International Federation of Pension Fund Administrators

Progress of the Pension Systems December 2017 - January 2018 No.1

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 December 2017 – January 2018 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)

- ***Germany:*** *A new law came into effect on January 1 that allows companies to offer defined contribution pension plans (CD) to their workers. Unlike the previous situation, employers can offer DC plans under the new law without a minimum pension guarantee, if workers agree to it in the collective bargaining process.*
- ***Argentina:*** *A reform was approved on December 19, 2017, that increases the optional retirement age from 65 to 70 for men, and from 60 to 63 years for women, also introducing a less generous formula for calculating pensions (on a quarterly basis and based on monthly inflation and the average salary of workers).*
- ***Colombia:*** *As of January 1, 2018, double Social Security counselling for switching systems (from the private to the PAYGO system, or vice versa) will come into effect for men over the age of 42 and women over the age of 37 (instead of men over the age of 48 and women over the age of 42).*
- ***Spain:*** *Retirement conditions will become stricter as of January 1, 2018, considering the last 21 years for the calculation of pensions (one year more than the number of years considered in 2017)***.** *The last 25 years will be considered as of January 1, 2022.*
- ***Norway:*** *A new pension program for individuals between 18 and 75 was implemented on November 1, 2017, whereby workers can contribute up to USD 4,875 per year and obtain an income tax reduction of up to approximately USD 1,121.*
- ***Romania:*** *A law came into effect on January 1, 2018, which: (i) Reduces the overall Social Security contribution rate from 39.25% to 37.25%; (ii) Reduces the employer's contribution rate (from 22.75% to 2.25%), and increases the workers' contribution rate (from 16.5% to 35%); (iii) Reduces the portion of contributions paid into the second individual accounts pillar (from 5.1% to 3.75%), despite the fact that the initial law stated that as of 2016 the portion paid into the second pillar would be 6% (this increase did not materialize due to fiscal restraints).*

New tools for increasing savings

- ***Mexico:*** *A new application "Miles for Retirement" was launched for facilitating voluntary savings in the AFORES, through spending on products and services such as movies, clothes, cigarettes, and alcoholic beverages. The controller has also planned regulatory changes whereby fintech entrepreneurs will test technological developments that increase voluntary savings, announcing pilot tests that will include text messaging reminders for savers and a voluntary savings campaign on Facebook.*

Investment of the pension funds

- ***El Salvador:*** *Workers' pension savings will finance part of the expansion of the Romero International Airport. Work on the project will begin in the first quarter of 2018.*
- ***Mexico:*** *Policy changes were published that increase pension fund investment diversification, including the use of the following as investment vehicles: mutual funds with active strategies, shares with optimal titles and investment project certificates (CERPI) they invest abroad.*
- ***Peru:*** *The Central Bank raises the foreign investment limit of the AFPs from 46% to 47% as of March. The regulator has also proposed extending the range of pension resources investments, incorporating investment vehicles such as investment funds that invest in bank loans without guarantee, and foreign infrastructure funds.*

Reforms proposed or to be discussed

- ***Argentina:*** *The IMF proposed that the Government should establish a more efficient, equitable and sustainable pension system, with mandatory contributions to individually funded accounts, managed by private fund managers.*
- ***Chile:***
  - *The government of the newly elected President, Sebastián Piñera, will seek agreements to promote its own reform of the pension system.*
  - *The National Economic Prosecutor's Office proposed changes to the retirement process in the life annuities market. Among the proposed changes are that the best offer should be selected by default, that the pensioner should be able to "opt out;" eliminate external offers, reduce the number of alternatives to choose from, and reduce the maximum intermediation commission.*
- ***Colombia:*** *The Public Investment and Expenditure Committee suggested that the reform of the pension system should, among other issues: (i) adjust the parameters of the general pension system (raising the retirement age, using the average lifetime employment wage for calculating pensions and increasing contributions); (ii) eliminate the arbitration between the private pension system and the public PAYGO system; and (iii) expand the scope of the financial support mechanisms in old age.*
- ***Costa Rica:*** *Candidates to the Presidency of the Republic have proposed measures for the sustainability of the pension system, such as regulation and supervision of the Costa Rican Social Security Fund (CCSS) by the Superintendency of Pensions (SUPEN)and the introduction of a beer tax to finance the system.*
- ***Spain:*** *The government proposed that the entire working life should be used for calculating pensions***,** *on a voluntary basis (instead of the last 25 years as of 2022, as stipulated by law).*
- ***Mexico:***
  - *The regulator said that pension reform should not be postponed, and experts say it is essential that presidential candidates should put forward a pension reform proposal that addresses the following issues: coverage, adequacy, financial sustainability and efficiency.*
  - *The National Insurance and Finance Commission seeks to adjust the regulatory framework to make the life annuities market more attractive. This will require a suitable update of the mortality tables, among other issues.*
- ***Peru:*** *The regulator has proposed a new mortality table to be used for those who retire as of 2019. It increases life expectancy from 83.54 to 87.52 for men, and from 87.19 to 90.81 for women.*

Crisis in public PAYGO systems

- ***Argentina:*** *Contributions only cover 60% of the funds required for paying the pensions of the public PAYGO system, so 40% of the remaining funds must be financed with the State budget.*
- *Brazil: Without a pension reform that cuts spending, Social Security will cost the State approximately USD 11.331 billion more in 2018 than in 2017.*
- ***Costa Rica:*** *Discussion of the reforms of the public PAYGO system began in January 2018, after a round table put forward a series of measures to ensure the sustainability of the Costa Rican Social Security Fund (CCSS) in December 2017.*
- ***Spain:*** *Treasury provides loan of EUR 15 billion to Social Security (SS) for financing public pensions in 2018. The situation is critical, since there are only EUR 8 billion left in the Social Security Reserve Fund. Furthermore, the purchasing power of pensions has dropped by about 4 points since 2010, and pensions will continue to shrink in future due to the minimum revaluations provided by law.*

