International Federation of Pension Fund Administrators

Progress of the Pension Systems
August 2017 - September 2017
No. 5

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 2017 - September 2017 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 documents submitted.

Executive summary by area of interest

New Pension Programs and Social Security Reforms (approved)

- ✓ ***Bolivia:*** *The Public Social Security Administration will start operating in March 2019, managing the funds of the comprehensive pension system currently managed by the AFPs.*
- ✓ ***Costa Rica****: The 1% increase in the contribution rate to the PAYGO system was published in the Official Gazette. As of January 1, 2018, workers will contribute 3.84% (instead of 2.84%), employers 5.08%, and the State 1.24%, totaling a pension contribution of 10.16%.*
- ✓ ***El Salvador****: A reform of the pension system was approved at the end of September, and will come into effect on October 6. The reform basically increases the contribution rate from 13% to 15% (7.25% contributed by the worker and 7.75% by the employer). The contribution to the individual account will begin at 8% in 2017, and rise to 11.1% by 2050, whereas the contribution to the Solidarity Fund will start at 5% in 2017 and drop to 2% by 2050. The 2% will finance a Solidarity Guarantee Account (CGS), managed by the AFP's, which will be activated to cover life annuity pensions when the savings in the individual account are exhausted. The remaining 1.9% will be used for paying the disability and survival insurance and the AFP commissions (this amount was 2.2% prior to the reform).*
- ✓ ***India****: A new Immediate Life Annuity Plan was introduced for individuals aged 60 or more, offering a guaranteed annual return of 8% for 10 years from the date of its purchase.*
- ✓ ***Peru:*** *The Association of AFP's will initiate a matching contributions pilot program with the workers of 130 micro and small enterprises in Lima, for the purpose of assessing the impact of this system on pension savings.*
- ✓ ***Portugal:*** *As of October 1, workers will be able to access a full pension with 48 years of contributions, after 60 years of age (prior to the reform, a reduction of 0.5% in the pension amount was applied for each month of early retirement prior to the official retirement age of 66 years and 3).*

Investments

- ✓ ***Mexico:*** *The regulations governing investments were amended to encourage the participation of the Afores in productive projects (e.g. extension of the investment limits in structured instruments) and the list of countries eligible for investment was extended (5 new countries, totaling 49).*

Crisis in the public PAYGO systems

- ✓ ***Colombia:*** *Study shows that the combination of the demographic transition with the high informality of the labor market makes the existence of a PAYGO pension system unviable. Informality has resulted in only two formal workers contributing to pensions for each senior citizen.*
- ✓ ***Costa Rica:*** *The Ministry of Finance has admitted to the Costa Rican Social Security Fund (CCSS) that it is unable to finance the 0.66% in the contribution to the PAYGO system (the State's contribution was originally 0.58%, and rose to 1.24% with the increase), as long as it does not find a solution to the structural fiscal deficit. In another department, the round table for reforming the system has requested another month for delivering a final proposal.*

Reforms proposed or to be discussed

- ✓ ***Brazil:*** *The pension reform stipulating a minimum retirement age has encountered much resistance, and May 2018 has already been mentioned as the term for approving it in Congress.*
- ✓ ***Chile:*** *3 bills of law for reforming the pension system were submitted to Congress in August. Two of them seek to increase contributions by 5% over and above the existing 10%, and create a government agency to manage it; of this 5%, 2% will go to a collective savings fund, and 3% to personal accounts outside of the AFPs. A third bill of law introduces modifications to the AFP system in terms of competition, efficiency, transparency, and collective VPS, among others. The proposed reform imposes a burden on employees intended to improve the pensions of people who have incomes possibly even better than theirs, which is absolutely regressive, and creates a tax on work that could lead to a loss of up to 400 thousand jobs.*
- ✓ ***Colombia:***
  - *The AFP Trade Association is working on a pension reform proposal that will have to be assumed by the next Government, which should establish only one contributory pillar and put an end to subsidies on higher pensions.*
  - *The Ministry of Finance has drawn up a bill of law to regulate the Social Security contributions of the self-employed.*
- ✓ ***Spain:***
  - *The Pensions Regulator has proposed that private pension fund plans will be able to invest in European investment projects through specific instruments.*
  - *The Government seeks to promote enrollment in private pension plans by lowering their maximum management commissions (from 1.5% to 1.25%) and relaxing the conditions for the withdrawal of saved money.*
- ✓ ***Ireland:*** *The Government announced that in just over three years all private sector workers will be automatically enrolled in a pension plan.*
- ✓ ***Mexico:*** *The Afores drawing up rules and regulations for replacing the 5 investment Multifunds (Siefores) with life-cycle funds, which should be ready in December 2017. With this proposal, workers would never switch funds, but rather the standard would progressively and dynamically adjust to their portfolios (reducing exposure to risk as they approach retirement age), thus avoiding the forced sale of assets.*
- ✓ ***Dominican Republic:*** *The Superintendency has announced that it will propose changes to the pension system, such as increasing the retirement age from 60 to 65, and gradually increasing the contribution rate from 8% to 14%. Meanwhile, one of the proposals of the Association of AFPs calls for the correction of some of the parameters affecting pensions, extending protection to sectors outside the system, establishing a contribution and enrollment oversight structure, diversifying investment options of the pension funds, and simplifying the commission scheme.*
- ✓ ***Uruguay:***
  - *The Government submitted a bill of law for creating a new accounting unit denominated the "Social-security Unit" (SP), which will enable the issuing of public debt securities that can be used by insurance companies to place the resources they receive from the AFAPs when the worker retires, promoting the development of the life annuities market.*
  - *The Central Bank wants to adjust the mortality tables so that each insurer can freely set the amount of the initial pension.*

Pensions coverage

- ✓ ***Mexico:***
  - *A nationwide self-service store chain will receive voluntary contributions of savers at more than 10 thousand cash counters.*
  - *They "Afore Mobile" application for mobile phones was launched. It offers retirement savings solutions for millennials and self-employed workers.*
- ✓ ***Peru:***
  - *A nationwide self-service store chain will receive voluntary contributions of savers at more than 10 thousand cash counters.*
  - *They "Afore Mobile" application for mobile phones was launched. It offers retirement savings solutions for millennials and self-employed workers.*

