Progress of the Pension Systems2[1]
April 2015 – June 2015
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2[1]. Document prepared by FIAP, based on press information. We thank FIAP member associations for the information and comments submitted.

This document compiles the main legal changes that occurred in the pension systems from April 2015 - June 2015, as well as the trends observed in the discussion of the regulatory changes that countries must address in social security matters. Where applicable, it also names and explains the initiatives implemented by different stakeholders, which although they are not part of the existing legal framework, have a marked impact on the development of social security systems.

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I. Latin America and North America

Pacific Alliance

• The Finance Ministers of the countries of the Pacific Alliance agreed to study the creation of a pension portability agreement. In the 5th Meeting of the Ministers of Finance of the Pacific Alliance, held in Washington, D.C. between April 16 and18, 2015, the Finance Ministers of the countries of this Alliance (Chile, Colombia, Mexico and Peru) agreed to study the creation of a pensions portability agreement that could favor business opportunities between workers of the member states. The main objectives pursued by FIAP and the Integrated Latin American Market (MILA), are to increase the investment of the pension funds of the countries of the Pacific Alliance in this area, and enable the transfer of the funds of workers who migrate from one country of the region to another. Hence, the statement of the Finance Ministers represents clear support for the project led by FIAP and MILA in the region. For further details, you can review the Official Communiqué. *(Source: www.hacienda.gob.cl; Date: 21.04. 2015).*

• 1% of the capital invested by the AFPs of member countries is invested in the Pacific Alliance. Once they leave their countries, the pension funds of Mexico, Colombia, Chile and Peru, the countries comprising the Pacific Alliance, only invest 1% of their capital in the markets of the bloc, said the President of the Association of AFP in Peru, Luis Valdivieso. According to Valdivieso, a series of bureaucratic obstacles are what are making them prefer other destinations "instead of the countries we have next door." He added that diversification will help them provide greater returns to their members. The Peruvian Minister of Economy, on the other hand, said that two of the main challenges of the Pacific Alliance are to attract long-term private investment and facilitate the mobility of the institutional investors in each country. As he explained, when channeling the capital of the pension funds, insurance companies and mutual funds, infrastructure programs will be developed and public services will be extended, in which the public and private sectors will participate. This will enhance the competitiveness of the Pacific Alliance and, therefore, its member countries. Regarding long-term international capital, he said that the goal is to create a "portfolio of investors" who can participate in each country. "It is a challenge to achieve greater integration to attract international investment, for it to be able to move more freely between the countries of the Alliance, thereby generating increased competition," said the official. *(Source: News Inter-American Federation of Insurance Companies; Date: 07.07.2015).*

Argentina

• Government continues to fund excessive spending with money from the pension funds. Since the nationalization of the Pension and Retirement Fund Managers (AFJP) in 2008, the management of the pension funds of Argentine workers has been in the hands of the National Social Security Administration (Anses), and this money is frequently used by the Argentine government to finance its growing spending, a situation that jeopardizes the present and the future of retirees. Thus, in April 2015, 65% of the 450,000 million Argentine pesos (USD 49,59 millions[2]) of Anses' Sustainability Guarantee Fund (FGS) were in the form of government securities - bills and bonds - which are continuously renewed due to the country's growing fiscal deficit. In a recent press release, the National Board of Pensioners and Retirees of the Argentina Republic expressed its concern in this regard: "Aided and abetted by the Legislature, Anses is breaking the law, squandering social security funds and blatantly defrauding the Argentine people." It added that pensioners are forced to file law suits which "in the majority of cases end when the retiree is already dead." In fact, the number of lawsuits filed by retirees for obtaining adjustments of their assets, increased in 2015. 150 complaints per day were filed on average in the first three months of 2015, while the daily average in 2014 was 130. *(Source: Editorial La Nación; Date: 23.04.2015)23.04.2015).*

2. At the exchange rate on 30.06.2015 of 1 USD = 9.073 ARS

I. Latin America and North America

Bolivia

• Departmental Federation of Factory Workers (FDTF) of La Paz rejects the salary scale in management positions in the Public Social Security Administrator. Even before the Public Administrator started operating, the mere announcement of the salary scale of its management staff caused reactions among workers. The FDTF of La Paz rejects the proposed salary scale because it considers it excessive, and has called for a demonstration demanding the annulment of the new institution. The Public Administrator, which replaces the AFPs, has salaries for senior management positions ranging from 30,000 bolivianos to 70,000 bolivianos (USD 4,380 to USD 10,219)[3]. *(Source: www.la-razon.com; Date: 24.04.2015).*

