International Federation of Pension Fund Administrators

Progress of the Pension Systems
June - July 2019
No. 4

This document compiles the major changes that occurred in the pension systems in the June-July 2019 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)

- **Australia:** *On July 1, a reform law was implemented that limits management commissions, changes the rules for supplementary life and disability insurance coverage, simplifies account consolidation and makes contribution limits under the country's private pension system (Superannuation System) more flexible.*
- **China:** *As of May 1, the State Council of China introduced new social security rules, which, among other measures, reduce the employers' maximum contribution rate (from 20% to 16% of workers' salaries).*
- **The Netherlands:** *On July 2, parliament passed a law that modifies the schedule of expected retirement age increases for public pensions. Under the new law, the retirement age will remain at the 2019 level (66 years and 4 months) until 2021, and will rise to 66 years and 7 months in 2022; 66 years and 10 months in 2023, and 67 in 2024. Beginning in 2025, the retirement age will automatically increase with increases in life expectancy at 65.*
- **Mexico:** *Farmworkers will be able to claim length of service and access social security, thanks to the amendments to the labor reform approved last May 1.*
- **Peru:** *The Ministry of Economy and Finance approved the creation of a Board, which among other duties will fully assess the core elements of the public and private pension systems, including aspects such as fiscal sustainability, sufficiency of pensions, demographic evolution and population coverage.*

Investment Options

- ***Mexico:***
  - *According to Amafore, it is already in the process of validating several international mutual funds, so the first investments in these types of assets will probably occur this year.*
  - *Afore XXI Banorte, Citibanamex and Sura are about to sign an agreement whereby they will commit to adopting the best practices on sustainable investment issues of the Principles for Responsible Investment (PRI).*

Crisis in public PAYGO systems

- **Argentina:** *The government started using money from the Sustainability Guarantee Fund (FGS) to balance public accounts and meet the fiscal goals undertaken with the International Monetary Fund (IMF). The Treasury took $ 20 billion (approx. USD 449 million) from the SGF to achieve a surplus in the first half and plans on using another $ 60 billion (approx. USD 1.346 million) in the future.*
- **Brazil:** *The Social Security deficit of the states has more than doubled in 4 years. Having been excluded from the pension reform approved in the first round in the House of Representatives, the states will have to deal with a pension deficit of R$ 144.6 billion (approx. USD 37.176 million) this year.*
- **Uruguay:** *A government report states that the liabilities to assets ratio will grow by 50% over the next 30 years. Thus, the country is today facing a "turning point" in this ratio's growth rate, which imposes serious sustainability challenges on the pension system.*

Portability of pension funds

- *Chile advances in agreement with Peru and Colombia for international portability of pension funds. In the particular case of Colombia, the possibility of making a fast track on the portability of the funds is being seen.*

Reforms proposed or to be discussed

- ***Brazil:*** *The discussion of the pension reform began in the Chamber of Deputies, but the creation of an individually funded system was denied. The plan is to submit the bill to a new vote and then submit it to the Senate for discussion in the second half of the year.*
- ***Chile:*** *Pension Reform bill enters the first legislative stage after being dispatched by the Labor Committee of the Chamber of Deputies. Among other measures, the reform proposes the creation of the Social Security Administrative Council (CASS), an autonomous body, whose purpose will be to tender the 4% additional contribution to at least 2 specialized companies, and manage the Dependency Insurance (0.2%), the Children's Accompaniment Insurance (Sanna Law) and other social insurance programs stipulated by law. The government aims to implement the reform as of January 1, 2020.*
- **Colombia:** *The Government is holding technical round tables for structuring the pension reform bill of law to be presented at the end of this year. A Banco de la República report was also published, proposing a formula that would increase the retirement age and the contribution rate, but reduce the number of weeks of contributions, since it considers this requirement as one of the impediments for accessing a pension, amid the high informality that characterizes the country's labor market.*
- **El Salvador:** *The Ministry of Labor and Social Security will seek to organize a round-table comprising the Government, the productive sector and workers, to draw up proposals for reforming the pension system and submit them to the Legislative Assembly.*
- **Mexico:** *Principal intends to develop a 'multipillar' system for workers to save more throughout their working lives, comprising the following pillars: (i) Assistential, to help those who cannot save; (ii) Promote voluntary savings, not only through the AFORES, but through any vehicle that allows long-term savings; (iii) Increase the mandatory contribution rate (the existing rate of 6.5% is very low); (iv) Labor legislation that makes it easier for people who can and are willing to work at retirement age, to be able to do so.*
- **Peru:** *The IMF has proposed in a report that the reform of the private pension system should consider, among other matters: (i) raising the mandatory contribution rate from the current 10% to 13% or 14 %; (ii) applying consumer-linked contributions by workers; and (iii) establish "matching contribution" schemes. According to the SBS, all existing documents with pension reform recommendations will be analyzed (IDB; IMF; Social Protection Commission; and the OECD document that should be completed in the first half of September).*
- ***Dominican Republic:*** *The Superintendent of Pensions deems it urgent to amend Law 87-01 of the Dominican Social Security System (SDSS). The proposed reform includes the introduction of a commission, among other matters.*
- ***Uruguay:*** *According to government sources, the reform of the social security system is urgent, requiring creativity and the introduction of new instruments (partial retirement; incentives for delaying retirement and remaining in the labor market). Employers, in turn, have prepared an analysis of the pension situation, and one of their proposals is to increase the retirement age.*