Labor market

- ✓ ***Chile****:*
  - *Labor informality is similar to Uruguay and Costa Rica, at approximately 30%, according to the INE.*
- ✓ *The employment rate increased by 10% among 60 to 64 year-old individuals between 2010 and 2017, whereas the employment rate among individuals between 15 and 19 years of age dropped more than 5 percentage points (due to university studies, among other factors)*
- ✓ ***Colombia:*** *8 million people find formal employment and began contributing to Social Security in the last 4 years.*

Retirement age

- ✓ ***Argentina****: The government will make a proposal for increasing the retirement age by 5 years (the current age is 60 for women, and 65 for men).*
- ✓ ***El Salvador****: The pension reform approved in September will make it mandatory to review the retirement age every 5 years. The first assessment will be in 2021 and will be applicable as of January 1, 2022 (the increase, if approved, may not exceed one year; the current retirement age is 60 for men and 55 for women).*
- ✓ ***United Kingdom:*** *Legislation accelerates the increase in the official retirement age. It is currently 65 for men and 63 years and 9 months for women, and will gradually increase to 68 between 2037 and 2039 (instead of between 2044 and 2046).*

Reports or relevant presentations

According to a study by Willis Towers Watson**, the world's major pension funds increased their equity by 6% in 2016.** The figures at closure in 2016 show a return to growth after a drop of 3.4% in 2015. The report reveals that the world's 300 major pension funds now account for 43.2% of global pension assets, compared to the 42.5% estimated in 2015. The U.S.A. continues to be the country with the highest proportion of pension assets among the 300 top funds, representing 38.6%, distributed in 134 funds. The assets of the defined benefit (DB) pension plans grew by 5.6% in 2016, compared to 9.6% of the defined contribution (DC) plans, 3.9% of the reserve funds, and 2.9% of the hybrid funds. BD assets represent 65.5% of the total declared assets under management (AUM), compared to 65.9% in 2015, while CD assets have increased their share from 21.5% in 2015, to 22.2% in 2016. ***(Source: http://www.fundssociety.com; www.willistowerswatson.com; Date: 04.09.2017).***

A study **reveals the non-viability of the PAYGO pension systems in countries that still enjoy a demographic dividend.** The study analyzes the case of Colombia, an emerging country in which the combination of the demographic transition with high labor market informality makes the existence of a PAYGO pension system unviable. In theory, a country like Colombia still has a young population and is, therefore, "enjoying" the so-called demographic bonus or dividend. In these circumstances, it has a relatively high ratio of economically active population vs. adults at retirement age (almost 7 active workers for every adult over 65), which should enable active workers to finance the pensions of senior citizens with their contributions for some time more ("intergenerational solidarity"). However, informality has resulted in only two formal workers contributing to pensions for each senior citizen. In these circumstances, even if all necessary measures for improving labor formality were to be taken immediately, when they take effect, the ratio between active workers and senior citizens would have dropped significantly and Colombia would have already lost its demographic dividend. Thus, young people who today show solidarity with the elderly, will not have anyone to show solidarity with them when they retire. ***(Source: https://economia.uniandes.edu.co; Date: September 2017).***

The National Association of Financial Institutions (ANIF) issues a new warning regarding the pension bomb in Colombia. According to an Economic Review by ANIF, there are now approximately 5.5 million people at retirement age in Colombia, and only one in four receive a pension from Colpensiones (1.4 million, in a public PAYGO system, with inequitable subsidies) or from the AFPs (100,000 people, under an equitable system, but still young and subject to the regulatory arbitration of the subsidies of the public system). Moreover, 2.1 million senior citizens face the risk of destitution, because they do not receive any kind of support, and another 1.9 million are attended to precariously in the "Colombia Mayor" program. The drama of the elderly in Colombia will get worse because, even though the population will hardly be growing between 2020 and 2050, the elderly at retirement age will retire at the rate of 3% per year, reaching a total of 15.2 million people within 30 years. If decisive action is not taken to change the status quo, approximately 7 million senior citizens will be totally destitute, and only 3.2 million will have marginal support from the State, by the year 2050. ANIF highlights the fact that the 2018-2022 Administration will face the challenge of avoiding this veritable social time bomb. In the study "Elements for a Structural Pension Reform," ANIF proposes: (i) allowing the PAYGO program to "wither," guaranteeing and respecting all obligations to those who opt for this system before January 2019 (structuring a generous transitional regime), so that Colpensiones will continue meeting its obligations at least up to the 2100 calendar year, but over time its most important obligations will have to do with the Periodic Economic Benefits (BEPs); (ii) a series of parametric adjustments to the PAYGO system (raising the retirement age by 5 years and reducing replacement rates by 20 pp, among others). Under these new more equitable criteria, and raising pension coverage to 64%, it would be possible to reduce the Net Present Value (NPV) of pension obligations by about 30% of GDP in the 2020-2050 horizon. ***(Source: www.anif.co; Date: September 2017)***

According to a study by Franklin Templeton**, the Millenials in the US are the ones most concerned about their retirement.** According to the 2017 Investment and Retirement Expectations survey by Franklin Templeton Investments, American millennials are almost as concerned about short term market volatility (47%), as not achieving their long-term pension investment goals (53%). Millennials also show a little more concern for not achieving their objectives (53%) than their counterparts of the baby boom generation (50%), despite the fact that they have much more time to save. Another one of the findings is that confidence in the ability of investing successfully for retirement increases among those who work with a financial advisor, compared to those who do not (87% and 53%, respectively). Similarly, 95% of those working with a financial advisor believe that they are important for their retirement planning and success in generating income during retirement. ***(Source: http://www.fundssociety.com; Date: 18.09.2017).***

Relevant news of the period

Latin America, the Caribbean and North America

Argentina

The Government will make a proposal for increasing the retirement age by at least five years, and it will be optional. The official retirement age in Argentina is currently 60 for women, and 65 for men. The government's aim is to provide those who wish to continue to be active in the labor market to be able to do so, in addition to maintaining the sustainability of the pension system. ***(Source: http://segundoenfoque.com; Date: 31.07.2017).***