Brazil

• Congress passes a series of pension adjustments. In May 2015, the Brazilian Chamber of Deputies approved an interim measure on survival pensions proposed by the Government. The core issue in this measure is the establishment of a period of two years of marriage or stable common law relationship and 18 months of social security contributions for beneficiaries to be entitled to a pension upon their spouse's death. According to the legislation currently in force, the pension is reduced when retirement is granted for the contribution term (35 years for men and 30 for women), without reaching the retirement age of 65 for men and 60 for women. But with the new measure, the Social Security factor will be changed to a comprehensive salary, without a reduction in that value, when the sum of the age and term of contribution is 95 years for male workers, and 85 for female workers. *(Source: Boletín Diario de Seguros América Latina; Date: 14.05.2015).*

Canadá

• Two Canadian pension funds and Banco Santander launch a company for sustainable investments. Last May 28, the Ontario Teachers' Pension Plan and the Public Sector Pension Investment Board, together with Banco Santander, launched the investment firm Cubico Sustainable Investments, headquartered in London, to manage and invest in renewable energy infrastructure and water assets worldwide. Owned in equal shares by Santander and two of the biggest Canadian pension funds, the firm has significant invest capital and a long-term growth strategy. It aims to become an investor of international standing in the field of renewable energy and water. *(Source: www.fundssociety.com; Date: 28.05.2015).*

• Ontario lays the foundations for a new mandatory savings program. Last May 5, a law was passed that lays the foundations for the new mandatory Ontario Retirement Pension Plan (ORPP), which is expected to be implemented in 2017 to supplement the income of the Canada Pension Plan (CPP). According to the law, workers and employers must contribute 1.9% each (3.8% jointly) of the covered wage, up to a cap of CAD 90,000 (USD 72,307)[4], indexed annually for inflation. The ORPP will have a target replacement rate of 15% of the income of the member prior to retirement, indexed for inflation. The benefits will be paid as a life annuity beginning at age 65. Further details here. *(Source: Social Security, International Update; Date: June 2015).*

3. At the exchange rate on 30.06.2015 of 1 USD = BOB 6.85.
4. At the exchange rate on 30.06.2015 of 1 USD = CAD 1. 2447.

Chile

• According to the CEO of Principal Financial Group, "Chile should be congratulated on its pension system." The CEO of Principal Financial Group, Larry Zimpleman, said that "Chile should be congratulated for its system, which is probably one of the most innovative systems that has existed in the past 30 years, and it should therefore, in my opinion, not be reverted." Although he admits that the replacement rate of 40% estimated for most retirees is low and susceptible to criticism, the executive emphasized that given the contribution rate in Chile (10% of monthly income), the result is at least above average for the eleven countries in which Principal operates. Considering this, he adds that the way to improve the system is not by expanding the role of the State, through the extension of the solidarity pillar to the middle-class, nor by opening a State-run AFP, but rather by increasing savings. According to Zimpleman, expanding the solidarity pillar to cover the middle class only contributes to transferring wealth from some people to others, without encouraging savings, and he does not have a clear understanding of how the creation of a State-run AFP would help. *(Source: Boletín Diario de Seguros América Latina; Date: 21.04.2015).*

• Life annuity pensions recover after policy adjustment by the Superintendency of Securities and Insurance (SVS). According to the figures published by the insurance market, since last March the amounts of life annuity pensions have been experiencing average improvements of between 3% and 5% with respect to previous months. According to the market, this is due to the change of methodology established by the SVS which, although it only comes into effect next June, has been available for voluntary application from March 1 this year. This change has eased the technical reserve demands on companies, reducing their capital cost, which is being transferred in the price, improving the pensions of members, according to sources in the sector. *(Source: Boletín Diario de Seguros América Latina; Date: 24.04.2015).*

