¹ CIPs are government securities acquired by the AFPs with the savings of their contributors; it is a debt of the government with the workers

Most Salvadorans do not want the Government to manage their pension savings. According to a survey by the Dichter & Neira Research Network, 72% of people reject government management of their money as a result of the reform of the pension system proposed by the Ministry of Finance, which proposes reopening the PAYGO system, in which the public administration would receive the money. (Source: www.elsalvador.com; Date: 01.09.2016).

Honduras

The AFP of the Private Contributions System (RAP) began operating in September. With the passage² of the Framework Law of the Social Security System, the RAP finally began to collect 1.5% of wages above HNL 8,421 (approx. USD 364) as of September, after being licensed to operate as a Pension Fund Manager (AFP). (Source: www.latribuna.hn; Date: 06.09.2016).

Mexico

President Enrique Peña Nieto proposes the creation of Collective Afores to the Chamber of Deputies. The purpose of the proposal is for trade unions and trade associations to also be able to use the reduction for the benefit of their members, since this benefit is currently only for individuals, thereby generating a culture of voluntary savings in retirement plans. This measure seeks to enable the authorities to reduce administrative costs by allowing collective enrollment in such plans, in order to continue encouraging savings and the use of long-term investment instruments. The proposal is part of the initiative for the reform of the Income Tax Law (ISR), which is part of the Economic Package submitted to the Chamber of Deputies by the Ministry of Finance. The existing ISR law allows the deduction of taxpayers' contributions to individual pension plans managed by insurance companies, credit institutions, stockbrokers and pension or investment fund managers. This has stimulated savings and investment in this type of instruments in fiscal terms. However, the existing income tax law only provides for the deduction of contributions to personal pension plans when they are paid in directly or through the employer, limiting the opportunity of access to other forms of collective contracting provided by the market. (Source: <http://www.excelsior.com.mx>; Date: 11.09.2016)

Panama

The United Nations submitted the report on the assessment of the pension system of the Social

Security Fund (CSS) to the government. The document is the result of a joint analysis between the United Nations Development Program (UNDP), the Inter-American Development Bank (IDB) and interviews with representatives of civil society, at the request of the Panamanian government. Although there are no updated figures, the Government has admitted that the finances of the IVM program are deteriorating by the day due to the increase in the number of retirees and pensioners and the drop in contributions. According to the IMF, the system will be bankrupt within the next decade. (Source: <http://www.panamaamerica.com.pa>; Date: 23.08.2016).

Paraguay

Social security reforms are planned. The Ministry of Labor began working on a social security reform bill of law with the Inter-American Development Bank (IDB) and the International Labor Organization (ILO), to correct the actuarial deficit issues of the pension funds. (Source: <http://www.ultimahora.com>; Date: 09.09.16).

Peru

The vast majority have chosen to use their funds for paying off mortgage loans, and disbursements have not been significant to date. After promulgation of the [law](#) allowing the use of 25% of the AFP fund to make the down payment for purchasing a first housing unit, or pay off a mortgage loan, the 4 AFPs have so far attended to 6,704 members, disbursing PEN 255 million (approx. US\$ 74.9 million). They say that the figure is still insignificant, because it is only starting, but it could be much larger in future. In more than 90% of cases these disbursements have been used for paying off previously acquired mortgage loans, and not necessarily as down payment for the purchase of a first property. (Source: <http://publimetro.pe>; Date: 16.09.2016).

Giovanna Priale, the new Chairman of the Association of Pension Fund Managers, revealed some of the proposals being drawn up for improving the system. In an interview, the new Chairman said that members feel that contact with their AFP is only on enrollment and when they need the money on retirement, and that this has led them to lose the idea that these funds are theirs. This creates an opportunity for the AFPs to become permanent financial security advisors. She also said that they are working towards: (i) matching the conditions for accessing the minimum pension in the private and public systems; (ii) implementing the digitalization of the disability assessment procedure in all cases, and speeding up the response in the case of terminal illness (a maximum of 10 working days); (iii) introducing mechanisms for encouraging competition between the

² This law came into effect on September 4, 2015.

AFPs, in terms of price and the development of new products and services; (iv) establishing new mortality tables based on technical studies that truly reflect the current sociodemographic reality of the country; and (v) proposing a Longevity Insurance which would cover those people who live beyond ninety years of age, at which there is a greater incidence of death. (Source: <http://peru21.pe>; Date: 15.09.2016).

The creation of a minimum universal pension equivalent to a National Minimum Wage (RMV) has been proposed. Through Bill of Law No. 136/2016-CR, the bench of Acción Popular submitted a proposal for a Universal Minimum Pension Law of 1 National Minimum Wage (RMV), (currently PEN 850, approx. USD 250), which seeks to benefit all pensioners of the public and private systems. (Source: *EXTRA*; <http://www.leyes.congreso.gob.pe>; Date: 14.09.2016).