Bolivia

Third extension of the term for the Long-Term Public Social Security Administration. The Cabinet has approved an executive decree granting an extension of up to 18 months for the new State administrator to start operating. Thus, the Long-Term Public Social Security Administration will start managing the funds of the comprehensive pension system currently managed by the Pension Fund Managers, in March 2019. This is the third extension of the startup date of the new State agency, since it should have started operating on July 15, 2016, and subsequently suffered a second extension to September 15 this year. ***(Source: Boletín Diario de Seguros de América Latina; Date: 21.09.2017).***

Brazil

Private pensions grow, despite the crisis. There are approximately 15 million people in Brazil who pay for private social security to complement their retirement income. These estimates are by FenaPrevi, the National Federation of Private Pension Funds and Life Insurance Companies. Contributions to private pension plans increased, despite the economic crisis. Within the framework of the crisis of the public pension system, and the difficulties faced by the reform proposed by the Government, private pension plans are calling the attention of Brazilians, even in times of crisis. During the first six months of this year, contributions to the private pension funds amounted to BRL 54,460 billion (approx. USD 17,607 billion). The result is 4.81% higher than the amount accumulated in the first six months of 2016. ***(Source:*** https://jornal.usp.br***; Date: 06.09.2017).***

Pension reform faces considerable resistance, and May 2018 is already being mentioned as the "absolute deadline" for its approval in Congress. The pension reform that sets a minimum retirement age of 65 for men and women, runs the risk of not being approved. According to a survey by Arko Advice among legislators, 83% of them did not believe that the pension reform will be approved by Congress until the end of the year. According to the leader of the government coalition in the Lower House, the reform proposal is still alive, but is not on the immediate agenda. Furthermore, three leaders of the parties that make up the ruling coalition said that the Government will have trouble securing the passage of even the most basic changes to the country's social security system. The economic area of the Government is already talking about May 2018 as an "absolute deadline" for the approval of the pension reform in Congress; this term has been considered due to the presentation of the second complaint against President Michel Temer, which should delay the timetable for the resumption of the discussion of the proposal (Sources: *http://elcomercio.pe*; *www.df.cl*; http://www.infomoney.com.br; Date: 18.09.2017).

Chile

People over 60 delay their retirement, and young people are not enrolling due to more years of study. Population aging in Chile is one of the fastest and steepest in the region, to the extent that the country could achieve levels of aging similar to those of countries such as Germany today. The labor market has suffered due to this process, a situation that is becoming patently clear in the figures. If one compares the May-July 2010 quarter with the same period of 2017, it can be seen in that in the segment of workers between 60 and 64 years of age, the participation rate increased by 10 percentage points, rising from 51.9% to 61.9%, and in the group between 65 and 69 years of age, the share rose by 7.5 points, from 34.5% to 42%. Furthermore, in the segment between 15 and 19 years of age, participation rate fell more than five percentage points in seven years, from 17.6% to 12.4%, whereas in the 20 to 24 year old segment, participation dropped by four percentage points , from 56.5% to 52.4%. This is explained by the fact that people are putting off their retirement age and young people are delaying their entry into the labor market. ***(Source: http://www.economiaynegocios.cl; Date: 24.09.2017).***

Creation of the multifunds enabled raising returns by 1.5 points per year. A study by Econsult highlights the fact that the introduction of this mechanism has enabled achieving annual real average returns 1.5 points higher than those generated before its introduction. If the former asset allocation system had been kept in place, the total pension fund of Chilean workers would now be US$ 18.5 billion less. Hence, this system accounts for approximately 10% of total savings. The study points out that in the long term the multifunds will continue to have better results than before 2002, and foresees that in future they will achieve an additional percentage point of returns, compared to systems that do not have several funds. It also points out that the multiple funds system has enabled Chilean pension funds to record average increases of 30% in the long term. Within the framework of changes included in the Productivity Law, the AFPs will be able to invest in alternative assets as of November. Although this change will not have an effect as meaningful as the creation of the multifunds, it is estimated that it would add about 0.5 percentage points to the returns of the pension funds. ***(Source: www.economiaynegocios.cl; Date: 11.09.2017).***

Chile is the country with the 2nd most leeway for the AFPs to invest in alternative assets. If the limit for the direct investment in alternative assets by the AFPs is set at 15% - a rule that is expected to be introduced by the Central Bank in November - the investment potential of the local pension funds in this asset class would be US$ 28,650 million. Only the Mexico pension funds would have a greater margin (US$ 32 billion), but their regulations governing alternative assets are more restrictive. Once the rules and regulations governing investment in alternative assets by the local AFPs have been applied, the country will have an investment regime for these assets similar to the rest of the region, which would be at the level of the Peruvian legislation, and very close to the Colombian legislation. ***(Source: www.economiaynegocios.cl; Date: 05.09.2017).***

Labor informality is similar to Uruguay and Costa Rica, at 30%. The Chilean National Institute of Statistics (INE) included a set of eight new questions in the National Employment Survey, which aim at drawing up statistics on informal employment. The first official figures will be published in January next year. According to preliminary data, the informal employment rate in Chile is approximately 30%. According to the ILO, Costa Rica has an informality rate of 32.3%, Chile 31.9%, and Uruguay 19.8%. ***(Source: www.pulso.cl; Date: 30.08.2017).***

The pension funds can now invest in a list of 15 countries with "BBB" and "AA" sovereign rating. The Central Bank authorized the rule, which includes Colombia, Mexico and Peru, where they will also enjoy the advantages of the Pacific Alliance (PA). The other countries are: China, Slovakia, Slovenia, Spain, Estonia, Hungary, Israel, Italy, Iceland, Japan, Poland and the Czech Republic. The regulations governing the stock market in these countries are similar to the Chilean regulations, and they are ranked by the Superintendency of Securities as "Recognized Markets." The rule is one of the resolutions of the 11th Summit of the Pacific Alliance, which stipulated that the technical teams of the four countries of the PA were to determine the changes to be applied to boost the investments of the AFPs in the region. ***(Source: www.dinero.com; Date: 19.08.2017).***