• The AFPs will manage the Beagle Fund, which has accumulated a return of 162% in 10 years. The AFPs will take the management of the Beagle Fund from Larraín Vial, as agreed at the April 29 meeting of contributors. The AFPs own 90% of the Fund's USD 316 million, which in the last 10 years have accumulated a return of 162%, which ranks it among the market leaders in the Small Cap Chile category. The pension funds questioned the role of Larrain Vial in the Cascadas Case, in which the broker was eventually fined, giving rise to legal procedures that are still underway. Last week, the contributors of the Larrain Vial Beagle Investment Fund agreed to renew their participation in this Fund for another year. Although they have stressed that today they will discuss and define the successor of Larrain Vial in the management of the Beagle Fund, the AFPs have revealed that the leading contenders are Bice, BCI and Compass. *(Source: Boletín Diario de Seguros América Latina; Date: 29.04.2019).*

• Unemployment Fund will include the payment of social security contributions. The modifications to the unemployment insurance, promoted by the Ministry of Labor and the Undersecretary for Social Security, were published last April 25, 2015. Among the changes is the payment of the contributions to the AFPs, for those who choose to use their solidarity unemployment fund. Thus, the new initiative seeks to reduce the so-called "social security gaps." The amendments introduced will come into effect on August 1, 2015. (*Source: www.df.cl; Date: 12.05.2015*).

I. Latin America and North America

Chile

• According to an ILO report, Chile has increased pension coverage by 75% in the last 10 years. According to the latest 2014-15 global report of the International Labor Organization (ILO) on Social Protection, Chile has progressed in terms of pension coverage in the last 10 years, recording an increase of 75%. In fact, the number of people of retirement age who actually receive a pension is a clear indicator of the coverage of the country's social security system. In 2003, 63% of this group was covered, and in 2012, 75% of the population at retirement age was covered. With these results, Chile is well above the average for the region (56%); it is positioned above countries like Colombia, Peru and Mexico; but below Canada and Brazil. According to the report, part of this 10 percentage points advance recorded by Chile between 2003 and 2012, is due to the 2008 pension reform that created the solidarity pillar. Furthermore, in order to minimize the management costs of the private pension system, the regulation of the sector was also strengthened, and greater competition between the AFPs was encouraged. The report also points out that public expenditure on pensions in Chile is 3.39% of GDP, according to data from 2011, while in the rest of the high-income countries it is around 10%. With regard to these figures, the Chairman of the Association of AFPs considers that "this low public spending on pensions is possible due to the existence of an individually funded system with private management of pensions. Comparatively there is less expenditure, but this is due to the existence of the private system." *(Source: Boletín Diario de Seguros América Latina; Date: 15.06.2015)*

• The Superintendency of Pensions assures that members have not suffered damages due to the merger of Cuprum and Argentum. During her presentation before the Senate Economics Committee, the Superintendent of Pensions, Tamara Agnic, once again defended the agency's approval of the merger of the AFPs Cuprum and Argentum, assuring that members and their funds were protected. She also insisted that the process of merger by absorption has not caused damages to the pension funds of the 640,000 members enrolled in Cuprum, nor adverse effects in its returns or safety conditions. *(Source: Boletín Diario de Seguros América Latina; Date: 17.06.2015).*

Colombia

• The Eighth FIAP-Asofondos Congress was held between April 16 and 17 in Cartagena de Indias. The FIAP - Asofondos Pension Congress focused its main discussion on pension systems and how to achieve a more effective model that responds to the needs of workers and the working environment. It was attended by local and international experts (including the Nobel Prize laureate in economics, Peter Diamond), as well as government authorities. The Congress was inaugurated by the President of the Republic of Colombia, Juan Manuel Santos. As one of his priorities, the President highlighted the fourth-generation highways, inviting the pension funds to participate in their financing. "Pension savings are a natural way of financing these types of concessions and there is room for different types of financial backers," said the President. The President also undertook to strengthen the pension system, particularly the public system, in order to make it more equitable and sustainable. The Chairman of the Colombian Association of Pension and Unemployment Fund Managers (ASOFONDOS), Santiago Montenegro, in turn, said that in order to lower the high degree of informality in the economy and increase coverage in Colombia, "a profound labor reform," which would help to increase productivity and growth, is necessary. He also asked the Government to review the issue of the issue of alternative compensations to contributors who do not retire in the public system and to focus the subsidies in that system on contributors receiving pensions equivalent to the minimum wage. *(Sources: www.fundssociety.com; Date: 16.04.2015 and Boletín Diario de Seguros América Latina; Date: 17.04.2015).*