Relevant studies

- *According to a report by Instituto Libertad y Desarrollo (LyD), the discussion of the pension reform bill in Chile has unfortunately been deviated, preventing the AFPs from participating in the management of the funds collected through the additional 4% contribution, an issue that has no major impact on the real problem, namely increasing pensions.*
- *An OECD report that compares the replacement rates for different generations, concluded that the retirement age increases introduced through legislation fall short of stabilizing the balance between the duration of working life and the retirement period (the average retirement age should be 67.2, instead of 65.8, for the 1996 generation).*

Relevant reports or presentations

According to a report by Instituto Libertad y Desarrollo (LyD), the discussion of the pension reform bill in Chile has unfortunately been deviated to who will be responsible for managing the funds collected through the additional 4% contribution, an issue that has no major impact on the real problem, namely increasing pensions. The amendments to the bill of law create a new "entity" that will tender the management of the additional mandatory contribution, among other functions, preventing the AFP's from participating in the bidding. According to LyD, the Chilean AFPs, which have successfully managed the savings of the pension system for almost 40 years, have been inexplicably excluded from the management of these additional funds and a cumbersome political solution for managing these investments has been proposed, creating an additional institutional framework that will eventually result in higher costs for all involved. According to the report, it is also very likely that in a few years from now we will again have to discuss the need to increase the mandatory contribution rate, requiring a new discussion regarding the way in which this additional percentage will be managed. Thus, according to LyD, the way things are going now, the most sensible solution would probably be to simply create a state-managed AFP, with the same conditions and requirements as the private AFPs, letting members decide where they want to deposit their entire pension savings. ***(Source: https://lyd.org/; Date: July 2019).***

The OECD published a report that compares the replacement rates provided by the pension systems to different generations. The purpose of the report is to study the changes in the official retirement age between different generations, and the gross replacement rates at the official retirement age for private sector workers with uninterrupted careers. Some key conclusions of the report are: (i) Based on the legislation passed in 2017, official retirement ages have steadily increased by about 3 years on average in the OECD, rising from 63 for men born in 1940 to 66 for those born in the mid-90s. The greatest increases have occurred in countries that have linked the retirement age to life expectancy, as in Denmark, Italy, the Netherlands, Slovakia and Turkey, which started with a very low retirement age; (ii) Among these generations, life expectancy at 65 is expected to increase by 6 years on average; (iii) The retirement age increases introduced by the legislation are less than necessary for stabilizing the balance between the duration of working life and retirement; (iv) The percentage of time spent in retirement is expected to increase by 10% between the generational cohorts of 1940 and 1996, which means that, in order to stabilize this percentage at the 1956 cohort level, the official retirement age must be 67.2 years on average for the 1996 cohort (compared to 65.8 on average, based on current legislation). Austria, Belgium, Chile, Germany, Luxembourg, Poland and Slovenia have the largest increases in the percentage of time spent in retirement; (v) Average replacement rates are expected to drop by 6 percentage points, which means that the pensions of full-time workers born in 1996 will be 10% lower than their past wages, compared to workers born In 1940. ***(Source: www.oecd.org; Date: July 2019).***

TIAA Institute published a study on the debt of individuals close to retirement. According to the report, senior citizens (56 to 61 years of age) with unsecured debt and high interest rates, tend to be among those most exposed to financial difficulties. Many people also carry their debt into retirement. The study examines three potential reasons for this worrisome behavior: limited financial education, lack of information and behavioral biases. The authors explain how each of these factors can lead older people to carry excessive debt and the implications for their well-being in retirement. Some key conclusions of this study are the following: (i) Senior citizens with greater financial awareness are less likely to be financially fragile or report excessive debt (ii) Senior citizens with higher incomes and higher levels of education tend to have long-term debt, such as mortgages, while those with lower incomes and less education tend to have high-cost debt, such as payday loans (short-term); (iii) Unsecured short-term debt is a strong indicator of financial difficulties for the elderly who are about to retire; (iv) Older women and people with more dependent children are significantly more likely to report indebtedness and cannot deal with financial emergencies. ***(Source: https://www.tiaainstitute.org; Date: June 2019).***

The OECD published a report that compares countries that have implemented mandatory and auto-enrollment pension systems and analyzes the auto-enrollment system in Turkey. According to the report, saving little for retirement is a common phenomenon, and governments have been promoting a number of tools aimed at increasing participation and contribution rates in individually funded pension plans. The study suggests political measures to reform the automatic enrollment system in Turkey, such as: (i) The target population must include the entire working population between 15 and 64, including self-employed workers; (ii) Workers should not be allowed to opt out of the automatic enrolment system after the voluntary exclusion period (iii) Employer contributions must be mandatory and the level of state financial incentives must be inversely related to income levels; (iv) Life cycle funds must be offered as default options in defined contribution plans (v) Selection based on bidding by default fund providers can reduce commissions in automatic enrolment pension plans; and (vi) Life annuity products and the mandatory purchase of life annuities are essential for a well-designed decumulation phase in defined contribution plans. ***(Source:*** ***www.oecd.org; Date: June 2019).***