Three bills of law for reforming the pension system were submitted to Congress. On August 10, the Government announced the submittal to Congress of three bills of law for reforming the pension system. Two of them seek to increase contributions by 5% over and above the existing 10%, and create a government agency, with constitutional status, to manage it. These savings will be divided into two parts (2% to a collective savings fund, and 3% to inheritable personal accounts outside of the AFPs) seeking to increase pensions by 20% on average from the outset, and with the passage of time, increase the pensions of a group of a middle-income members even more. The third bill of law introduces amendments to the AFP system in areas such as competition, efficiency, transparency, participation by members, improvements in the multi-fund system, pension education, collective voluntary pension savings, and improvements to the regulations governing retirement. Further details of the bills of law can be found here. Despite the fact that these bills of law contain some positive aspects, there are some particularly serious matters: (i) although the contribution rate increases from 10 to 15%, the increase is not fully assigned to individual accounts (in fact, 2% is assigned to the PAYGO system to improve the pensions of current and future pensioners, which translates into a true tax on work, which according to the Government's own estimates, could lead to a loss of up to 400,000 jobs); given the wage levels of Chilean workers, it is absolutely regressive to levy a burden on employees destined to improving the pensions of individuals with incomes possibly even better than theirs (it should have been financed with the general revenue of the nation); (ii) the management of the 5% (2% to the PAYGO system and 3% to individual accounts), will be entrusted to a government agency which must be created for such purposes, with the resulting associated costs and corporate governance problems, whereas the existing fund managers are obligated by law to assume such management without any additional cost. ***(Sources: FIAP; http://www.elmostrador.cl; www.previsionsocial.gob.cl; Date: 14.08.2017).***

Only 30% are "in agreement" with the pension reform promoted by the Government. A little more than a month ago, the Government submitted three bills of law that seek to reform the country's pension system. However, the passage of the initiative through Congress has already begun to encounter difficulties, and even more so in terms of citizen support. According to the September Cadem Survey, only 30% of citizens are "in agreement" with this reform, while 52% "disagree." Added to the above is the fact that 55% of those surveyed believe that the pensions of retirees will not improve. Given this situation, the Chairman of the Association of AFPs, Andrés Santa Cruz, pointed out that good pension reforms that are effective in the long term not only have to be well designed, but must also be backed up by a majority of citizens, because they must persist over time. ***(Source: www.eldinamo.cl; Date: 20.09.2017).***

Colombia

The Colombian Association of Pension and Unemployment Fund Managers (ASOFONDOS) is working on the pension reform proposal that the next government will have to address. According to Santiago Montenegro, the Chairman of the entity, a pension reform is necessary because the fiscal deficit in the public PAYGO system is enormous, equal to one quarter of the government's revenue. In this regard, Montenegro said that there should be only one contributory pillar in pension matters. There must be a minimum pension guarantee fund, which is the common fund to which all members contribute, subsidizing only minimum salary pensions, and terminating subsidies to higher pensions. According to ASOFONDOS, there is a pension time bomb which they hope the next Government will address as one of its priorities. According to the Trade Association, pension coverage in the country is 23% of those who should have access to Social Security in their old age. ***(Source: http://caracol.com.co; Date: 24.09.2017).***

Debate on the proposal for raising the retirement age to 67 for men and 62 for women. Colombia has been debating for decades whether the current retirement age of 62 for men, and 57 for women, should be increased. The Organization for Economic Cooperation and Development (OECD) recommended that the next pension reform should set the retirement age for men and women at 65. The National Association of Financial Institutions (ANIF), in turn, proposed that the next pension reform should gradually raise the retirement age to 67 for men and women, between 2029 and 2034, a measure that will have political costs. According to the experts, the pension system must be adjusted soon. Apart from being an inequitable system, State-subsidized pensions currently record a fiscal deficit of 41,000 million pesos (approx. US$ 14 million). ***(Source:*** www.noticiasrcn.com***; Date: 18.09.2017).***

Bill of law for regulating the social security contributions of self-employed workers. The Government, through the Ministry of Finance and Public Credit, has drawn up a draft decree for regulating contributions to the Social Security system by self-employed workers. The decree will apply to: (a) self-employed workers; (b) self-employed workers with a contract for rendering personal services; (c) self-employed workers with contracts other than rendering personal services; and (d) public and private contracting parties, which in accordance with their purpose engage in activities or transactions in which they must withhold contributions by express statutory provision. Further details here. ***(Source: http://actualicese.com; Date: 07.08.2017).***

8 million Colombians have found formal employment in the past four years. In other words, these individuals started contributing to Social Security due to permanent contracts and better wages. This result was presented in the first newsletter of the National Employment Formalization Network, RNFL, of the Ministry of Labor, based on the contribution of 25 regional boards. The RNFL is an inter-agency coordination strategy, coordinating actions aimed at promoting labor formalization and increasing the Social Security coverage of employers, entrepreneurs and workers in the urban and rural sectors through orientation, training, support, assistance in enrollment and follow-up, monitoring and assessment. ***(Source: www.vanguardia.com; Date: 08.08.2017).***

Costa Rica

The Ministry of Finance admits that it is unable to finance the increase in the contribution to the public PAYGO system. The increase in the Sate's contribution for financing the PAYGO system was decided on July 28, 2016, and has been in effect as of September 1 of that year. The increase is 0.66% over and above the 0.58% that the State had been paying as part of its contribution for each worker. The Ministry of Finance has now officially informed the Costa Rican Social Security Fund (CCSS) that the government will be unable to assume the aforementioned contribution increase. According to the Government, its inability to pay is due to its debt status, which means that it is cannot carry on financing expenditure with debt, since the country has not resolved its structural fiscal deficit. ***(Source: www.nacion.com; Date: 26.09.2017).***