• FIAP President stressed that pensions cannot rely on any single source. In the same Congress, Guillermo Arthur, President of FIAP, suggested that the main point to keep in mind in the country should be that pensions cannot rely on a single source, and in this regard he said that any reform must maintain three funding pillars: the individual savings of workers, individual funding and taxes. He also proposed reviewing the mechanisms for improving pensions, such as longevity insurance. *(Source: Boletín Diario de Seguros América Latina; Date: 17.04.2015).*

• Colombian Government proposes the integration of the pension funds of the Pacific Alliance. During this Congress, the Minister of Finance of Colombia, Mauricio Cardenas, proposed the integration of the pension funds of the Pacific Alliance countries, which would entail, in practice, treating any investment in the countries comprising this block: Mexico, Chile, Peru and Colombia, as domestic investment. *(Source: www.fundssociety.com; Date: 22.04.2015).*

• SURA AM presents its conclusions on how to strengthen the Latin American Pension Systems. In the same Conference, SURA Asset Management announced a second international research project, entitled 'How to Strengthen the Latin American Pension Systems: Experiences, lessons and proposals'. On this occasion, the study focused on the six Latin American countries that introduced reforms in the 1980s and 1990s, introducing individually funded defined contribution programs in Chile, Colombia, Mexico, Peru, El Salvador and Uruguay. The transversal approach of researchers is to address, in the next couple of years, the integration of the different pillars comprising the pension systems, for the purpose of providing members with reasonable pensions and replacement rates not significantly different to what they are expecting. *(Source: www.fundssociety.com; Date: 16.04.2015).*

• Chairman of the Colombian Federation of Insurers (Fasecolda) recommends eliminating the PAYGO system. In a column published in the newspaper "Portafolio," the Chairman of Fasecolda, said that "Colombia is crying out for structural reforms of the pension system to resolve its serious problems of low coverage, inequity and sustainability."According to him, the PAYGO system should be eliminated and a sole individually funded system should be created; more effective support should be provided to poor workers who cannot access a pension, despite having contributed, and the non-contributory pensions of the elderly living in poverty should be strengthened. However, he said that these proposals, with the exception of the latter, tend to be rejected by those who believe it is inadmissible to make adjustments that make the system financially viable or grant a predominant role to private social security actors. He also explained that the fact that Social Security life annuities are not issued in Colombia is due to the existence of a random factor of a political nature which, apparently, does not exist in any other country. "The Constitution states that no retirement pension can be less than the minimum wage, which is set each year based on variables with a high political component; since such variables are beyond any long-term probabilistic calculation, insurers lack the elements for defining the coverage price." As a solution, he proposes that when the life annuity taken out by a pensioner falls below the minimum wage, the State should make up for this difference. You can read the full column here. *(Source: www.portafolio.com; Date: 26.04.2015).*

•Younger workers would be better off if their resources were in the highest risk fund. The Deputy Minister of Work and Pensions said that it is not correct to believe that moderate funds generate stable yields, since he claims that they are sometimes volatile and that there is no single formula for membership. "When you are young, you can take more risk. Pension savings at an early age may be in a medium or high volatility fund: nonetheless, it is important to carefully monitor the performance of the funds," he explained. In this regard, according to ASOFONDOS, members must choose the fund that most suits their conditions. For example, on observing the behavior of the returns of the multifunds in the past three years, it can be seen that young people would be better off if their resources were in the highest risk fund, because despite the fact that they have greater exposure to market movements, in the long term they enable their savings to obtain higher returns, which will be reflected in higher pensions. *(Source: Boletín Diario de Seguros América Latina; Date: 29.04.2015).*