Relevant reports or presentations

The Mexican Association of Pension Fund Managers (Amafore) presented the book "Pensions and Old Age in Mexico." The book was edited in conjunction with the National Population Council (Conapo), the United Nations Population Fund (UNFPA) and the National Institute of Geriatrics (Inger). The document compiles the results of different surveys and studies, providing extensive reading on the advances and challenges facing the country in insurance, pensions and retirement matters, on the 20th anniversary of the start of operations of the Pension Fund Managers (Afore). The book provides a broad socio-demographic view of the elderly population, both at a regional (Latin America and the Caribbean) and national level. This view is accompanied by an analysis of perceptions and behaviors relating to the preparation of different population age groups regarding aging, pensions, savings and retirement. The book has nine chapters, which are in turn divided into three sections. The first section describes the behavior of the population and its characteristics. The second section conducts a diagnosis of the relationship between people and the pension systems, while the last section concentrates specifically on populations that require more attention, given their vulnerability to social security systems. ***(Source: www.amafore.org; www.eleconomista.com.mx; Date: 16.01.2018).***

Report of the Economic Commission for Latin America and the Caribbean (ECLAC) focuses on the challenges posed by population aging and highlights the extension of coverage in Latin American pension systems as a pending task. This edition of the Social Panorama of Latin America, addresses income inequality between individuals and households on the basis of a new series of estimates and the interrelation between the dynamics of the labor market and coverage and the benefits of the pension systems. The report highlights the fact that the growth of the population aged 60 or more will be one of the main challenges that Latin American pension systems must address to avoid them becoming a source of significant pressure on their public finances. Mechanisms must therefore be developed to strengthen the financial sustainability of the pension systems, through fiscal policies that take the effects of population aging into account. The governments of the region have less time and, therefore, less margin of error to make the adjustments needed to cope with the demands of an aging population. In another area, the report provides a framework for analysis of pension systems in the region based on coverage indicators, sufficiency of their benefits and financial sustainability, presenting an overview of the reforms of these systems in the region. This review includes parametric reforms carried out in 14 countries, as well as structural reforms that have given rise to new pension systems in Argentina, Bolivia and Chile between 2008 and 2017. Pension system projects and reforms under discussion or implementation between 2016 and 2017 are also outlined, focusing attention on Brazil, Chile and El Salvador. There is a trend towards increased State presence, the introduction of solidarity systems and the inclusion of the gender dimension in the majority of the processes in course, highlighting the increase of contributory coverage and, especially, the expansion of the non-contributory pensions between 2000 and 2015. According to the report, among the efforts that need to be promoted, together with the concern for the adequacy of pensions and the extension of coverage through contributory and non-contributory means, is the implementation of measures for including workers with savings capacity who are currently outside the system, such as the self-employed, including mandatory contribution, micro-insurance and the simplified regime. ***(Source: www.cepal.org; Date: December 2017).***

In its Pensions at a Glance 2017 report, the OECD stressed the need for ongoing pension reform in its member countries. According to the agency, major reforms are required in all OECD member countries for mitigating the impact of population aging, growing inequality among the elderly, and the changing nature of the labor market. The report points out that overall public expenditure on pensions in the OECD has increased by approximately 1.5% of GDP since 2000. Nonetheless, the pace of growth is expected to decrease substantially due to the reforms already implemented. Only in the last two years, one-third of the OECD member countries increased contribution rates, another third adjusted the formulas for calculating benefits, and 3 countries increased the official retirement age. The reforms will reduce the incomes of future pensioners, and due to greater longevity, the retirement age will have to be postponed to ensure a decent pension. ***(Source: www.oecd.org; Date: 05.12.2017).***

Relevant news of the period

Latin America, the Caribbean and North America

Argentina

Contributions only cover 60% of the funds required for paying the pensions of the public PAYGO system. This is stated in a report by the Argentine Social Development Institute (IDESA), which means that 40% of the remaining funds for paying pensions must be financed with taxes allocated to the pension system, and transfers from the National Treasury. This shows that the existing PAYGO system is far from being sustainable with merely salary contributions. For analysts, the change of methodology for calculating pensions in the pension reform is crucial for addressing the deficit issue in the Argentine social security system. ***(Source: www.infobae.com; Date: 19.12.2017).***

The Government managed to pass the Argentine pension reform law. Approved on December 19, the law raises the optional retirement age for men from 65 to 70, and from 60 to 63 for women. It also changes the way pensions are calculated (less generously; rather than increasing amounts every six months, it will do so quarterly, based on monthly inflation and the average salary of registered workers) aimed at lowering the fiscal deficit, estimated at 5% of GDP. The Law is expected to produce a fiscal saving of about 5,600 million USD per year. ***(Source: www.teledoce.com; www.emol.com; Date: 19.12.2017).***

The IMF now asks Macri to privatize pensions. In a report, the institution congratulated Mauricio Macri's government for "having taken measures that facilitated the economic recovery" and "advances in the systemic transformation of the Argentine economy." Nonetheless, it pointed out that there are still "pending challenges," such as the privatization of pensions, currently disguised as a "more efficient, equitable and sustainable pension system." To this end, it proposed two pension modes: one of them a "safety net" equivalent to 25% of the average wage. And, on the other hand, a mandatory contribution system in which workers and employers will each contribute 10% of salary. It includes the individually funded alternative in the latter part, for the purpose of lowering the budget deficit, which would be based on a mandatory savings system in which "contributions accrue in individual savings accounts managed by a private fund manager." ***(Source: https://www.minutouno.com; Date: 02.01.2018).***

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Brazil

Without approval of the reform, social security will cost US$ 11.331 billion in 2018. The 2018 General budget included an increase of BRL 36 billion (approx. US$ 11.331 billion) in Social Security expenditure. Mandatory expenditure will increase by a total of BRL 66.500 billion (approx. US$ 20.586 billion) compared to last year. The Government will have to issue government securities in the financial market and borrow to honor its commitments. The Central Bank predicts that the gross public debt will reach 80% of GDP in 2018. In order to reduce public spending, the Government has proposed a pension reform that seeks to save BRL 600 billion (approx. US$ 185.752 billion) over 10 years. ***(Source: http://economia.ig.com.br; Date: 03.01.2018).***

Chile

The government of the newly elected President, Sebastián Piñera, will seek agreements to promote the reform of the pension system. Such political agreements, mainly with moderate sectors of the Nueva Mayoría (opposition), will be used to pass its own reform of the current pension system. The government, which will take office in March, will also include some relevant points of the pension proposal currently in Congress, primarily for winning the support of some sectors of the future opposition. Among the aspects that would be maintained is the incentive concerning contribution by women, and the gradual incorporation of contribution by employed workers, but with a transition of less than the eight years recommended in the existing proposal.