The round table for discussing the pension reform in the public PAYGO system has asked the CCSS for another month to submit its proposals. This round table started work on April 17, and the deadline for submitting a final proposal was scheduled for September 30. However, the presentation of technical reports and the carrying out of consultations by the representatives of workers, employers and the State, took longer than expected, justifying the extension of the discussion for another month. One of the main technical inputs for this discussion is the report submitted by the actuaries of the School of Mathematics of the University of Costa Rica (UCR), warning of an imminent crisis if urgent measures are not taken. Among other matters, the report recommends raising the retirement age (which could rise from 65 to 70 years of age for those who started contributing late in life), adjusting the number of contributions required for retirement and reducing the percentage of the average wage to be received as a pension in the future. The last reform of the system was in 2005, when the main changes included the increase of the minimum number of contributions required for retirement from 240 to 300, and the adjustment of the mechanism for calculating the pension, eliminating the average of the wages of the last five years, and switching to a pension calculated on the average of the salaries of the last 20 years of work. ***(Source: http://www.nacion.com; Date: 20.09.2017).***

The 1% increase in the contribution to the public PAYGO system has already been published in the Official Gazette. This will enable raising workers' contributions by 0.5 percentage points as of July 1, 2017 (from 2.84% to 3.34%), while the second increase of 0.5 points will become effective as of January 1, 2018 (from 3.34 to 3.84%) , thus totaling 1% increase. Employers will continue contributing 5.08%, and the State 1.24%, thus totaling a tripartite contribution of 10.16%. It is worth mentioning that as of 2020, the total contributions to the Disability Old Age and Death System (IVM) by the State, workers and employers, will increase from 10.16% to 10.66%, to reach 12.16% in 2035. ***(Source: www.nacion.com; International Update Social Security Administration; Date: August 2017).***

El Salvador

Pension reform approved. On September 27, the members of the Legislative Assembly approved (by 74 votes of 84) a series of reforms to the Pension Savings System Law (SAP) and other reforms to the Pension Obligations Trust Law (FOP), which came into effect as of October 6. According to the Salvadorean Association of Pension Fund Managers (ASAFONDOS), the approved pension reform addresses two main objectives: for people to be able to aspire to better pensions that will be sustainable in the long term. The reform mainly introduces:

(i) An increase in contributions from 13% 15%. Of this amount, 7.25% will be paid by the worker and 7.75% by the employer.

(ii) Contributions to the individual account will start at 8% from the date of the reform, and will increase gradually to 11.1% by 2050, while the contribution to the solidarity fund will start at 5% in 2017 and drop to 2% by 2050. This 2% will finance a Solidarity Guarantee Account (CGS), managed by the AFPs, which will be activated to cover life annuity pensions when the savings in the individual account have been exhausted. The remaining 1.9% will be used for paying the disability and survival insurance and the AFP's commission (the percentage destined to this end is currently 2.1%).

(iii) Members who have contributed to the CGS will receive longevity, old-age, disability and survival insurance, survival pensions, or a reimbursement of contributions. Workers who access old-age pensions, will transfer the individual pension savings account to the Special Retirement Fund, on the date they start enjoying the benefit.

(iv) The State must contribute part of the net current budget revenues to the payment of pensions of the public PAYGO system, the ISSS and INPEP (Salvadorean Social Security Institute and National Institute of Pensions for Public Employees and warns that, if it does not suffice, they will be financed complementarily through the Pension Obligations Trust (FOP), i.e., through the issuing of the investment certificates.

(v) As a measure for automatically adjusting the retirement age, it will be mandatory to review this parameter every five years in the country. The first assessment will take place in 2021, for the results to be applicable as of January 1, 2022. In the meantime, men will continue to retire at 60, and women at 55. The retirement age will change in accordance with the variation in life expectancy, and an Actuarial Committee will make this decision. ***(Source: www.laprensagrafica.com; www.lapagina.com.sv; www.elsalvador.com; Date: 28.09.2017).***

Mexico

Several amendments to the Investment Regime of the Specialized Pension Fund Investment Companies (SIEFORE) were published. The changes seek to encourage greater participation of the AFOREs in productive projects resulting in higher medium and long-term returns of the pension funds. The list of countries eligible for investment by the AFOREs was also increased. The changes are divided into two sections: **1) Amendments to the regulations governing the investment of structured instruments[1]**: (i) The investment limit for a single AFORE in an individual issue of structured instruments increases from 35% to 100% of such issue (the limit per SIEFORE was previously 15% for Basic Siefores 2 and 20% for 3 and 4); (ii) It is now mandatory to have a co-investor with a share of at least 20% of the value of the financed projects for issues below the threshold of MXN 4,000 million and at least 50% of the value of the projects funded for issues over MXN 4,000 billion (the limit per AFORE of an investment certificate issue was previously 35% of the amount of one issue greater than USD 4,000 million); (iii) A maximum investment limit in a single issue of a structured instrument is set at 3% of net assets in each SIEFORE; and (iv) Workers in Basic SIEFORE 1 (people close to retirement age) will be able to participate in the returns generated by structured instruments (up to 10% of net assets). **(2) Countries eligible for investment:** Five new

[1] Development Capital Certificates (CKDs) and Investment Projects Certificates (CERPIs).

countries eligible for investment by the AFOREs were added (Malaysia, New Zealand, South Africa, Thailand, and Taiwan), with which they can now invest in the instruments of 49 countries and take advantage of investment opportunities in different financial instruments worldwide. ***(Source:* [*www.gob.mx*](www.gob.mx)*; Date: 19.09.2017).***

The AFORES are busy drawing up the rules for the life cycle funds. The rules for replacing the five investment funds of the AFORES will be ready by December this year, according to the board members of Afore Principal. The AFOREs and the regulator are involved in discussions for initiating the so-called life-cycle funds, which will avoid switching the worker's savings from one portfolio to another in any given year, explained the executives of the company, which has been pushing this initiative since 2014. Mexican workers can currently choose between five investment companies (SIEFORES) to place their retirement savings, although they are still divided by age. On having to switch from one fund to another, the AFOREs have to liquidate the assets to be able to move them, which prevents them from investing in the long-term and diversifying their portfolios. The proposed amendment of the regulations now includes six investment funds which would be divided by final retirement periods, and would have a period of 10 years between them. ***(Source:* [*http://expansion.mx*](http://expansion.mx)*; Date: 15.09.2017).***