• ASOFONDOS presents the new Family Pension Law. ASOFONDOS has announced the family pension, a new law that favors married, common-law or civil union couples, who do not have sufficient weeks of contribution or capital for individually accessing a pension; these couples, in turn, could be favored by a Minimum Pension Guarantee. The law benefits same-sex couples in the same way. The people who can enjoy its benefits are established couples, who have turned 57 in the case of women, and 62 in the case of men, both in the Average Premium Plan (Colpensiones) and in pension funds, and the relationship must have a duration of 5 years or more and that this relationship has started before 55 years of age. It is not necessary for contributors to be paying contributions at present, but only that they can amass the required capital to finance a pension equal or above the minimum wage, or enough weeks (1.150) to access the minimum pension guarantee on individual savings scheme. According to the report by ASOFONDOS, the Average Premium Plan, as opposed to the individually funded system, does have a limit on the amount, since the maximum amount is one minimum wage and the couple must have jointly contributed for 1,300 weeks, and have contributed for 25% of the required weeks before having turned 45. In the case of people in the Individual Savings System, the pension will be paid to the spouse with the highest balance in his/her individual savings account, since a requirement for receiving the benefit is that both parties must be enrolled in the same Pension Fund Manager. Finally, it must be pointed out that in the event of divorce, each one of the parties would receive 50% of the granted allowance. *(Source: Boletín Diario de Seguros América Latina; Date: 17.06.2015).*

I. Latin America and North America

Costa Rica

• Bill of Law seeks financing of public works by public and private pension funds. A Bill of Law has been submitted that allows cooperatives and private and public pension funds to invest their funds in public infrastructure. According to its proponents, these organizations manage amounts of close to USD 20 billion, which could help finance works necessary for the country. *(Source: www.crhoy.com; Date: 26-05-2015).*

• The National Council for the Supervision of the Financial System (CONASSIF) appoints Alvaro Ramos as the Superintendent of Pensions. Last May 28, 2015, CONASSIF appointed Alvaro Ramos as the new Superintendent of Pensions. He took office on June 19. The new Superintendent will face significant challenges in the next 5 years. Most important among them are those that have to do with the modernization of supervision and the implementation of measures to ensure the long-term financial health of retirement resources. The basic systems and their sustainability are also one of the major challenges in the task list, according to the Complementary Pension Operators (OPC) and CONASSIF. Regulatory changes must also be taken into account for implementing projects such as the Multifunds, encouraging risk-based supervision and promoting voluntary pensions, which have had difficulties taking root. *(Source: Boletín Diario de Seguros América Latina; Date: 28.05.2015)*

• The Government will propose reducing the amounts of new special state pension systems by 20%, raising the retirement age by 5 years and setting a cap on "luxury" pensions. The plan aims to lower the pension amounts of 8,000 public employees, to make them equivalent to 80% of wages instead of 100%, as is currently the case. These officials work in the Legislative Branch, the Ministries of Finance, Public Works and Transport, and in the Public Registry. The Government estimates that they will retire in the next two decades. The initiative is part of a package of measures to reduce the cost of special pension systems funded from the national budget. The project also hopes to increase the retirement age from 55 to 60. The government's proposal also incorporates restrictions on 60,000 pensions financed with the payment of taxes, including the cost of living adjustment. Ministry of Finance retirees currently have their pension amounts adjusted as if they were still working, and the pensions of former deputies and senators are adjusted by 30% of the total amount each year. A cap on "luxury" pensions of 12 times the lowest base salary in the Public Administration, is also included. It would be applied to all regimes, including the National Teachers' PAYGO System. The last measure is the application of a solidarity contribution of up to 18%, but it would exclude pensions of less than CRC 500,000 per month (USD 946)[5]. Pensioners and employees entitled to a state pension currently contribute 9% of their salary or pension. *(Source: www.nacion.com; Date: 18.06.2015).*

5. At the exchange rate on 30.06.2015 of 1 USD = 528.71 CRC.

Ecuador

• Concern regarding the deficit of the Ecuadorian Social Security Institute (IESS). The controversy arose after the President of Ecuador made statements denying that the IESS had a deficit, assuring, to the contrary, that the Institute had a surplus, also justifying the elimination of the government contribution of 40% to the IESS[6]. Nonetheless, the ex-superintendent of the IESS, Carmen Corral, explained that although it is true that the IESS currently has a surplus, the insurance has a deficit of USD 5,542 million, according to an actuarial study carried out in 2013. According to Corral, the Government is confusing the current liquidity of the system with long-term sustainability. "Without the 40% government contribution, the expected deficit of the Disability, Old Age and Death Fund will be approximately 70 billion dollars by 2053. There are only resources for 12 years," said Corral. *(Source: Boletín Diario de Seguros América Latina; Date: 14.04.2015).*