Dominican Republic

Programs for strengthening social security education among young people have been developed. The Superintendency of Pensions (SIPEN) and the Technological Institute of Santo Domingo (INTEC) subscribed a collaboration agreement which envisages the development of research programs, training, seminars, courses and workshops, primarily focused on strengthening social security education in young professionals in training, as well as groups of interest in the rest of Dominican society. This initiative is part of the Superintendency's 2016-2020 Strategic Plan (Source: www.argentarium.com; Date: 08.09.2016).

The Dominican Association of Pension Fund Managers (ADAFP) has called for the inclusion of different elements that contribute to increasing the levels of pensions in the Bill of Law for the amendment of Social Security Law 87-01. Among the proposals put forward by the Executive President of ADAFP, Kirsis Jaquez, are: (i) strengthening the capacity for supervising collection, for combating evasion, as well as sanctioning fraud to the detriment of Social Security; (ii) ensuring that the pension funds continue diversifying and getting more directly involved in the financing of productive and service sectors in the country, for making national savings a catalyst in the country's competitiveness and generating more jobs; (iii) assessing the universality of the law to achieve a more equitable Social Security System in which privilege is no longer tolerated. (Source: <http://elnuevodiario.com.do>; Date: 06.09.2016).

Uruguay

The National Association of AFAPs (ANAFAP) raises issues with the authorities regarding the short and

medium term mixed system and the need to strengthen voluntary savings, among other measures. The ANAFAP submitted a [Memorandum](#) to the Government with proposals for modifying the Social Security mixed system, mainly addressing the following issues: (i) reversing market concentration, proposing that default assignments and transfers should be performed on the basis of "Net returns" and not "Management Fees," in order to benefit members; (ii) providing pension mode options in addition to life annuities (e.g., temporary income, staggered pensions, reverse mortgages, etc.); (iii) improving the voluntary contributions system; (iv) ensuring that people over 35 need not mandatorily contribute to an AFAP, whatever their salary (only voluntary contribution to an AFAP, with proper advisory services); (v) the creation of a third default Voluntary Fund ("Growth Subfund")³ for younger people, participating in local and international investment in equity; (vi) a simulator for calculating the unified pension must be created; (vii) the attractiveness of the Account Statement must be improved, rearranging the information into a user-friendly format for informing contributions, returns and commissions charged, with a projection of the pension that could be obtained. ANAFAP drew up a [report](#) for enhancing the voluntary contributions program, setting out the best practices in voluntary savings in the region, and providing recommendations and proposals for making it viable and attractive in the country. (Source: *National Association of AFAP, ANAFAP*; Date: September 2016).

Government decides to establish a task force to solve the "fifty-year-olds" problem⁴. The Executive formed a Commission to study possible solutions to the situation of the "fifty-year-olds" whose pensions have been affected by the mixed Social Security System. The Commission will comprise representatives of the Ministry of Economy, the Ministry of Labor and the Social Security Bank (BPS). (Source: www.elpais.com.uy, Date: 09/21/2016).

Europe

Slovakia

Additional pension modes in the second pillar pension funds have been proposed. The Ministry of Labor has proposed new formulas for providing workers

³ This fund would be in addition to the accumulation and retirement sub-funds (for workers under and over 55, respectively).

⁴ 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 they 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.

with greater fund decumulation options (they can currently only purchase a life annuity); the new rules, which have not yet been made public, would make it possible to withdraw funds in a number of ways. If approved, the new rules would take effect as of January 2017. (Source: *Global Retirement Update AON*; Date: August 2016).

Spain

Analysts recommend a thorough Social Security reform. Given the crisis facing the public PAYGO system, overwhelmed by demographic problems (the pension reserve fund has dropped from EUR 66.815 million in 2012 to EUR 25.175 million today), different academics and experts [have proposed measures](#), such as: (i) creating an International Commission of experts who propose reforms; (ii) establishing a three-tier pension system: (a) minimum pension equal to the national minimum wage (EUR 655 per month); (b) "notional accounts" in the public system, whereby each worker will have a personal account and pensions will be obtained with actuarial integrity (pension amounts based on contribution effort); (c) complementary private pension plans (corporate plans), mandatorily provided by companies to their workers (funded by both; workers can opt out as they see fit)⁵; (iii) Introduce structural reforms that will increase employment, reduce the unemployment rate, and make wage increases possible; (iv) increase revenue and reduce the costs of the public pension system, in anticipation of the introduction of the "Sustainability Factor"⁶(planned for 2019); (v) Eliminate the tax ceiling on salaries, i.e. match the social security contribution to the actual amount of the worker's salary; (vi) increase incentives to encourage savings in private complementary pension plans (occupational plans), eliminating the tax deductions applicable to them; and (vii) eliminate the possibility of self-employed workers contributing to social security at the minimum rate (EUR 250 per month). (Source: *Highlights from the Blog of NOVASTER*; Date: 22.09.2016).