Pension reform was rejected due to lack of quorum in the Chamber of Deputies. The pension reform submitted by the Government of President Michelle Bachelet, which seeks to create the New Collective Savings with an additional contribution of 5% to the expense of the employer, was put to the vote on January 23, 2008. The reform was rejected by 57 votes in favor, 33 against and 2 abstentions. Due to the quorum, the project required at least the support of 62 deputies. It is almost certain that the Government will not be able to continue pushing the initiative, since a series of legislative steps are still missing, and work will only the resumed when the new elected authorities take office on March 11. ***(Source: http://www.biobiochile.cl ; Date: 23.01.2018).***

The tender for managing the portfolio of new members of the AFPs closed without offers. The Superintendency of Pensions reported that the public tender for the management of the portfolio of new members of the AFPs ended without the submission of tenders, within the term established for the process. Thus, according to the regulations, once the current tender with

AFP Planvital ends (July 2018), the Superintendency will assign new members to the fund manager that charges the lowest commission on the date of their enrollment in the system (as of August, 2018). Nonetheless, individuals assigned to an AFP can always freely switch to another AFP. For the Chairman of the Association of AFPs, Fernando Larraín, the outcome is not a surprise, as there comes a time in bidding processes when prices cannot drop any lower. In his opinion, this setback should give rise to modifications of the mechanism that inject greater competition into the system, beyond the contributions that members pay into the fund managers, such as returns and quality of service. ***(Source: www.spensiones.cl; www.df.cl; Date: 15.01.2018).***

The National Economic Prosecutor's Office (NEPO) proposes changes to the retirement process in the life annuities (LA) market. NEPO's Market Studies Division published a preliminary report "Life Annuities Market Study" in January. The study is based on the hypothesis that there are significant distortions in the LA market regulated by Decree Law 3500 of 1980, which give rise to a reduction in the pension amounts of beneficiaries, possibly attributable to the low intensity of competition in the market. On the basis of this diagnosis, NEPO has put forward proposals aimed at simplifying the operation of the system and improving the way in which information is presented to the public, in order to encourage retirees to make the best decisions, safeguarding their freedom of choice. Among the proposed changes are: (i) that the best offer must be selected by default, with pensioners being able to "opt out"; (ii) eliminate external offers; (ii) reduce the number of alternatives to choose from; (iii) reduce the maximum intermediation commission; and (iv) the payment of consultants is to the expense of the worker and not his pension fund. One of the conclusions of the report is that if people had chosen the pension with the best price, and had paid a lower amount for intermediation, or had not paid for it, their pensions would have improved by up to 4.8%. ***(Source: www.fne.gob.cl; Date: 11.01.2018).***

Ciedess proposes streamlining tax incentives to increase contributions. The Ciedess Corporation presented the conclusions of a study commissioned by the Committee of Users, with a series of recommendations that will enable increasing the enrollment of workers in the individually funded system, also introducing incentives that enable streamlining the tax and pension systems. The study conducted a comparative analysis of the aforementioned topics in Chile, Mexico, Uruguay, Australia, Canada, France and Sweden, in addition to incorporating experiences from Denmark, Singapore, New Zealand, the United Kingdom and the Netherlands. One of the main problems in the incorporation into the system and collection of social security contributions, is the low contribution density, which is related to labor informality, a characteristic shared with Latin American countries. In such matters, the recommendations aim to facilitate and broaden the contribution payment options, allowing payment for limited periods by individuals engaged in seasonal work, the option of prepayment, and the possibility of third parties paying in the contributions, all backed by tax benefits similar to those for dependent workers' contributions, and the provision of State bonuses to those who do not have access or receive reduced tax benefits, among others. ***(Source: www.ciedess.cl; Date: 25.01.2018).***

Promoting coexistence between the elderly and young people is crucial for Chile to age better. Dr. Jaime Hidalgo, geriatrician and Chairman of the upcoming Congress of the Chilean Geriatrics and Gerontology Society (July 2018), says that we have to move towards a society where the elderly have a much more active and participatory role, creating policies and programs that provide for their integration into the economic and cultural spheres, into urbanism, architecture and education, among others. Dr. Rafael Jara, geriatrician at the Clinical Hospital of the University of Chile, in turn, says that we must avoid ghettos for the elderly and encourage intergenerational contact, which includes creating easily accessible public spaces, free of obstacles, that encourage intergenerational interaction. In the USA and European countries, for example, condos are already being built in which the elderly live with families with children in order to encourage collaboration in daily work or in caring for all members of the community, and the same thing happens in residences where the elderly live together with university students who help them with certain tasks and engage in activities with them. Among the challenges for the country, the experts consulted also proposed creating incentives for the employment of the elderly, encouraging them to undertake and create intergenerational mentoring programs, in which retired professionals or technicians share their knowledge with children, youngsters or adults with less experience. ***(Source: www.economiaynegocios.cl; Date: 02.01.2018).***

Colombia

Double pension consulting is extended to workers. Asofondos explained that double pension consulting, in its first stage of implementation, was made available to women aged 42 or more, and men over 47. However, as of next January 1, 2018, this benefit will be available to new segments of workers, namely women over 37 years of age and men over 42. The Trade Association said that this double consulting came into being as a support mechanism for ensuring that workers have extensive and sufficient information when considering a possible change of pension systems. ***(Source: www.rcnradio.com; Date: 29.12.2017).***

Suggestions by the Expenditure and Public Investment Commission regarding the pensions issue. The group of researchers comprising the Expenditure and Public Investment Commission said that a reform of the pension system should pursue three objectives: increase coverage; reduce the magnitude of public expenditure on pensions, and correct the regressive nature of the PAYGO system. To achieve the above, work must be performed on the following fronts:

1. **Adjust the parameters of the general pension system:** (i) make parametric adjustments by increasing the retirement age, systematically and periodically linking it to demographic parameters every five years, ; (ii) use the average wage over the entire working life, or at least the last 20 years, instead of the last 10 years currently being used, for calculating the base retirement income in the PAYGO system); (iii) increase contributions by 18%, to ensure the financial sustainability of the system; and (iv) reduce the current ceiling for the Average Premium Plan pensions (currently 25 times the minimum wage, which is high).
2. **Modify the architecture of the system.** (i) Eliminate arbitration between the Average Premium Plan and the individual savings system in the private funds; (ii) extend the scope of old age financial support mechanisms (Colombia Mayor and the Periodic Economic Benefits System - PEBS), seeking to deepen their impact on poverty.
3. **Streamline the pension systems and retirement amounts of teachers and military personnel.**
4. **The jurisprudence on issues related to the pension system must be streamlined.**
5. **Advance the labor market formalization process.**

(Source: https://actualicese.com; Date: 05.01.2018).