• New law amends the Labor Code. The Labor Justice Law, which amends the country's Labor Code, was passed last April 5. Three provisions of the Law refer to pensions. First of all, coverage of the public PAYGO system is extended to unpaid housewives. Once implemented, female members will contribute to the system according to their family income, as a percentage of the Unified Basic Salary (SBU), which is currently US$ 354 per month[7]. Female members may opt for an old-age pension once they turn 65 and have paid in at least 240 contributions (20 years of membership). The requirements for qualifying for a disability pension vary according to age: for women between 15 and 25, a minimum of 6 monthly contributions are required, whereas women over 46 must have at least 60 monthly contributions. Secondly, the government's mandatory 40% contribution to the old age, disability and survival insurance is eliminated. On the other hand, the Government will only contribute when the Ecuadorian Institute of Social Security (IESS) does not have the resources to meet its obligations in the payment of social security benefits. This measure in particular has generated much controversy in the country, since it jeopardizes the financial sustainability of the public PAYGO system. Among the proposals for covering the shortfall generated by the absence of the government contribution, are increasing the retirement age, increasing the contribution rate of workers and employers, and reducing the level of benefits. Finally, the law provides for the modification of the indexation of benefits methodology. Since 2010, the adjustments in benefits ranged from 4.31 to 16.6%, depending on the level of benefits (with lower-income retirees receiving the largest adjustments). From now on, benefits will be adjusted only by the average rate of inflation of the previous year. *(Source: Social Security, International Update; Date: May 2015).*

El Salvador

• The Superintendency of the Financial System (SSF) will propose a reform of the pension system. At the end of April, 2015, it was announced that the Government would initiate a discussion on pension reform. According to the SSF among the proposals for discussion are the following: (i) Improve social security coverage, since it is only 24%. (ii) Study the sustainability of the former PAYGO pension system, since it entails a heavy financial burden for the Government. The Finance Ministry (MH) has acknowledged the problem entailed by this debt, which amounts to some US$ 400 million per year. (iii) Seek to improve the returns of the investments of the pension funds. This would require expanding the investment opportunities that the law provides for the funds. In El Salvador, more than 80% of the pension funds are invested in government or public sector

6. Previously, the State covered 40% of the annual expenditure on pensions of the IESS. The rest was financed through contributions made by workers (3.10% of gross salary) and employers (1.10% of gross salary). In the case of public employees, the State also makes the contribution corresponding to the employer.

7. The first level of subsistence; the contribution base is for those with incomes up to 25% of the unified basic salary (SBU); the contribution is USD 2 and the state provides a subsidy of USD 9.60. At the middle level, the contribution base is up to 50% of the SBU; the personal contribution of housewives is USD 9.30, and the subsidy will be US$ 14.30. For the medium-high level, the contribution base is up to 65% of the SBU and the family will contribute USD 19.40; the State subsidy is US$ 15.90. At the high level, 100% or more of one SBU; the contribution is US$ 46.90. This level no longer has a state subsidy.

securities. That has an impact because it concentrates and increases risk. The head of the SSF said that the real return of the pension funds to March 2015 was 5.3%. Nonetheless, he made it clear that it had reached that level due to the effects of negative inflation (-0.9%, according to the Central Reserve Bank). The head of the SSF said that they would proposed diversifying the investment portfolios of the AFPs in order to improve the returns of these accounts. Agencies such as the Association of Pension Fund Managers (ASAFONDOS) and the Dr. Guillermo Manuel Ungo Foundation (FUNDAUNGO) have recommended a comprehensive reform that ensures the sustainability of the pension system, and a decent pension for future retirees. The SSF pointed out that the date on which the proposal will be made public will be at the discretion of the Executive. *(Source: www.laprensagrafica.com; Date: 28.04.2015).*