First nationwide chain of stores, Chedraui, will receive voluntary savings contributions at more than 10,000 cash counters. These cash counters will receive deposits free of charge starting at 50 pesos, only providing the CURP (personal identification number) or cell phone number. With this development, the savers of the AFOREs already have more than 7 thousand points nationwide where they can make voluntary contributions and increase the balance in their AFORE accounts. There are now 5 channels for collecting voluntary savings: (i) Convenience stores; (ii) cell phones; (iii) electronic direct payment (e-SAR portal); (iv) counter; (v) employer. ***(Source:* [*www.gob.mx*](www.gob.mx)*; Date: 05.09.2017).***

There are now 10 million workers with Electronic Files in the Retirement Savings System (SAR). This file, which started being applied in early 2015, integrates and captures the biometric data of the worker, thus creating a safe and reliable system for managing the information in the worker's AFORE account. The benefits of the electronic file are: (i) better services for pension savers, since the AFOREs now have more accurate information for contacting their customers; (ii) greater safety and control in the management of savers' information, which reduces the risk of any undue practice; (iii) greater certainty for savers of the validity of the information in the individual account, which reduces errors in filling in the traditional paper forms; (iv) lower operating costs of the pension system; and (v) faster service processing times. ***(Source:* [*www.gob.mx*](www.gob.mx)*; Date: 04.09.2017).***

Treasury announces changes in the Afores. As part of the follow-up to the agreement on Economic Empowerment and the Protection of the Family Economy, the Ministry of Finance and Public Credit (SHCP) announced new measures that include changes in the Afores for improving the future pensions of workers and the promotion of a National Financial Literacy strategy. The package includes: (i) Regulations to make the stock exchanges more dynamic and enable more companies to quote on the stock exchange; (ii) provide assistance from the Development Bank so that the companies that are now supported can be financed through the stock market; (iii) modify the rules and regulations of the Afores and Insurance Companies so that they can channel more resources to the productive sector and increase pensions for families and workers; and (iv) launch a National Financial Literacy Strategy that aims to inform more Mexicans of the benefits of financing, and investing their savings well. The incorporation of these new measures takes into account the need to further develop the stock market, to make it an engine essential for growth. ***(Source:* [*http://yucatan.com.mx*](http://yucatan.com.mx)*; Date: 29.08.2017).***

"AFORE Mobile" application for cell phones launched. The application will enable users to check whether they have an AFORE account or not, and the fund manager that currently manages their resources; they will also be able to open an account without having to go to a branch; the self-employed will be able to open an account and start saving; deposits can be made easily, and parents will be able to open an account for their children; among other functions. Six AFORES are involved in this application launching stage. The rest of the fund managers are expected to be part of the platform and participate in this innovative mechanism, which enhances competition, transparency in the management of resources, and the accountability of the SAR. The application is part of the modernization process and use of technologies in the pension system, under which biometric identification, electronic files, electronic direct payment and saving in convenience stores have been incorporated as key elements in the operation of the system. Further details here. ***(Source:* [*www.gob.mx*](www.gob.mx)*; Date: 21.08.2017).***

Peru

The withdrawal of voluntary contributions to the AFPs for purposes other than pensions, has been made more flexible. The Superintendency of Banks, Insurance and AFPs (SBS) has published rules and regulations that mainly: (i) make the withdrawal of voluntary contributions to the AFPs for purposes other than pensions more flexible; they can now be withdrawn freely; (ii) facilitates the opening of individual voluntary contribution accounts, so they can also be opened by electronic means provided by the AFP, or by the AFPnet Portal; and (iii) stipulates that the AFP must provide its members with a statement containing at least the information on the main characteristics of the type of voluntary contributions account. ***(Source: http://rpp.pe; Date: 25.09.2017).***

The Association of AFPs (AAFP) will start a "matching contributions" pilot plan with the workers of 130 MSEs in Lima. The plan will be launched before year's end, and 130 micro and small enterprises (SMSEs) of Metropolitan Lima will be chosen, in which every peso that employees contribute to their pension funds will be matched by a similar amount, or 50%, depending on the age and condition of each of them. This project aims to evaluate the impact of this system on the Pension Fund and labor productivity, as well as structuring a proposal of public policies. "Matching contributions" or "shared/parallel contributions" plans have given good results in the implementation of the pension system and labor formalization in those countries in which it has been introduced (such as New Zealand, the United Kingdom, the United States, Germany, India, Thailand, and China). In Peru, workers enrolling in the private pension system for the first time participate in this pilot program, and in addition to paying their contributions, they will be subject to the payment of commissions, so they have all the rights of any member to the private pension system. ***(Source:*** www.businessempresarial.com.pe***; Date: 10.09.2017).***

Security guards and domestic workers can now contribute to the AFPs. The Association of Pension Fund Managers (AAFP) presented a platform that will enable approximately 375 thousand domestic worker and 150 thousand security guards throughout the country to enroll and contribute to a pension insurance. The AAFP determined that, in the case of domestic workers and security guards, the employer is identifiable (housewife or the head of security) and it is therefore simple and easy to approach them and promote a pension savings culture. It also calculated that any one of these self-employed individuals, with an average income of PEN 1,200 (approx. USD 367), could end up receiving a pension above or close to 80% or 70% of that amount, depending on how long they contribute. They could have the right to a disability or survival pension. 67% of all domestic workers in the country work in Metropolitan Lima. ***(https://peru21.pe; Date: 05.09.2017).***

The Association of AFPs (AAFP) carries out the educational campaign "Tu futuro empieza. Ahorra." This educational project is visiting the major cities in the country to gauge the needs of the population in old age and retirement, encouraging people to make decisions in the present to improve their future. Due to this project, the AAFP was able to highlight three main issues requiring improvement. (i) Minimum Pension: The informal economy in the country has given rise to a significant number of Peruvians who do not have any kind of social security coverage, since they never managed to enroll in any social security system during their working lives. This reality has made it necessary to assure a minimum pension for all Peruvians. (ii) Low Pension Coverage: Of the 17 million Peruvians who are part of the Economically Active Population (EAP), only 64% are enrolled in a social security system. This is due to high rates of informality, a situation that affects 73% of the EAP, in which 41 % are self-employed. It is estimated that only 25% of the members of the SPP contribute on a regular basis. (iii) Financial Literacy: There is no effective financial education in the country. The S&P 2014 Global Financial Literacy Survey indicated that Peruvians have a Limited knowledge of fundamental financial concepts. ***(Source: http://agenciaorbita.org; Date: 31.08.2017).***