Costa Rica

Discussion of the reform of the public pension system. In January 2018, the Board of the Costa Rican Social Security Fund (CCSS) will start discussing the reform of the pension system, after the so-called dialog roundtable put forward 33 proposals in December 2017, none of which included raising the retirement age or modifying benefits. Both the Superintendency of Pensions and specialists of the School of Mathematics of the University of Costa Rica (UCR) have called for reforms to ensure the sustainability of the Fund. ***(Source: www.nacion.com; Date: 08.01.2018).***

The Superintendency of Pensions (Supen) considers that the proposals put forward by several presidential candidates for making the Disability, Old Age and Death (IVM) system more sustainable, will require constitutional and legal changes that are not so easy to carry out. The first proposal is related to Supen regulating and supervising the Social Security Fund, and the second one seeks to impose a CRC 10 tax on beer to fund the IVM with CRC 7 billion (approx. USD 12.15 million) per year. Regarding the first proposal, Supen can currently only supervise the IVM and provide an annual report, since the fund's autonomy does not allow it to tell the institution what to invest in, or how to manage risks and corporate governance. A constitutional reform would be required for such purposes, that would have to take political rather than technical decisions. Supen has its doubts regarding the proposed tax on beer, and the Superintendent Alvaro Ramos says that further information is required for conducting a detailed analysis of the cost of implementation versus the benefit for the system. ***(Source: www.larepublica.net; Date: 12.01.2018).***

El Salvador

The pension savings of workers will finance part of the extension of the Romero International Airport. The project will be implemented as of the first quarter of 2018. The Autonomous Executive Port Commission (CEPA) placed the first tranche of its securitization of $68.4 million through Hencorp Valores, which will serve to finance the extension. The placement of the first $39.3 million was offered in two blocks of more than $19.6 million and were acquired by the two Pension Fund Managers (AFPs) operating in the country, after a previous agreement with the securitizer, said Miguel José Valencia, director of Hencorp Valores. The involvement of the AFPs in these transactions ensures the financing of projects that generate business dynamics. It also offers advantages to workers because the money is invested under conditions that offer better return rates, said the Salvadorean Association of Pension Fund Managers (Asafondos). ***(Source: http://elmundo.sv; Date: 20.12.2017).***

More than 1,500 people have applied for advance payouts of their balances in the AFPs. Some 1,500 AFP contributors have requested the advanced payment of 25% of the balances of their pension funds, one month after the measure, which is part of the reform of the pension system approved on September 28, 2017, came into effect. Altogether, the applications amount to a total disbursement of US$ 8.6 million, which will be withdrawn from the individual accounts of contributors. The decision to replace such amounts will be personal. The majority of contributors who have requested the money have claimed that they need the money to pay debts, or for health treatments, although it is not necessary to specify reasons for the withdrawal in the application. Requesting this advance is completely voluntary, but not everyone can access it. According to the recent reform of the pension system, only male contributors over 58 years of age, and female contributors of 53 could request it in 2017, also requiring at least 10 years of continuous contribution. Male contributors of 56 or more, and female contributors of 51 or more will be able to access this benefit in 2018, and gradually all contributors, regardless of their age, will be able to withdrawal one quarter of their pension fund by 2024. According to the Salvadorean Association of Pension Fund Managers (Asafondos), by 2018 some 38,000 men of 56 or more, and women of 51 or more, who have saved in an AFP for at least 10 years, will be able to apply for 25% of the balance of their pension savings funds. ***(Source: http://www.elsalvador.com; Date: 05.12.2017).***

Mexico

The pension reform cannot be delayed any longer. Given the complicated situation of the pension systems in different Latin American countries, Mexico should not continue postponing the reform of the retirement savings system, said Carlos Ramírez, Chairman of the National Commission for the Retirement Savings System (CONSAR). He mentioned that although the 24th anniversary of the 1997 reform that created the Pension Fund Managers (AFORES) will fall in 2021, there will not be any significant number of pensioners, because it will be difficult for them to meet the number of weeks of contributions required for retirement (according to several studies, by 2021 more than 5 million people will not be eligible for receiving a pension at age 65, since they will not be able to comply with the 1,250 weeks of contributions required for retirement). He said that by 2018, and with a new President, any proposed reform should be addressed in terms of four main objectives: coverage, adequacy, financial sustainability and efficiency. Ramirez also said that the Chilean system - on which the 1997 Mexican reform was based - took 27 years to reform the system again, which should serve as a warning to the Mexican system that the longer the reform is delayed, the more costly and complicated it will be to resolve the problems. For the specialist in pensions, Pedro Vasquez Colmenares, it is essential that the presidential candidates clearly distinguish the three main dimensions of the pensions problem, for carrying out a reform of the pension system in Mexico: (i) low coverage of the system; (ii) insufficient savings; savings in the Pension Fund Managers are insufficient for providing a decent life in old age (the current level of retirement savings in Mexico, 6.5% of the monthly income, which is insufficient and the lowest of all the OECD countries; if greater savings efforts are not made, seven out of 10 workers contributing under the 1997 IMSS Law will not even be able to access a pension equivalent to one minimum wage); (iii) forge a single pension system, since there are currently 138 public pension systems - without considering the municipal systems - which have become financially unsustainable. ***(Source: www.eleconomista.com.mx; Date: 22.12.2017; Source: http://www.elpulsolaboral.com.mx; Date: 04.01.2018).***