⁵ Similar to what occurs in the United Kingdom.

⁶ The sustainability factor is a mechanism that automatically adjusts certain pension parameters (retirement age, required years of contribution and initial pension amount) linked to the life expectancy of the population, which has already been implemented in several European countries (Denmark, Finland, France, Greece, Italy, Netherlands, Portugal). In Spain the sustainability factor will adjust the initial retirement pension so that the total amount received throughout the life of a pensioner enrolled in the pension system, who will probably have greater life expectancy, is equivalent to the pension received by a pensioner retiring previously. The estimated life expectancy is therefore related at both times. This factor insures the risk associated to increases in longevity and adjusts intergenerational equity, although only with regard to retirement pensions. Source: http://www1.seg-social.es/ActivaInternet/BuenasPracticas/REV_031174; <http://www.sfa.es/blog/efecto-del-factor-de-sostenibilidad-en-la-pension-de-jubilacion/>

Georgia

Defined contribution system being developed. The Pension Reform Office will submit to the Bill of Law creating a defined contributions pension system at the end of 2016. In this system: (i) The employer, the worker and the State will contribute 2% of the salary, totaling 6%; (ii) The contribution of the worker would be voluntary, but there will be automatic enrollment with a time window of 6 months for opting out; (iii) The funds accumulated in individual accounts will be inherited by survivors, and the withdrawal of funds before the normal retirement age will be allowed in some cases. The government expects the system to start operating from October 1, 2017. (Source: *Global Retirement Update AON*; Date: July 2016).

The Netherlands

Variable life annuities (LA) introduced. The law was passed at the end of June, came into effect in September, and is valid for the second pillar of the defined contributions pension system (occupational pension program). With this reform, participants will be able to access the following pension modes: (i) a fixed LA which will provide a guaranteed level of income during retirement (based on current interest rates); (ii) a variable LA that will allow retirees to invest in risk-free assets to generate a level of income which is adjusted periodically according to the performance of the investments; (iii) a combination of a fixed and variable LA; prior to the new legislation, participants were required to buy a fixed LA. (Source: *Social Security International Update*; Date: August 2016).

Poland

New Social Security reforms will come into effect in 2018. As is known, the second individual accounts pillar became voluntary and complementary in 2014 (part of the assets of the open pension funds, OFE, were transferred to the ZUS, a government agency that manages the public PAYGO system); in February 2016, the Government presented the "Responsible Development Plan," according to which the second pillar model managed by the OFE cannot be maintained in the future, and the rest of its managed assets must be transferred to the ZUS in 2017. The new structure of the pension system will be as follows: (i) a first notional public PAYGO pillar, managed by the ZUS (including the funds of the former OFE system); (ii) a second pillar that creates the EPK (Employee Pension Kapital), managed by the State Industrial Development Fund, which must be mandatorily provided by all companies with more than 19 workers

(only to workers between 19 and 55, with automatic enrollment); (iii) a third voluntary pension savings pillar comprising the existing voluntary Employee Pension Program (EPP) and other voluntary savings accounts already operating as of 2004 (IKE and IKZE),⁷ their Polish acronyms); (iv) a fourth voluntary savings pillar, based on Employee Investment Funds (EIF). The new EPK program will start operating in January 2018; the contribution rates to the program will be 4% (2% by the worker, and 2% by the employer); workers will only be able to opt out of the EPK within the first three months of enrollment; all assets will be invested in public sector companies (e.g. mining companies) and government bonds. The only companies that will not have to offer an EPK plan will be those that implement an EPP plan by December 2017 at the latest. Further details available here. (Source: *Global Retirement Update AON*; Date: August 2016).

Switzerland

Increase of the basic pensions of the first public PAYGO pillar rejected. A national referendum was held at the end of September to vote on the possibility of increasing the basic pensions of the first public PAYGO pillar by 10% (AHV Plus initiative).⁸ (Source: *www.ipe.com*; Date: 26.09.2016).