Relevant news of the period

Latin America, the Caribbean and North America

Argentina

Liquidation of the retirement fund has begun, to comply with IMF requirements. The government started using money from the Sustainability Guarantee Fund (FGS) to balance public accounts and meet its fiscal goal commitments with the International Monetary Fund (IMF). The Treasury took $ 20 billion from the FGS to achieve a surplus in the first half of the year and plans on using another $ 60 billion. The FGS initially comprised the securities and investments held by the AFJP in 2008, when it was decided to terminate private retirement. Since then, that fund has grown thanks to investments by Anses. Its use changed from a countercyclical fund for times of economic recession, to financing productive projects, and then for use by the State itself. According to the agency's latest report, the FGS was valued at almost US$ 43 billion as of March 31, 2019. Although one of its objectives is to back up the pension system, only the interests of financial investments have been used for such purposes to date. The capital will now begin to be used. ***(Source: www.tiempoar.com.ar; Date: 14.07.2019).***

Brazil

The discussion of the pension reform began in the Chamber of Deputies, but the creation of an individually funded system was denied. On July 10 the first of two votes necessary for the approval of the text that defines the general framework of the reform concluded in the Chamber of Deputies, obtaining the support of 379 representatives, against rejection by 131. As is known, the reform envisages raising the minimum retirement age to 65 for men and 62 for women, making pension rules and regulations stricter and reducing government spending on benefit payments, to achieve fiscal savings equivalent to about USD 265 billion in ten years. Furthermore, the reform originally proposed ending the existing PAYGO system, through which the State manages the contributions of workers and employers in a single fund, to adopt an individually funded system in which workers' retirement would depend on their lifetime savings. However, this proposal did not prosper due to the firm rejection of vast sectors of the political right and center, which although they support Bolsonaro, agreed that the country is not in a position to switch to an individually funded regime due to the low savings capacity of its workers. The plan is for the Chamber of Deputies to submit the bill to a new vote, and if it approves it again by a minimum of 308 votes, it will send it to the Senate for discussion in the second half of 2019. ***(Source: www.infobae.com; Date: 11.07.2019).***

The Social Security deficit of the states has more than doubled in four years. Having been excluded from the pension reform approved in the first round in the House of Representatives, the states will have to deal with a pension deficit of R$ 144.6 billion this year, according to the economist Paulo Tafner, a researcher at the Economic Research Institute Foundation (Fipe). The deficit is expected to grow by 137% in the four years from 2015 to the end of 2019. The Social Security reform approved in the first round in the Chamber of Deputies did not include states and municipalities, which means that nothing will change for these federal entities. One of the alternatives outlined by the senators for addressing the situation of state governments, is to submit a parallel proposal to include municipal and state governments. ***(Source: https://g1.globo.com; Date: 07.30.2019).***

Chile

Pension Reform bill enters the first legislative stage after being dispatched by the Labor Committee of the Chamber of Deputies. The majority of the deputies on the Committee supported the Executive's proposals. The bill will now be sent to the Finance Committee, and the government aims to implement the reform as of January 1, 2020. Some of the keys to understanding the changes to the bill are the following:

1) **The additional contribution of 4.2% contained in the initial bill will not be applicable for now.** In order to reach an agreement, the opposition parties expected, among other things, a contribution rate higher than the 4% proposed by the reform for individual accounts, and the 0.2% established for the Dependency Insurance. However, the amendments did not raise the contribution rates, in order to provide more solidarity. Nonetheless, the door was left open for this to occur at a later date by way of insurance.
2) **The Social Security Administrative Board (CASS)** is created as an autonomous body, of a technical nature, with legal status and its own assets, directly linked to the President of the Republic. Its purpose will be to tender the 4% additional contribution to at least 2 specialized companies, and manage the Dependency Insurance (0.2%), the Children's Accompaniment Insurance (Sanna Law) and other social insurance programs stipulated by law.
3) **Which stakeholders will be allowed to manage the 4%?** The new Additional Pension Savings Investment Agents (AIAPA) can be Non-profit Social Security Benefits Administrators, cooperatives, General Fund Managers (GFMs), insurers, and other bodies corporate

that comply with the provisions of the bidding terms and conditions.

4) **The Board will be able to directly manage the additional contribution in future.** CASS will also be able to manage the 4% directly in future, since the amendments stipulate that 5 years after the law has passed, if CASS concludes that a legal modification that allows it to act directly as an investment agent of such savings is justified, together with the other Agents selected in the bidding process, it may submit the pertinent recommendations and their rationale, to the consideration of the President of the Republic.
5) **Members will finance CASS with their contributions.** With this development, there are already parties speaking of a "triple commission," since members would not only have to pay commissions for the management of their funds in their AFP (as is currently the case), but also for the new stakeholders that would manage the 4%, in addition to a new commission on the balance, financed with the contributions of members.
6) **Into which fund will the additional 4% contribution be paid?** Members may choose to have their additional 4% pension savings contribution allocated to a moderate risk fund, similar to multi-fund C of the AFPs. Workers' funds may also be invested following a life cycle model (Target Date Fund, TDF), depending on the number of years to retirement age of each member.
7) **A greater focus on pension education is Included,** since "a National Pension Education Strategy is created, aimed at educating members and disseminate their rights and obligations in the pension system, and other social security benefits related thereto." The Pension Education Committee, comprising seven members, has been created to this end.

   (Source: Pulso-La Tercera, www.previsionsocial.gob.cl; Date: July 2019).