Modifications to the investment regime increase investment and diversification options for the AFORES. Several changes to the Pension Fund Investment regime were published in the Official Gazette last January 5, aimed at offering more investment alternatives to the AFORES in pursuit of higher returns, and therefore, better pensions for workers, providing greater flexibility to the AFORES for achieving adequate diversification of the growing resources of the system, and providing better tools for addressing cycles of volatility in the markets. The changes are:

a) **Include mutual funds with active strategies as an additional investment vehicle.** Mutual funds invest in equity instruments, real estate or fixed income through diversified baskets, and specialize at both the regional and sectoral levels.
b) **Include "Shares with optional titles," better known as Specific Purpose Acquisition Companies (SPAC) within the definition of Equity Instruments.** SPACs are shares placed on the Mexican Stock Exchange (BMV) through an Initial Public Offer, aimed at acquiring a company with growth potential. The share has an attached optional title that gives the holder the right to acquire additional shares at a preferential price in the future. The price of the share varies in accordance with the company's investment decisions and relevant events, like any other individual share. For the AFOREs to be able to invest in this new vehicle, they must meet several prudential requirements to ensure that an adequate analysis is performed.
c) **Flexibilization of the Fiduciary Investment Project Securitization Certificate (CERPI).** Allow the AFOREs to participate in CERPIs that invest abroad, as long as they assign a percentage of the funded projects to investment, or the financing of activities or projects within national territory.

(Source: www.consar.gob.mx; Date: 09.01.2018).

Miles for Retirement, a voluntary savings platform. The "Miles for Retirement" platform is a system that facilitates voluntary savings in the Pension Fund Managers (AFORES), with the distinction of being operated from smart devices. According to the National Commission for the Retirement Savings System (CONSAR), workers must enter the application from AFORE Móvil. The user must enter a bank card number to which the savings will be charged. The mobile banking data will be recorded for showing the monthly spending on Paybook, in order to be able to calculate savings. The application will display the tracking of the saving goals established with a graphical representation, and define the savings percentage based on the consumption recorded on the card, as well as the maximum limit. The minimum savings amount will start at 50 pesos per week and the saved amount will go directly to the AFORE account. The recently launched program will enable workers to save for their retirement in their

AFOREs when spending at the supermarket, in the cinema, on clothes and shoes, and even cigarettes and alcoholic beverages. ***(Source: www.elindependientedehidalgo.com.mx; Date: 08.01.2017).***

CONSAR is considering the use of "fintech" for encouraging savings. The National Commission for the Retirement Savings System (Consar) is planning regulatory changes to allow fintech entrepreneurs to experiment with technological developments that encourage voluntary savings in the country. According to Consar, it seeks to take advantage of fintech development in Mexico, through the Sandbox system, to allow experimentation without putting the savings of workers at risk. Sandbox is a method used mainly in the fintech industry, to enable experimenting with real data to develop a new product or application. Among other innovations, it also seeks to save through rounding off amounts in supermarket bills, and earning points on the purchase of certain products. Meanwhile, among other measures that seek to promote voluntary savings, Consar and Mastercard presented a product to invite workers to open voluntary savings account in exchange for tickets to the cinema. ***(Source: http://www.eluniversal.com.mx/; Date: 07.12.2017).***

Attempt to encourage retirement savings with SMS and Facebook. CONSAR announced the launching of two pilot tests to stimulate the interest of savers in the pension system linked to voluntary savings, in collaboration with the Inter-American Development Bank (IDB). These pilot tests include text messaging reminders for savers and a voluntary savings campaign on Facebook, which are mechanisms for assessing the behavior of savers. The first test will be jointly conducted with the nonprofit organization *Innovations for Poverty Action* (IPA), and consists in sending SMS text messages to the cell phones of workers. 10 Afores will participate by selecting a sample of 400,000 workers with low to medium-low wage ranges, who will receive bi-weekly messages for a year (messages are focused on reminding workers with Afore accounts that they can save easily at more than seven thousand locations available for receiving contributions, publicizing the benefits they will obtain by saving in an Afore; and that the money paid in today can be used by the worker in his old age). The second test is the voluntary savings campaign on Facebook, focused on those savers who are part of the Afore generation. It will consist in designing and posting different promotional ads aimed at encouraging savers to check whether they already have an Afore account, and check its balance; inform them of the different locations where they can pay in voluntary contributions; disseminate the tools available for managing their Afore accounts, and also encourage them to download Aforemovil and learn about its features. At the conclusion of both tests, the results will be assessed to determine whether to continue with both means for encouraging savings, or switch to other alternatives. ***(Source: www.eleconomista.com.mx; Date: 25.01.2018).***

Voluntary retirement saving grows 35% in 2017 and sets a new record. Total voluntary savings in the system reached the record amount of MXN 62.787 billion (US$ 3.334 billion) at the end of 2017, an increase of 34.7% in real terms compared to the end of 2016, and a real 294.7% increase compared to the end of 2012. 2017 is the year with the most voluntary savings contributions in the 20 year history of the retirement savings system. The factors that contributed to the marked upward trend of voluntary savings in 2017 are: (i) the incorporation of "AforeMovil" as a channel for voluntary savings; (ii) the returns paid by the AFOREs in 2017; (iii) the campaigns driven by CONSAR, the AFOREs, and AMAFORE; and (iv) the opening of additional channels for conducting voluntary savings. ***(Source: www.consar.gob.mx; Date: 15.01.2018).***

Life Annuities, another pending matter. One of the issues being addressed by the National Insurance and Finance Commission is the regulatory framework of the life annuities (LA) market, since there are currently only four insurance companies offering this financial product, said Norma Alicia Rosas, Chairman of the regulatory body, whereas there were 13 specialized pension companies willing to assume this risk at the outset. One of the reasons why insurers consider the LA market unattractive, is because the level of risk is higher due to failure to update the mortality tables. Given the faster growth of life expectancy, insurers must guarantee a longer period of payment to retirees, so adequate mortality tables need to be drawn up. ***(Source: www.eleconomista.com.mx; Date: 05.01.2018).***

Campaign "All is all" seeks to promote greater retirement savings. As part of its 2013-2018 communications strategy, the National Commission for the Retirement Savings System(CONSAR) launched the campaign "All is all", aimed at promoting the incorporation of self-employed workers into the pension system, as well as greater voluntary savings. Only four of every 10 people are protected by social security in Mexico, and the remaining 60% are self-employed or independent workers. Thus, the campaign seeks to inform the public that all Mexicans can open an account in the Pension Fund Manager of their choice, through the AFORE Móvil mobile application, in order to start saving for their future. As in previous campaigns, the 2018 campaign host will once again be the musical comedy group "Tres Tristes Tigres", who in one of their songs say that any worker can save, according to his possibilities, in an AFORE. The campaign will be broadcast in January and February 2018, with inserts in newspapers and magazines, radio, television, cinema, STC Metro, convenience stores, street furniture, screens on buses and suburban trains, among others. ***(Source: www.20minutos.com.mx; Date: 11.01.2018).***