Turkey

Automatic enrollment for private pensions introduced. The government approved an amendment to the private pension system law whereby all dependent workers under 45 (in the public and private sectors), will be enrolled in private defined contribution plans (voluntary private occupational pension system) as of January 1, 2017. *Enrollment in these plans was strictly voluntary prior to the reform.* The basic features of the new system are: (i) workers will automatically contribute 3% of their gross salaries to the private plans selected by their employers (the authority has the power to increase the rate of the worker's contribution rate to 6% or reduce it to 1% in the future); (ii) workers can opt out of the system within the first 2 months after automatic enrollment (with due reimbursement of their contributions and return on investments); (iii) the State will make a matching-contribution of 25% of the contribution of the worker and will make an additional one-off contribution of TRY 1,000 (approx. USD 338) for those who choose not to opt out of the plan in the first two months; (iv) if the worker enrolled in the plan switches jobs, the balance of his account will be transferred to the private pension plan of his new employer; if the new employer does not have a private

pension plan, then the employee has the option of remaining covered by the pension plan of his previous employer, or may also fully terminate his participation; (v) on retirement, workers can choose to withdraw their funds at once (lump sum) or they can purchase a life annuity (to encourage the latter option, the State will contribute an additional 5% of the accumulated fund to all those who purchase a life annuity payable over more than 10 years). (Source: *Social Security International Update*; Date: September 2016).

Africa

Morocco

The public PAYGO system pension reform law is advancing in Parliament. A law reforming the public PAYGO pension system was approved by a wide margin in both houses of parliament; the reform gradually raises the retirement age from 60 to 63 between 2017 and 2022; the total contribution rate (funded equally between the worker and the employer) will also rise by 4 percentage points (from 10% to 14%) in 2019. (Source: *Global Retirement Update AON*; Date: July 2016).

Asia and the Pacific

China

Pilot reverse-mortgage program extends its trial period and coverage. The authority decided to extend the trial period and coverage of its reverse-mortgage program; the program began in 2015 in the 4 major cities, and will now last until June 2018; it will be applied in all provincial capitals. (Source: *Global Retirement Update AON*; Date: August 2016).

India

Minimum annual contribution and balance requirements in the individual accounts program reduced. The regulatory authority announced measures to encourage enrollment in the individual accounts program (National Pension System, NPS⁹), namely: (i) reduce the minimum annual contribution required for maintaining an active account, from INR 6,000 (approx. USD 90) to INR 1,000 (approx. USD 15) for pension savings accounts (Tier I accounts), and INR 250 (approx. USD 3.7) to INR 0 for personal savings accounts (Tier II accounts); (ii) eliminate the requirement of maintaining a

⁷ See further details on the operation of these accounts here.

⁸ AHV by its German acronym (Alters - und Hinterlassenversicherung).

⁹ The NPS is an individually funded accounts system which began operating in 2004 (approved in 2003). It is mandatory for all public servants of the central Government who started working after January 1, 2004; for the rest of the population, enrollment in the NPS has been voluntary since 2009.

minimum balance of INR 2,000 (approx. USD 30) in Tier II accounts (this requirement does not apply to Tier 1 accounts). It is worth mentioning that all individuals enrolled in the NPS have access to two types of accounts: (i) the mandatory Tier I pension savings account; (ii) the optional Tier II personal savings account. The Tier 1 account funds can only be used for the purchase of a life annuity at the age of 60, whereas the funds of the Tier II accounts can be withdrawn at any time and for any purpose. *(Source: Social Security International Update; Date: September 2016).*

Japan

Changes will be introduced in defined-contribution plans. The Government has approved amendments to the voluntary defined-contribution (DC) system. As of January, 2017: (i) the restrictions on enrollment in the DC plans will be eliminated in order to allow contributions by unemployed spouses of employees, public sector employees and individuals covered only by private defined benefit (DB) plans; (ii) the "exceptional rule," which currently allows participants of the DC plan with balances of up to JPY 500,000 (approx. USD 821) to withdraw all their money if they stop working (and therefore cease to be eligible for participation), will be eliminated. Furthermore, the contribution limits will switch from an annual to a monthly basis as of January, 2018, in order to enable more flexible contribution agreements. There are still no dates of implementation for other changes, such as: (i) restrictions on the number and type of investment options offered. (ii) reduction in the control of investments by the worker; (iii) the plan sponsors must review the quality of service offered by the fund managers every 5 years. *(Source: Social Security International Update; Date: September 2016).*

Palestine

The private sector social security system makes its debut. The law that establishes this system for the private sector came into effect in June 2016; the reform mainly states that: (i) contributions are based on the total monthly income (including bonuses and others) and the contribution cap is 8 times the monthly minimum wage (currently ILS 1,450, approx. USD 385); (ii) the benefits of the program and its contributions are as follows: (a) for old-age, disability and survival (employer: 8.5%; worker: 7.5%); (b) work accidents (employer: 1.6%); (c) maternity (employer: 0.3%; worker: 0.2%). *(Source: Global Retirement Update AON; Date: July 2016).*