Chile advances in forging agreements with Peru and Colombia for the international portability of pension funds. The Chilean Minister of Labor, Nicolás Monckeberg said that Chile is seeking to reach pension agreements with the countries of origin of large numbers of immigrants in Chile, including Colombia. It was also announced that as of March there were almost 500,000 foreigners contributing to the pension system in the country, which is why the country will seek to accelerate this issue that is constantly growing due to mass immigration from Venezuela. Foreigners arriving in Chile and entering the formal labor market are on the rise. In this regard, the Pension Commission revealed that there were 484,819 foreign contributors in the pension system as of March 2019, 41.9% of which were women. Venezuelans make up almost one third (29.6%) of that total, with Peruvians making up 19.9% and Haitians 18.3%. followed by 12.3% of Colombian contributors, 7% Bolivians, and 2.6% Ecuadorians. In this scenario, Monckeberg said that his ministry is accelerating efforts to allow the portability of pension funds to other nations, but pointed out that unfortunately the situation in Venezuela does not allow for any arrangements with Venezuelan citizens, since the country does not have a pension system that could provide guarantees that their funds would be respected. Progress is being made in agreements with countries such as Colombia, Peru and some others, which will allow all migrant workers to contribute in Chile, and on retirement, transfer such funds to the pension system of the country in which they retire. On the other hand, he pointed out that "specifically in the last ILO meeting, I had a long meeting with the Colombian Minister of Labor, with whom we agreed to implement a fund portability *fast track*." ***(Source: www.valoraanalitik.com; Date: 06.27.2019).***

Colombia

The Government is holding technical round tables for structuring the pension reform bill of law to be presented at the end of this year. The Minister of Labor, Alicia Arango, said that these round tables are advancing steadily and opened the door for the initiative to be presented in March 2020. Months ago, the president of Asofondos, Santiago Montenegro, said that the presentation of this initiative requires a national consensus between academic sectors, trade unions, the business community, the government and the pension funds, among others, and said that it would be essential to increase coverage before thinking about increasing the retirement age. According to Asofondos, only 1,495,133 of the 48.4 million Colombians have obtained a pension to date. The Financial Superintendent, Jorge Castaño, in turn, acknowledged that only 30% of Colombians meet the requirements for accessing a pension and 70% do not qualify for an old-age pension. ***(Source: www.elnuevosiglo.com.co; Date: 07/23/2019).***

A study by Banco de la Republica researchers calls for a pension reform to improve coverage. The countdown has begun for the Government to define the pension reform proposal which, according to the Ministry of Finance, will be submitted to Congress in the last quarter of the year. Banco de la República recently published research on the Colombian pension system, in which it proposes a formula for increasing the retirement age and the contribution rate, while lowering the number of weeks of contributions required, since it considers this requirement to be one of the impediments for accessing a pension, amid the high informality that characterizes the country's labor market. According to the report, this formula would allow all Colombians paying pension contributions to receive a replacement rate of 60% of their salaries, and access retirement after completing 1,150 weeks of contributions. The study proposes "the implementation of a multipillar system like the one in place in Chile and other countries. In this case, the public regime would only ensure a statutory minimum wage for all individuals who meet the retirement requirements, and the rest of the pension would be the responsibility of the private pension system. The existing subsidies of the PAYGO system could be used to expand the coverage of non-contributors of the 'Colombia Mayor' program and increase the pensions of those who contribute less than a legal minimum wage in force for the Periodic Economic Benefits (BEPS). The elimination of the Minimum Pension Guarantee Fund of the private pension system would increase the replacement rates of all contributors in the multipillar system." ***(Source: https://www.larepublica.co; Date: 07-24-2019).***

El Salvador

Women are the main promoters of savings in El Salvador, According to a study by Sura Asset Management "Latam Savings 360°", the parent company of the pension fund manager AFP Crecer. and this is despite the fact that women are the ones with the greatest disadvantages in accessing financial services. 41% of Latin American respondents, on average, said that women are the ones who promote savings in their family circle. The reasons why women stand out, according to the report, are because their concerns revolve around being prepared for unforeseen family issues, such as illnesses, taking care of the household budget, or personal projects. In El Salvador, 46% of respondents believe that women are the most important stakeholders in promoting savings, as in Colombia. Only 27% believe that men promote saving habits. This study demonstrates the importance of the role of women in the family economy of Latin America in general, as well as in El Salvador, who make every effort to preserve their income to invest in their children's education, entrepreneurship, or the resolution of emergencies. ***(Source: https://elmundo.sv; Date: 07-19-2019).***

A round-table will be organized to discuss the reform of the pension system. The Ministry of Labor and Social Security (MTPS) will seek to organize a round-table comprising the Government, the productive sector and workers, to draw up proposals for reforming the pension system and submit them to the Legislative Assembly. Rolando Castro, a former union leader who has been running the State portfolio since June 1, said he will request the "technical and financial" support of the International Labor Organization (ILO) to create this national round-table for discussing future reforms to the pension system. ***(Source: https://elmundo.sv/; Date: 07.06.2019).***