The 2018 commissions charged by Afores will be lowered. The Board of the National Commission for the Retirement Savings System (CONSAR) approved the commissions that the AFORE will charge (as a percentage of the managed balance) as of January 2018. Thus, the most expensive Afores will be Afore Metlife with 1.09% and Afores Azteca, Coppel and Inverca with 1.08%. Principal will charge a commission of 1.07%. Those charging average commissions are SURA and Profuturo at 1.02%, while the cheapest Afores will be XXI Banorte at 0.99%; Banamex at 0.98%; Inbursa at 0.97%, and Pensionissste at 0.85%. On reviewing the evolution of commissions during this administration, one can see that they have dropped by 21% on average in the 2013-2018 period, and that the reduction has been40% since 2009. ***(Source: www.gob.mx; https://elsemanario.com; Date: 18.12.2017).***

Changes to the regulations governing "Advertising and promotion of the AFOREs" seek to encourage greater voluntary savings and pension education. The amendments to the "General provisions on advertising and promotion of the retirement savings systems," were published. Their main purpose is that the AFOREs should engage in advertising and promotion practices that are more attractive for savers, in order to encourage voluntary savings, and ensure that the communications campaigns of the AFOREs include pension education material directed at savers, and are not only of a commercial nature. Hence,

1. **The use of advertising methods more attractive to savers is authorized.** The regulatory criteria governing the use of advertising and reward strategies and actions (e.g. contests, raffles) have been made more flexible, and can now be more aggressive, as long as they do not condition the enrollment or transfer of savers.
2. **The Pension Education issue is included in the regulations.** The most relevant personal finance issues related to retirement are included in the regulations, so that they will be considered in the strategies and campaigns of the Fund Managers (i) Personal administration and finance: documents, courses (face-to-face and online) and digital tools for planning income, current and future costs and savings; (ii) pension planning for retirement: documents. customized advisory services and digital tools that enable estimating pensions based on different saving scenarios; (iii) Voluntary savings: information that encourages voluntary savings in addition to mandatory contributions; (iv) Investment and investment funds: information on the dynamics of investment, implicit benefits and the risks; (v) Services of the AFOREs and procedures for the operation of the SAR: detailed information regarding the services and procedures of the SAR offered by the Fund Managers to workers and the public in general; (vi) Procedures for the operation of the SAR in digital media; (vii) Pension modes and systems: documents, customized advisory services and digital tools regarding existing retirement modes, for the purpose of explaining the advantages and disadvantages of each one of them. The annual publication of the Pension Education Census of the AFOREs will also be formalized, with the information and materials it offers to the public.
3. **Several consumer protection measures were put in place.**

(Source: https://www.gob.mx; Date: 31.01.2018).

Peru

The foreign investment limits of the AFPs where raised to 47%. The Central Reserve Bank (BCR) agreed to raise the foreign operating investment limits of the Private Pension Fund Managers (AFPs), in order to diversify their portfolios. Thus, the former investment limit of 46% will increase to 46.5% as of February, and to 47% as of March. Due to this measure of the issuing authority, the AFPs will have an additional, US$ 500 million to invest in financial instruments in international markets as of March 1. It is worth mentioning that on January 19, 2018, the four AFPs operating in Peru had invested 44% of their portfolios abroad, below the operating limit set at 46%. The BCR has been gradually raising the foreign operating limit for the investments of the AFPs since November 2006. At that date, the maximum the AFPs could invest abroad was 10.5% of their portfolios. ***(Source: https://elcomercio.pe; Date: 28.01.2018).***

SBS aims to facilitate a range of AFP investments. In order to improve the investment regime of the Private Pension System (SPP) and strengthen the role of the AFP as the managers of the private pension funds, the Superintendency of Banking, Insurance and AFPs (SBS), has proposed modifications to the regulatory framework governing the investments of the funds managed by the AFPs, both locally and abroad. The project aims to: (i) Incorporate as investment alternatives the traditional investment funds that invest in unsecured bank loans, as well as foreign infrastructure funds; (ii) Provide more tools for managing risks associated to derivatives, allowing the AFPs to invest in forwards of more than one year, without prior authorization from the SBS; (iii) Grant greater autonomy to the AFPs for the adoption of best practices, for which an assessment system for local mutual funds and foreign alternative mutual funds must be established, so that they incorporate the best practices observed by the AFPs in their fund due diligence processes; (iv) Simplify the process for assessing the eligibility of foreign mutual funds, by removing the regulatory requirements imposed by regulators or supervisors of these funds; requirements (v) Require the AFPs to adopt the best terms and conditions, so that the capital committed and invested in an investment fund is subject to the best international standards governing the alignments of interest between the investor and the investment fund manager; and (vi) Establish stricter transparency standards governing the information received by the AFPs regarding disbursements made to the managers of local investment funds, in order to adequately monitor the risks of the pension fund investments. ***(Source: https://diariocorreo.pe; Date: 28.12.2017).***

SBS again proposes adjusting the mortality tables for pensioners of the AFPs. After the controversy that arose in 2015, the Superintendency of Banking, Insurance and AFPs (SBS) will once again attempt to modify the mortality tables used for calculating the pensions that AFP retirees receive. The SBS published and interim version of the mortality tables applicable to people retiring as of 2019. The new mortality tables were drawn up with the assistance of specialists from the OECD. The Deloitte consulting firm, which drew up the 2015 proposal, which was subsequently discarded due to criticism from the public, was not engaged this time around. The next mortality tables will raise life expectancy for men from 83.54 to 87.52 (an increase of 3.98 years) and from 87.19 to 90.81 for women (an increase of 3.62 years). This adjustment is greater than the 3 years increase proposed in the interim mortality tables published in 2015. In this regard, Carlos Izaguirre, Deputy Superintendent of Insurance at the SBS, said that the increase is due to the fact that life expectancy continues to rise over time. ***(Source: https://gestion.pe; Date: 14.12.2018).***