Dominican Republic

The Superintendency will propose reforms to the private pension system, increasing the retirement age for workers from 60 to 65, and gradually increasing (over 5 years) the contribution rates of employers and workers to the pension system (from the current 8% to 14% of wages) The proposal will be presented by the Superintendency of Pensions (SIPEN) before the Government commission, together with other proposals. The announcement was made by the head of SIPEN, Ramón Contreras, given the concern that 14 years after the individually funded system came into effect, the replacement rate ranges between 22% and 35%, and therefore the benefits expected by workers on retirement will not materialize. According to the above, the proposed measures could have an impact of more than 25 percentage points on the replacement rate in the next 14 to 15 years. ***(Source: www.listindiario.com; Date: 05.09.2017).***

The Dominican Association of Pension Fund Managers (ADAFP) suggests reviewing the new law on micro, small and medium-sized enterprises, because it excludes contributions. In its article 24, the Entrepreneurship Law (688-16), the special regime for encouraging the creation and formalization of companies, states that during the first three years qualified companies will pay 100% of the contribution corresponding to the Family Health and Occupational Risk Insurance, and will be fully exempt from pension contributions for the first three years after the date of the formalization certificate issued by the corresponding Chamber of Commerce. This means that micro, small and medium-sized enterprises (MSMEs), are exempt from any contribution to the pension system for three years, adversely affecting the pensions of workers in these enterprises. According to the ADAFP, all productive sectors, including the MSMEs, must pay contributions to the Social Security system as part of the adjustments that the country is obligated to make to the pension system. ***(Source: http://listindiario.com; Date: 23.08.2017).***

The ADAFP reveals that low contributions affect the pension system. The ADAFP said that members of the pension system are affected on retirement, because contributions are low (43.6% of contributions are below one minimum wage). It explained that the contribution recorded in the Social Security Treasury (TSS) is lower than the income really received by workers, since there are parts of the salary that are not taxable (such as bonuses or income due to commissions). It said that the pension system is known to have a low contribution density, and that contributions are currently 8% of the reported wage (the second lowest contribution rate of all of Latin America), but the system began with a percentage of only 5%, so much less has been saved. The above is aggravated by the fact that more than half of workers record high mobility between the formal and informal sectors, high labor turnover, and high levels of Social Security evasion. Low projected pensions are primarily explained by labor market conditions and the country's economic and demographic trends, and not by the flaws in the design of the Dominican pension system. The ADAFP's proposals for improving the pension system include adjustments to some parameters, correcting the factors that determine pensions, extending protection to other segments of the population that are outside the system, including the establishment of a structure for overseeing contributions and enrollment, diversifying the investment options of the pension funds, and simplifying the commissions system of the AFPs. ***(Source: http://listindiario.com; Date: 22.08.2017).***

Uruguay

A Social Security Convention was subscribed with Romania Due to the bilateral agreement, signed last September 13, Uruguayan and Romanian workers can work in either country without losing their social and labor rights. That is the first convention subscribe between Uruguay and an Eastern European country. ***(Source:** http://www.republica.com.uy**; Date: 13.09.2017).***

Government creates a new currency to make the retirement system viable. The Executive sent a bill of law to Parliament that creates a new accounting unit which will be denominated the Pension Unit (PU). This unit will enable the issuing of public debt securities that can be used by insurance companies to place the resources they receive from the AFAP when workers retire. When an individual decides to retire, the fund manager transfers the individual savings plus the returns generated to an insurance company, which is then responsible for paying a life annuity. But insurers have the inconvenience of not having long-term investment instruments in the financial system that vary in accordance with the Average Nominal Wage Index (IMSN), whereby pensions are adjusted every year. Thus, they face the uncertainty of not being able to match the income generated by the investment of the reserves with the obligations generated by the pensions they must pay in the long term. This is the situation of the State Insurance Bank (BSE), the only insurance company currently paying Social Security policies in Uruguay, but assuming losses due to the mismatch of currencies. Private insurers left the market about 10 years ago, since they considered it to be very high risk. According to the Executive, it is "paramount" to mitigate the imbalances of currencies and terms in the balance sheets of public and private insurance companies, as well as state-owned funds, reducing the economic risks in its operations. At the same time, the Government intends to promote the development of the life annuities insurance market, which today is limited to a single bidder, the BSE. ***(Source: www.elobservador.com.uy; Date: 30.08.2017).***

Central Bank wants to introduce changes to the mortality tables. One of the points that the Central Bank (BCU) needs to resolve is the updating of the mortality tables, since they have not been adjusted since 1996, and life expectancy has now risen by somewhat more than two years. It must also define what will happen with the technical interest rate and minimum income. The initial income is calculated considering the money in the account, life expectancy according to the mortality tables by gender, and the annual interest rate offered by the insurance company, which cannot be lower than the minimum rate in Adjustable Units (UR), set by the BCU (now 1.5%). One of the main modifications that the BCU intends to introduce is that the initial minimum income table - a parameter that serves as a basis for calculating the monthly amount to be charged on the accumulated balance in the AFAP throughout working life - will no longer be set by the regulator, and will become a reference based on which each insurer will be able to include a gross margin. Thus, each insurer will be able to freely set the initial income. It has also been proposed to incorporate an interest rate tied to the financial performance of debt or other indexed securities to the new unit, which will be updated on a regular basis. ***(Source: www.elobservador.com.uy; Date: 30.08.2017).***

Europe

Spain

118. Private pension plans will be able to invest in European financing funds. The General Directorate of Pensions and Insurance is going to modify the rules and regulations of Pension Plans and Funds, so that pension funds can invest in European investment projects through specific instruments, including the European Venture Capital Funds (FCRE) and the European Social Entrepreneurship Funds (EUSEF). Thus, pension plan managers will have greater investment possibilities at a time when the search for alternative assets with adequate returns is essential for addressing the drop in interest rates. The European Community wants to attract the interest of institutional investors to these products for participating in SMEs, innovative companies and long-term projects. The draft law is in the consultation process. ***(Source: www.expansion.com; Date: 21.09.2017).***