Mexico

Insufficient savings and an aging population augur a social crisis In Mexico. Between 2045 and 2050, there will only be two people of working age for each retiree in Mexico, and according to a study by *Global Aging Institute*, people in Mexico will be nearly as old as in the United States. We are facing an activated demographic time bomb that is about to explode. Savings rates in Mexico are insufficient, the Mexican Social Security Institute (IMSS) is under very significant financial pressure and if we do not help Mexicans to save more, this will generate a social problem," said Roberto Walker, President of Principal Latin America, in an interview, so the modernization of the pension system is urgent. There is considerable financial pressure on Social Security. Pension systems necessarily depend on the contributions of workers for them to work," said Walker. Principal therefore intends to develop a 'multipillar' system for Mexican workers to save more throughout their productive lives and be able to assure a dignified old age. The pillars are: (i) Assistential, to help those who cannot save; (ii) Promote voluntary savings, not only through the AFORES, but through any vehicle that allows long-term savings; (iii) Increase the mandatory contribution rate (the existing rate of 6.5% is very low); (iv) Labor legislation that makes it easier for people who can and are willing to work at retirement age, to be able to do so. The last two points require the different stakeholders to reach agreement and, one of them, the government, to eventually reform certain laws to be able to implement those pillars. ***(Source: https://elceo.com/; Date: 07.30.2019).***

It is "Alarming" that the Afores are operated by the State. It is "truly alarming" that the elimination of the Afores model and its replacement by a single state-operated fund manager, or that a return to the defined benefit model are being considered, because it would be catastrophic, said the Chairman of the National Commission for the Retirement Savings System (Consar), Abraham Vela. He stressed that good results have been obtained 22 years after the Implementation of the regime that gave rise to the Afores, that savings already represent 15% of GDP, and that the Afores are the second largest intermediary in the country, after the banks. He said that only the transition generation, i.e. those who can still opt for pensions from the former regime, entails a fiscal cost equivalent to 68% of GDP over a 40-year horizon. Hence, returning to a solidarity, PAYGO or defined benefit system would increase the fiscal cost to at least 102% of GDP in the next 40 years, and it would continue growing like "a snowball" in years to come. "This would result in increased annual pressure on current public spending in public finances from 3.5% to 7% per year. This would be catastrophic and would unleash a large-scale financial crisis with irreversible consequences." This was his reply to the proposals of some legislators of the Labor Party, supported by others of Partido Revolucionario Institucional (PRI) and even Movimiento de Regeneración Nacional (Morena), who believe that the Retirement Savings System (SAR) based on Individual accounts, is a failure and is on the verge of collapse. He added that "the health of public finances would be absolutely compromised, the federal government would be unable to honor the pensions of all Mexicans, and the confidence of Mexicans in the pension system would never be recovered." ***(Source: https://www.contrareplica.mx; Date: 07-19-2019).***

The first investments in international funds should occur this year. Within the framework of the 2019 Afores Fair, Bernardo González, Chairman of Amafore, commented that it is already in the process of validating several international mutual funds, so the first investments in these types of assets will probably occur this year. On the other hand, Carlos Noriega Curtís, former head of Amafore and current Head of the Insurance and Pensions Unit of the Ministry of Finance and Public Credit (SHCP) said that to the extent that the Afores can have better investment portfolios, they will be able to offer better returns to workers. ***(Source: www.fundssociety.com; Date: 04.07.2019).***

The AFORES are committed to sustainability. Afore XXI Banorte, Citibanamex and Sura are about to sign an agreement whereby they will commit to adopting the best practices on sustainable investment issues of the Principles for Responsible Investment, an NGO promoting sustainability strategies worldwide. Considering Environmental, Social and Corporate Governance (ASG) factors is essential, because investors have realized that ignoring them can have serious repercussions on investment portfolio returns. The PRI initiative promotes the implications of ASG issues in investments, under the premise that if they do not address these variables, their economic benefits will be at risk. ***(Source: www.eleconomista.com.mx; Date: 02.07.2019).***

The Individual Account Pension System celebrated its 22nd anniversary. According to CONSAR, the Retirement Savings System (SAR) had accumulated MXN 3.61 billion (approx.US$ 191,286 million) in pension savings by the end of May, 2019, a figure equivalent to 15.1% of the country's GDP. 45% of the total funds accumulated in the pension system represent the net returns on commissions generated over time, and the rest are tripartite contributions. It is estimated that savings in the AFOREs already represent the second wealth pillar of Mexicans, only second to housing. The returns in the 22-year history of the pension system are 11.03% in nominal terms and 5.19% in real terms, i.e., after discounting inflation, which continues to make them an excellent alternative of savings in the country. You can see further details here. ***(Source: https://www.gob.mx; Date: 01.07.2019).***

Labor reform will provide farmworkers with social security. Farmworkers will be able to claim length of service and access social security, thanks to the amendments to the labor reform approved last May 1, said the Minister of Labor and Social Security (STPS), Luisa María Mayor Luján. She explained that employers are obligated to keep a special register of seasonally employed workers, which will enable recording overall length of service for duly calculating benefits and associated rights. The trade unions must also pay attention to the updating of said register in the respective revisions, and the logistical difficulties associated with calling for a union election derived from the seasonal mobility of the population should be considered. ***(Source: https://elsemanario.com/; Date: 07.07.2019).***

Peru

OECD report on the pension system will be ready in September. The head of the Banking, Insurance and AFPs Commission (SBS), Socorro Heysen, said that the Retirement System Board of Trustees is still meeting, that it has developed its work plan and will analyze all existing documents with recommendations on pension reforms, such as those of the Inter-American Development Bank (IDB), the International Monetary Fund (IMF), the Social Protection Committee, and the OECD document that should be completed in the first half of September. She went on to say that the suggestions of each one of the Committee members, the private sector and academics who can contribute to the topic, will be considered. ***(Source: https://andina.pe; Date: 07.15.2019).***