Retirement income will increase in 2018. When Congress passed Law No. 30425 in 2016, which allows the withdrawal of up to 95.5% of the pension funds in the Private Pension System (SPP), everyone thought that it would be the end of the Pension Fund Managers (AFPs). However, after the first reimbursements, it became evident that the insurance companies that received the accumulated funds of members in exchange for a monthly lifelong pension, or "life annuity," were the ones that were most affected. According to the Superintendency of Banking, Insurance and AFPs (SBS), this product went from being the main product in the private system (49.6%) in 2015, to little more than 20% in September, 2017. Nonetheless, the fall has stopped, and growth could return in 2018. According to Alfredo Galdós, Manager of the Commercial Life Annuities Area of Pacífico Seguros, one of the companies that had launched fixed term private life annuities (from 10 to 15 years), the key is to adapt to the market. With this formula, he claims they are reaching higher levels than those prior to the policy change. "The market is three-to-one, more or less: with three people who take private income, and one that takes life annuity," he explains. ***(Source: https://diariocorreo.pe/;Date: 14.12.2017).***

Dominican Republic

The Superintendent of Pensions highlights the scope of the on-line Education Sub Portal. The Superintendency of Pensions (SIPEN) launched the On-line Pension Education Sub Portal (www.educacionprevisional.gob.do), aimed at providing the population with interesting, ongoing information regarding the Dominican Pension System and the rights and duties of members, which will allow them perform calculations for estimating their future pension amounts, as well as providing the main statistics of the pension system. The Dominican Republic will be the first AIOS member country to create an on-line sub-portal exclusively aimed at promoting Pension Education. ***(Source: http://www.robertocavada.com; Date*** Press Release***: 31.01.2018).***

Uruguay

A reform was approved that amends the rules and regulations for "50-year-olds" and sets a cap on the management commission that the Fund Managers can charge. This reform, which introduces two amendments, was approved by the Senate last December 20. First of all, it changes the retirement system for the "50 years old" group.[1] (already retired and retiring) who can now choose between staying in the mixed retirement system and retire through a Pension Savings Fund Manager (AFAP) or do so only through the public system of the Social Security Bank (BPS). Second, it states that any AFAP can charge a management commission up to 50% more than the lowest commission in the market. The Uruguayan National Association of AFAPs (ANAFAP), issued a Press Release stating that although it agrees that a solution has been sought for the situation of the "50-year-olds", it disagrees with the proposed mechanism, since it does not believe that members should be forced to opt for one or other system in conditions of uncertainty regarding future income and returns, bearing in mind that if the choice were made at the end of their working lives, they could decide with all the information before them. On the other hand, according to the press release, the problem of the 50-year-olds is not in any way related to the commissions of the AFAP, and the changes in the rules of the game are worrying because of the effects they will generate on enterprises and the pension system, in a market where the State AFAP (República) has the lowest commission and

[1] This group comprises workers who were under 40 years of age in 1996 and were forced to join the AFAP by law.

40% of members, while the remaining 60% are free to decide whether they will join the rest of the AFAPs, for the service and the returns they provide, which is most important issue in long-term funds. ***(Source: http://www.wradio.com.co; www.anafap.com.uy; Date: 20.12.2017).***

AFAP República lowered its management commission Its Chairman, Luis Costa, announced that the Commission will drop from 0.74% to 0.71% of the salaries of members as of January 2018, thus consolidating as the lowest on the market. This will force the rest of the AFAPs to adjust their ceilings, since the new rules and regulations stipulate that no AFAP may exceed 50 percent of the lowest commission in the market (if República AFAP's commission remains constant, the remaining AFAPs will not be able to charge a commission of more than 1.1% of workers' salaries). ***(Source: www.republica.com.uy; Date: 20.12.2017).***

Europe

Germany

Defined contribution occupational pension plans are introduced. A new law came into effect on January 1 which allows the companies linked to Collective Bargaining Agreements (CBA) to offer defined contribution (DC) pension plans to their workers. Prior to the new law, the rules and regulations required the pension plans to provide a minimum pension guarantee, which effectively restricted the use of DC plans since only Defined Benefit (DB) plans and hybrid plans provide such guarantees, and many small and medium-sized enterprises are unable to deal with the high cost of DB pensions. Under the new law, employers can offer DC plans without a minimum pension guarantee, if workers agree to it as part of the collective bargaining process. The Government hopes that this new law will enable increasing pension coverage and retirement savings (currently, about 60% of workers have access to an occupational pension plan; in many sectors, less than 30% of workers in companies with less than 10 workers are enrolled in an occupational pension plan). Among the characteristics of the new plan are: (i) Automatic enrollment: companies can automatically enroll their workers in an occupational pension plan, and workers will be able to opt out within a certain period of time; (ii) Tax deduction: in the new DB and DC plans, employers who contribute between EUR 240 and EUR 480 per year on behalf of their low-income workers (with monthly salaries of up to EUR 2,200), will receive a 30% tax deduction on such contributions; (iii) Tax-exempt contributions: contributions to an occupational pension plan of up to 8% of the maximum social security contribution, are now tax-exempt. ***(Source: International Update Social Security Administration; Date: January 2018).***

Spain

Government proposes calculating pensions voluntarily on the income of the entire working life. Grupo Popular proposed this initiative to the Toledo Pact Commission, according to the Minister of Employment and Social Security, Fátima Báñez. The measure would benefit workers who contributed more at the beginning or in the middle of their working lives, but not at the end, since the entire working life will be taken into account for calculating the pension, and not only the last few years, which will improve the amount of the benefit. The 2013 pension reform provides for the progressive extension of the pension calculation period from 15 to 25 years. By 2018, pension amounts will be calculated on the basis of the contributions of the 21 years immediately preceding the month prior to retirement. The calculation period will be 25 years by 2022. ***(Source: www.lavanguardia.com; Date: 17.01.2018).***

The conditions for retiring will be stricter as of January 1, 2018. Those who want to retire in 2018, must do so six months after they turn 65. Only those who have contributed for 36 years and 3 months (3 months more than currently required), will be able to retire on their birthdays. Furthermore, as of January 1, the pensions of all retirees will be calculated on the basis of the salaries received in the last 21 years of contributions, one year more than in 2017. These stricter retirement conditions result from the application of the last pension reform by the Rajoy administration in 2013. According to the Social Security tables, and if there are no additional reforms, both conditions will become stricter by 2027, when the official retirement age will be 67, except for those who have contributed for 38 years and 6 months, who will be able to retire at 65. As of this year, 2018, the official retirement age will increase by two months each year. The number of years of contributions considered for calculating pension amounts will increase by one year, every fiscal year, until it reaches 25 years on January 1, 2022. These calculations will be even more complicated as of 2019, due to the application of the so-called sustainability factor, an automatic mechanism, which will link pension amounts to the evolution of life expectancy, and will be reviewed every five years. This is expected to lower future pensions. ***(Source: www.rtve.es; Date: 01.01.2018).***