The Government will boost pension plans by lowering commissions and allowing the withdrawal of money. The Government wants to promote enrolment in private pension plans, and therefore intends to make their conditions more attractive, limiting their restrictions and cutting the costs involved for customers. Hence, it has submitted to public consultation a draft of a Royal Decree that includes a cut in the maximum management commissions of pension plans from the current 1.5% to 1.25%. As of 2025, customers will also be able to withdraw the money contributed if the plan is ten years old, or more. The Government has already introduced cuts to the maximum commissions, as it has already done with mutual funds and the collective investment agencies. ***(Source: www.elindependiente.com; Date: 13.09.2017).***

The challenge of pensions: what has been done so far in Spain and what else can be done? Spain has carried out reforms in recent years only to ensure the sustainability of the pension system, i.e. to make them viable. The increase in the retirement age, its link to increased life expectancy, and the increase in the number of years of contribution for the calculation of pensions, are some of the measures proposed for this purpose. However, it has done little or nothing to introduce reforms to ensure adequacy and to increase transparency. Regarding transparency, the current central issue is communication to the worker of an estimate of his future pension. Only 10 European countries (Germany, Austria, Croatia, Finland, France, Ireland, Italy, Portugal, United Kingdom and Sweden) currently provide this communication on a regular basis. Other pending issues are the promotion of complementary systems and the so-called notional accounts that other countries such as Italy, Latvia, Norway, Poland and Sweden have adopted. "What tell us about notional accounts is that they think it is a fairer system than the current one. 71% think that it is a good idea for each worker to have his own individual account for accumulating his contributions throughout his working life, and that pensions should be calculated on the basis of the accumulated balance in that individual account," emphasizes David Carrasco, Chief Executive Officer of BBVA pensions. Nevertheless, the expert warns of the mistaken opinion of citizens regarding the generosity of the pension system. Three of every four people surveyed believe that they contribute more to the system than what they receive, and that is not true. For every euro of contributions, pensioners currently receive 1.4 euros, and with the new legislation, they will receive 1.28 euros. Complementary savings, the other leg of the pensions challenge, is also a concern, since "the average balance of pension plans is 10,000 euros, and this will only provide a life annuity of 30 euros per month during retirement. ***(Source:*** www.fundssociety.com***; Date: 28.08.2017).***

Ireland

Government introduces automatic self-enrolment plan for all workers The Prime Minister has announced that all workers will be automatically enrolled in a pension plan within little more than three years. The announcement was made in a speech before a group of employers to announce the centerpiece of a forthcoming national pension plan. He said that a five-year pension reform plan would be published before the end of the year, which will include the introduction of a self-enrolment pension system for private-sector workers, two thirds of whom do not currently have an occupational pension for complementing their state pensions. The Government will work closely and consult with employers when designing the new system. ***(Source: www.newstalk.com; Date: 21.09.2017).***

Portugal

Rules governing early retirement in the PAYGO system have been relaxed for workers with long working careers. On August 24 the Government amended the early retirement rules for public old-age pensions in the PAYGO system, to allow individuals with 48 years of contributions (or 46 years, if they started working at 14 years of age or less) to access a full pension plan from the age of 60. Under the current rules, the Government reduces the pensions of all those who retire before the official retirement age of 66 years and 3 months, regardless of their contribution history. As of October 1, individuals who have paid their Social Security contributions from childhood, may claim an early pension without the standard penalty that had been previously applied (reduction of the pension by 0.5% for each month of early retirement). ***(Source:*** International Update Social Security Administration***; Date: September 2017).***

United Kingdom

The calendar for increasing the official retirement age to 68 by 2046, has been brought forward. The SPA is currently 65 for men and 63 years and 9 months for women, and we'll start increasing gradually as of 2019, to 66 years in 2020, and 67 years in 2028. Thereafter, according to the government's new proposal, for all those born between April 6, 1970 and April 6, 1978, the SPA will gradually increase from 67 to 68 between 2037 and 2039, rather than between 2044 and 2046, as it had originally planned. ***(Source: Global Retirement Update AON Hewitt;*** www.ageuk.org.uk***; Date: August 2017).***

Switzerland

Reform that increased the retirement age of women by one year and reduced their pensions, has been rejected. In a referendum held on September 24, the Swiss rejected the reform of the pension system that considered increasing the retirement age of women by one year, while reducing their pensions. 52.7% of the voters voted against the reform, which entail a setback for the Government and the Minister of Health, Alain Berset (Socialist), who had been working on it for several years. The law provided that women should work one year more than at present, until age 65, and that complementary pensions would drop by 13%. The official retirement age in Switzerland is 65 for men and 64 for women. ***(Source:*** http://www.uypress.net***; Date: 25.09.2017).***

Ukraine

The implementation of the pension reform is a necessary element for the decision on awarding the next tranche to the country, according to the IMF. This was stated by the spokesman of the International Monetary Fund (IMF), William Murray, during a briefing in Washington. The IMF is in close contact with the Ukrainian authorities regarding the pension reform, since its implementation continues to be a critical requirement for the fourth revision of the framework of the IMF program (Extended Fund Facility) in the country. He also said that the IMF is willing to consider possible corrections to the pensions bill of law, necessary for achieving the objectives of the reform. ***(Source: www.ukrinform.es; Date: 29.09.2017).***

Asia and the Pacific

India

New Immediate Life Annuity Plan introduced. This new PMVVY plan for people aged 60 or more was officially launched on July 21, offering a guaranteed annual return of 8% for 10 years from the date of purchase. The Life Insurance Corporation (LIC) will manage the plan. People enrolling in the plan will pay a one-off premium and will be able to choose between receiving annual, half yearly, quarterly or monthly pension payments. The higher the payment frequency, the higher the premium. One of the additional features of the plan is that the subscriber can opt out if he or his spouse require all of the funds for the treatment of a terminal or critical illness, in which case up to 98% of the premium paid for the life annuity is reimbursed. ***(Source: International Update Social Security Administration; Date: August 2017).***