IMF warns that 60% of PNO members do not have a pension. A recent study by the International Monetary Fund (IMF) "Informality and the Challenge of Pension Adequacy: Outlook and Reform Options for Peru" warns that the Peruvian pension system faces serious challenges in achieving that goal and proposes some reforms for improving future pension levels. Some key aspects of the study:

1. It is estimated that the replacement rate in the public pension system (SNP, managed by the ONP), will drop on average from 45% in 2020 to between 12% and 20% in 2047, i.e., on average, in 27 years from now, ONP members will at best received a pension equivalent to only one fifth of their average salary throughout their working lives. According to the IMF, this downward trend is largely attributable to past reforms designed to make the SNP more sustainable. Furthermore, since a condition for accessing a pension in this system is to accumulate 20 years of contributions, not all members have the same opportunities for obtaining this benefit. Thus, 60% of all ONP members and approximately 50% of those who contributed in the last five years, will not achieve 20 years of contributions and their replacement rates will therefore be zero. One of the Fund's proposals is to shorten the required contribution period to receive a pension to 15 instead of 20 years of contributions. This measure would allow more people to obtain a

pension and thus raise the average replacement rate to a relatively low fiscal cost: 0.05% of GDP.

2. In the Private Pension System (SPP) the average replacement rate would change from between 25% to 28% in 2020, to 23% to 33% in 2047. Members who frequently contribute to their pension funds, generally higher-income workers, are expected to achieve replacement rates close to 40%, even in conservative scenarios. Workers with below-average contribution levels, usually those with lower incomes, on the other hand, would receive a pension equivalent to less than 20% of their salary. The IMF also warned that these pension levels could be much lower if the withdrawals of 95.5% of AFP funds are considered. One of the IMF's reform proposals is to increase the percentage of monthly salary paid into the pension systems, from the current 10% to levels between 13% and 14%, which would increase the replacement rate by about three percentage points. Contributions of workers linked to their consumption, and "*matching contributions"* schemes are other interesting options for boosting pension savings in the country, according to the IMF. ***(Source: https://www.imf.org; https://gestion.pe; Date: 12.07.2019).***

A law regulating contributions to the AFPs by members will be completed in August. The Association of AFPs, through the National Confederation of Private Business Institutions (Confiep), has submitted a proposal to the Government calling for a new law that will enable more than two thousand public agencies to be able to reprogram their debts accrued by not having paid in the contributions of more than 38 thousand civil servants to their AFPs. In this regard, the CEO of AFP Integra, Aldo Ferrini, said that the Ministry of Economy and Finance (MEF) should decide on the proposal in August, during the discussion of the opening budget for next year, which it will present to Congress. In response, the Chairman of the Association of AFPs, Giovanna Prialé, said that the new payment schedule, set forth in the law, must be taken into account as of the 2020 budget, so that starting in January it will begin to pay this outstanding debt, which amounts to PEN 671.2 million (USD 202,970 million). ***(Source: www.pachamamaradio.org; Date: 05.07.2019).***

Central Bank proposes introducing a benchmark to increase competition among the AFPs. One of the reasons that the returns on the pension funds of the four AFPs are so similar, is that they are compared with an endogenous benchmark, warns the Central Reserve Bank (CRB). A factor that would explain the high correlation of returns among the AFPs is the minimum return, which is calculated monthly based on the real average annual yield of the pension system in the last 36 months, says the CRB. This leads to each AFP comparing the returns of its fund against an index composed of the average returns of the system. The fact that there is a minimum return required of the AFPs, gives rise to a distortion in that they do not want to differ significantly from the competition, because if the disparity of the portfolio causes lower returns, it will be the shareholders of the AFP who pay, explained Jorge Espada, CEO of El Dorado Investment. Given this situation, the Central Bank deems it necessary to replace the minimum return system with an exogenous benchmark. "This will encourage greater competition between the AFPs and promote greater differentiation of investment portfolios," he said. ***(Source: https://gestion.pe; Date: 06.30.2019).***

Ministry of Economy and Finance approved the creation of a Board for assessing the current situation of the public and private pension systems. The Board, among other functions, will: (i) Evaluate access conditions, costs and benefits of the early retirement schemes currently in force in the AFPs; (ii) It will comprehensively assess the core elements of the public and private pension systems in Peru, including aspects such as fiscal sustainability, sufficiency of pensions (minimum pension), demographic evolution and universal population coverage; (iii) Coordinate and articulate inter-institutional actions and efforts to achieve the purpose for which the Assessment Board was created; (iv) Prepare a report with its recommendations for the improvement of the early retirement modalities in the Private Pension System, as well as the public pension systems, without affecting fiscal sustainability; and (v) Receive proposals for the improvement of the public or private pension systems, from other government agencies. ***(Source: https://larepublica.pe; Date: 07.06.2019).***