Bank of Spain and UNESPA warn about the future of public pensions. The Governor of the Bank of Spain, Luis Linde, said that the public pension system has to be reformed, because although the reforms introduced in recent years have been adequate and have helped to strengthen its financial sustainability, population aging requires measures that cannot be delayed. The Spanish Union of Insurance and Reinsurance Companies (UNESPA) has warned that public pensions will be "less generous" and will have to be "necessarily complemented" with private savings. ***(Source: www.diariosigloxxi.com/; www.eleconomista.es; Date: 23.01.2018).***

The Government will inject EUR 15,000 million to pay pensions in 2018. The Treasury plans to loan another EUR 15,000 million to Social Security this year to pay for public pensions, which is EUR 5,000 million more than the EUR 10.192 billion it already lent to the system in the last fiscal year. Last year the Treasury resorted to the Social Security Reserve Fund to finance part of the requirements for an amount of EUR 7000 million, so that the resources of the so-called pensions 'piggy bank' are now lower. The Reserve Fund currently stands at EUR 8.095 million, after the latest provisions by the Government, compared to the EUR 66.815 million that it had in 2011. ***(Source: http://cadenaser.com; Date: 08.01.2018).***

The purchasing power of pensions has dropped by at least four points since 2010 in a public pension system facing great difficulties. Spanish pensioners have accumulated a loss of purchasing power of at least four points since 2010. Only in the last year, pensions have in fact been cut by 1.65%, taking the average inflation data of about 2% in 2017 as a point of reference. The trend, moreover, will be for the gap to widen this year, 2018, with prices on the rise, and bearing in mind that the pension will be revalued by 0.25%, a figure stipulated by law in 2013. The Social security system faces significant difficulties for the future: there are only EUR 8,095 million left in the pension piggy bank, the monthly benefits bill has grown by 55.6% in the last decade and the executive is facing this fiscal year with expenditure commitments close to EUR 125,000 million and revenue from contributions of about EUR 110,000 million. Hence, benefits seem doomed to progressively diminish in the future, since they will have to comply with minimum revaluations, unless other solutions are put forward, such as levying new taxes for financing the system. Meanwhile, the Government will have to request a new loan of about EUR 10,000 million this year to make all payments. ***(Source: www.eleconomista.es; Date: 08.01.2018).***

The demographic bomb will explode in 2019. The Spanish demographic crisis is only surpassed by Japan. The fertility rate will remain at 1.36 children per woman for several years, with a delay in the age that fertile women have their first child to beyond 32 years of age, due to which future births will be slightly more than 300,000 by 2050, compared to 400,000 today. The public pension system has also entered into crisis, with a deficit of EUR 17,000 million per year, and will remain so despite a record number of contributions and full employment that lies ahead. The dependency ratio will also soar in upcoming years, and if only 18% of Spaniards are 65 or older today, 25% will be that age in 15 years' time, and 35% will be that age in 2065, with the aggravation that the life expectancy of pensioners, which is now 18 for men and 22 for women, will reach 21 for men and 24.7 for women in 2031. As this is a burning issue for politicians, the EU forced the inclusion of the sustainability factor in the Social Security Act in 2013, an automatic guillotine that reduces new pensions as of 2019, if the expected growth of the economy and productivity, demographic developments, wages, employment and life expectancy make it advisable; and it seems that they will make it advisable. Hence, there will be a very severe reduction in public pension perspectives, which will not be offset by private funds in a country that relies too heavily on the State. ***(Source: www.actuall.com; Date: 01.01.2018).***

Norway

New voluntary pension program is implemented. A new voluntary pension program was implemented on November 1, 2017. It replaces a similar program implemented in 2008. Under the new program, employees can contribute up to NOK 40,000 (approx. USD 4,875) per year and receive an income tax deduction of up to NOK 9,200 (approx. USD 1,121) in 2018. The return on investments is exempt from capital gains tax and withdrawals are taxed as normal income. Prior to this new program, members could contribute up to NOK 15,000 (approx. USD 1,828) per year, and benefits paid a higher rate of income tax. Participation in the new program is open to all individuals between 18 and 75 years of age who enter into a contractual agreement with a financial institution approved by the Government, such as a Bank, a life insurance company, an investment company or a mutual funds management company. Participants choose how much and when to contribute to the plan. Benefits must be paid in installments for at least 10 years from the date of retirement (not before 62 years of age), or until the participant turns 80. A longer payment period is allowed, as long as it does not result in an annual profit of less than 20% of the base annual amount used in Social Security calculations (approx. 11,412 USD). ***(Source: International Update Social Security Administration; Date: January 2018).***

Romania

Social Security contribution rates were modified. A law which was passed on November 9, 2017, and came into effect on January 1, 2018, provides for: (i) A reduction in the combined social security contribution rates of the worker and the employer of two percentage points, from 39.25% to 37.25%; (ii) A substantial reduction in the Social Security contribution rate financed by the employer, from 22.75% to 2.25%, and consequently a large increase in the contribution rate funded by the worker, from 16.5% to 35% (under the new law the employer's contributions finances the benefits for illness, maternity, work accidents and unemployment, while the contributions of workers finance the old age, disability and survival pension benefits, as well as health insurance); (iii) a reduction in the portion of the worker's contributions that are paid into the second pillar of individually funded accounts, from 5.1% to 3.75% of the worker's salary (employers do not contribute to the financing of this pillar). When the individual accounts pillar was introduced, a timetable was established for gradually increasing workers' contributions to it, from 2% in 2008 to 6% in 2016 (with a corresponding reduction in the contribution rate for financing the benefits of the first public PAYGO pillar). Nonetheless, due to State budget constraints, it has been decided to postpone increases in the contribution rate to the second pillar in recent years. ***(Source: International Update Social Security Administration; Date: December 2017).***