The AFPs call for the Technical Committee to evaluate the extension of the retirement age. The Association of AFPs considers that, given the increase in the life expectancy of members of the Private Pension System (SPP), it would be advisable to evaluate the extension of the retirement age and/or raise the contribution rate. "The life expectancy of Peruvian workers and the pensions with which they are expected to live, must be assessed as a percentage of income" the president of the Association of AFPs, Giovanna Prialé, told Gestión. "Based on that, the Technical Committee (to be instituted), which should include an actuary expert in the matter, can propose whether extending the retirement age or increasing the contribution rate is required," she added. In Peru, the legal retirement age of SPP members is 65, while their life expectancy rose from 83 to 87.5 for men, and from 87 to 90.8 for women, according to data collected in 2018. Prialé emphasized that people, on average, are living longer and women are having fewer children than a decade ago, which implies a greater number of elderly people as a percentage of the economically active population (PEA). Given this situation, she recommended implementing parametric reforms, which consist in analyzing the labor market and determining how much additional time employees must work, or by what percentage their contributions should be increased to provide savings that will ensure a decent standard of living. ***(Source: https://gestion.pe; Date: 06.15.2019).***

Dominican Republic

The Superintendent of Pensions deems it urgent to amend Law 87-01[1] of the Dominican Social Security System (SDSS). While attending the international seminar "Perspectives on the sufficiency and sustainability of pensions," organized by the Social Security Observatory of the Technological Institute of Santo Domingo (INTEC), the Superintendent of Pensions, Ramón Contreras, raised the following points: (i) The need to eliminate the return of the balance in the individually funded account of workers and provide for the payment of a pension equal to or greater than the minimum pension until that balance is exhausted; (ii) Establish voluntary survival coverage for old-age pensioners; (iii) Voluntary contributions should not be taken into account for the payment of the survivor's pension, but should rather be returned in a one-off payment to the beneficiaries of deceased members; and (iv) Establish a single commission on the balance of the AFPs, with the Pension Commission being able to set limits. ***(Source: www.eldinero.com.do; Date: 06.28.2019).***

Uruguay

The business community and government propose social security reform options. Year by year, General Revenue provides about US$ 3.2 billion to support the entire social security system, entailing almost four percentage points of GDP. The Minister of Economy, Danilo Astori, said that the reform of the social security system must be urgently addressed by the next government, whatever party is in power, and pointed out the need to be creative when implementing such reform, seeking new instruments and avoiding association of the reform with more years of work. "Why not think of partial retirement, which allows pensioners to work part-time if they want to? Why not reward people who work the most, establish a retirement age, but if someone voluntarily decides to continue working, reward him with an incentive?" he added. The business community, in turn, has outlined an analysis of the pension situation in Uruguay, with a series of alternatives regarding the elements to be considered in this reform, including an increase in the retirement age. ***(Source: www.montevideo.com.uy; https://ecos.la; Date: June 2019).***

Warnings of a "turning point" in the social security system. A government report states that the liabilities to assets ratio will grow by 50% over the next 30 years. Thus, the country is today facing a "turning point" in this ratio's growth rate, which imposes serious sustainability challenges on any social security regime lacking adequate automatic adaptation mechanisms. To the extent that the rules and regulations governing the conditions for opting out of the regime's solidarity pillar remain unchanged, year by year a smaller proportion of society must make an increasingly larger contribution to pay for the benefits of each retiree. The Executive Power itself warns of this in the explanatory statement accompanying the Accountability project submitted to Congress. In 2018, the Social Security Bank (BPS) and the Military and Police Funds paid benefits equivalent to 10.9% of GDP, representing an increase of 1.4% points so far in this government. The report states that this increase makes Social Security the programmatic area that recorded the largest increase in spending in the five-year period, even above those defined as priorities, such as education, health, housing and public safety. ***(Source: https://ecos.la; Date: 04.07.2019).***

Asia and the Pacific

Australia

On July 1, the country implemented a reform law that limits administrative fees, changes the rules of complementary insurance coverage, simplifies the consolidation of accounts and adds flexibility to the contribution limits under the country's private pension system (*Superannuation System*). Most of the provisions of the law are aimed at retirement accounts with balances below A$ 6,000 (USD 4,176) or at least 16 consecutive months of inactivity (an account is considered inactive for periods in which contributions are not paid in). The government passed the reform law, entitled "*Protecting Your Superannuation Package*", on March 12, with the aim of improving the efficiency and performance of the program. In December 2018, the Productivity Commission, a government-sponsored research and advisory body, reviewed the retirement reforms and estimated that the new rules for inactive low-balance accounts would increase total annual returns by A$ 3.8 billion (USD 2.6 billion) and the lifetime savings of each new participant in the labor market by up to A$ 533,000 (USD 370,968). The key provisions of the reform law include:

(i) A limit on management fees: the law limits the total annual management fees that pension fund

[1] The reform to Law 87-01, that created the Dominican Social Security System is in a bicameral Committee chaired by the senator of the Dominican Liberation Party (PLD), José Rafael Vargas, who has met with the different trade unions and business associations linked to the initiative. This proposal was submitted during the first session, which began on February 27 this year, so it will expire if not approved by the end of the period beginning on August 16. Among the main points of discussion of this project are the modification of the commissions that the AFPs receive for the management of the funds of members, reducing them by 0.05 percentage points per year, from a maximum of 1.40% of the balance managed for 2019, to 0.85% in 2030.

administrators can charge to accounts with balances below A$ 6,000 (USD 4,125) to 3% of the end of year balance. (there was no rate limit previously). The law also prohibits pension fund managers from charging opt-out fees when accounts with any balance are transferred to other pension providers.

(ii) A change in the supplementary insurance coverage rules: the law requires pension funds to cancel supplementary life and disability insurance coverage for accounts with 16 consecutive months of inactivity, unless participants actively choose to maintain coverage. This new subscription requirement is intended to reduce the amount of inactive accounts that are charged recurring insurance rates, which in 2017 averaged A$ 300 (USD 209).

(iii) A simplification in the consolidation of accounts: the law requires pension funds to transfer accounts with balances below A$ 6,000 to the Australian Tax Office (ATO) after 16 consecutive months of inactivity. Within 28 days of receiving an inactive account, the ATO will combine it with an active account belonging to the same participant if said account exists and the combined balance is at least A$ 6,000. If the account cannot be combined, the ATO will continue to hold it until it can be combined or make a one-off payment to participants if they are 65 or older, or the account balance is less than A$ 200 (USD 139). The ATO will begin accepting low-balance inactive accounts on October 31 and will not charge any fees for managing or consolidating accounts. The Productivity Commission has estimated that this measure will affect about 3 million accounts (10% of all accounts) in the 2019-2020 fiscal year.

Making contribution limits more flexible: the law allows participants with total retirement balances below A$ 500,000 (USD 348,000) to transfer the unused amount of their concession contribution limit (before tax) and take advantage of it up to five years later (For tax years 2018–2019 and 2019–2020, the annual contribution limit before taxes is A$ 25,000 [USD 17,400].) By allowing participants to make carry-forward concessional contributions, this measure intends to increase retirement savings, especially for people with interrupted or non-standard work patterns who are saving for their retirement and can benefit from the tax concessions available in the pension system, in the same way as someone with a more stable labor income. ***(Source: International Update SSA, July 2019; Date: July 2019).***

China

As of May 1, the State Council of China implemented measures that reduce social security contribution rates. The measures are intended to help stabilize economic growth and employment, while government continues its efforts to establish a unified pension system by 2021. However, economic observers predict that tax cuts will lead to new or larger deficits in some local pension funds. In 2018, the government estimated that up to 19 local pension funds could have annual deficits by 2026, compared to the10 funds with deficits in 2016. The new measures include:

(i) A reduction in the maximum employer contribution rate: the maximum employer contribution rate for local pension funds has decreased from 20% to 16% of the worker's salary (provinces, autonomous regions and municipalities manage local pension funds and set maximum contribution rates for these funds within the general guidelines set by the central government; some local pension funds already had employer contribution rates below 16%, even as low as 13%, before the last reform.) The reduction in the maximum contribution rate by the employer is forecast to save employers 300 billion yuan (USD 43.8 billion) this year, as the government seeks to reduce corporate taxes by 2 billion yuan (USD 298,000 million).

(ii) A change in the covered base salary: the policies change the base salary used to calculate social security contributions and benefits, switching from the average monthly local earnings of public sector workers in the previous year (higher amount) to the average monthly local earnings of the previous year of full-time workers in both the public and private sectors (smaller amount). The change is expected to result in lower income floors and ceilings, which would reduce contributions and the benefits paid under the social security program.

(iii) The possibility of self-employed people selecting their base salaries: self-employed individuals can select a base salary for calculating contributions within a range of 60% of the applicable local average salary, up to 3 times that level.

(Source: International Update SSA, July 2019; Date: July 2019).

Europe

Netherlands

On July 2, parliament passed a law that reduces the rate of scheduled increases in the retirement age for public pensions. According to a 2012 amendment to the General Old Age Pension Act (AOW), the retirement age was scheduled to increase from 65 to 67 (initially by 2023, but then accelerated to reach that level in 2021) with further automatic increases based on changes in life expectancy at 65 (the law requires the government to announce automatic increases at least 5 years before their implementation). Under the new law, the retirement age will remain at the 2019 level (66 years and 4 months) until 2021, and will rise to 66 years and 7 months in 2022; 66

years and 10 months in 2023, and 67 in 2024. Beginning in 2025, the retirement age will automatically increase with increases in life expectancy at 65. The revised schedule for increasing the retirement age is part of a pension reform agreement reached by the government and its social stakeholders (consisting of groups of employers and unions) last June 5. Other components of the agreement, which still require the drafting of legislation, and if approved by the government, include:

(i) Smaller increases in the retirement age based on changes in life expectancy: from 2025, the retirement age of the AOW system will automatically increase by 2 months (less than the current 3 months) for every three-month increase in life expectancy at 65.

(ii) A new early retirement option for workers in arduous occupations: from 2021 to 2025, employers could allow employees working in certain arduous occupations to retire up to 3 years before the official retirement age of the AOW system, with an early retirement benefit of up to EUR 19,000 (USS 21,563) per year and without tax penalties for the employer. Each individual sector will have to determine the trades or professions eligible for this new early retirement option, which will be fully funded by the employer. Currently, early retirement is strongly discouraged in the country; Employers who provide early retirement benefits must pay a 52% tax on benefits, in addition to regular taxes.

(iii) A new framework for occupational pensions: the agreement would make significant changes to the rules of the occupational pension plan, including the rules that affect contribution rates, the annual pension accumulation method, investment options and minimum financing rates.

A steering group was formed to translate the general lines of the agreement into concrete measures. The government aims to have the implementation details finalized in the year 2020, the bill passed in 2021 and the complete agreement formally implemented in the year 2022.

(Source: International Update SSA, July 2019; Date: July 2019).