• **The PAYGO system would raise El Salvador's pension debt to USD 40,907 billion.** The solution to the problem of the social security system must address a series of comprehensive measures that do not include a return to the former PAYGO system, since this would raise the amount of the future pension debt to USD 40,907 million, according to a study carried out by the actuary Eduardo Melinsky and quoted by the Salvadoran Foundation for Economic and Social Development (FUSADES). The report "Why should the pension savings of workers be respected?" (in Spanish) published in May, 2015 by FUSADES, points out that returning to the PAYGO system, in addition to the current deterioration of public finances, would not be sustainable over time. The entity gave as an example the fact that there are currently risks caused by the demographic transition stage that the country is going through (lower fertility rates), which could give rise to financial imbalances, since pensions in the PAYGO system are paid with the contributions of active workers. "El Salvador needs to promote a favorable climate for local and foreign investment to achieve higher rates of economic growth (...) A pension reform that intends to return to a PAYGO system, would be a change in the opposite direction," said FUSADES. Recent estimates by the National Foundation for Development (FUNDE) point out that the present value of the pension debt is between USD 15 and USD 20 billion, while returning to a PAYGO system would cause the pension deficit to rise to USD 17 billion. *(Source: http://elmundo.com.sv; Date: 13.05.2015).*

• **Government announces the formation of a Pension Reform Advisory Council.** In May, the Government announced the formation of an Advisory Council which will assess the situation of the existing pension system. The purpose of this Council is to analyze a series of proposed reforms. The main problems facing the current system is the low rate of coverage and the low rates of return of the pension funds. The latter is explained mainly by the high concentration of investments in public debt instruments (80% of the funds). The Government hopes to implement a reform that includes increasing coverage, achieving higher rates of return through the extension of investment limits and increasing the current level of benefits. According to government authorities, the Pension Fund Managers (AFPs) will carry on operating, but the introduction of a mixed system - public PAYGO plus individual funding managed by the AFPs - is an option being considered. *(Source: Social Security, International Update; Date: July 2015).*

United States

• **Retirement savings grow 6% in 2014.** Total retirement assets in the United States last year were USD 24.7 billion, an increase of 6% over the previous year, representing 36% of all financial assets of American families. Of the total amount, USD 7.4 billion are destined to individual retirement accounts (known as Investment Retirement Accounts, IRAs); USD 6.8 billion are in defined-contribution pension plans; USD 5.2 billion correspond to public employees' defined-benefit plans; 3.2 billion USD are in defined-benefit corporate plans; and finally, USD 2 billion correspond to insurance. *(Source: Boletín Diario de Seguros América Latina; Date: 14.04.2015).*

I. Latin America and North America

Honduras

• New Social Security law passed in Honduras that establishes the framework for the introduction of a multipillar individually funded system in the country. Last May 7, 2015, the National Congress of Honduras passed the Framework Law of the Social Protection System for a better Life (in Spanish). This law creates and establishes the framework for the introduction of a multipillar individually funded system in the country. The new law creates Basic Social Security (PPS), which is a non-contributory pillar that guarantees access to essential services and social transfers with an emphasis on the poorest and most vulnerable people. It also extends the coverage of the contributory public system, and introduces individual accounts for workers who earn at least twice the minimum wage. According to the Government, the purpose of the law is to provide universal pension coverage, since under the former legislation only 5% of workers qualified for a State pension. Once the law becomes effective (45 days after its publication in the Official Gazette), the Executive will have 18 months to draft any complementary law and send it to Congress. The contribution rate to the Disability, Old Age and Death Regime is 6.5% of covered income (including the contribution of the employer, worker and the State). Furthermore, employers (and workers) of companies with more than 10 employees contribute an additional 1.5% to the Private Contributions Program (RAP), which is a non-profit financial institution. Once the new structure starts operating, the RAP will become a Pension Fund Manager (AFP) and workers may choose to move their funds to another AFP. The details of how the individual accounts will work and when the law will be passed have still not been announced. A more complete summary of the law can be viewed here and here. *(Sources: www.televicentro.hn; Date: 07.05.2015; www.centralamericadata.com; Date: 11.05.2015; Social Security, International Update; Date: June 2015).*

• The Private Contributions Regime (RAP) will create a solidarity AFP. The Board of Directors of the RAP has decided to create a Solidarity Pension Funds Manager (AFP) so that its members will have the benefit of a pension and unemployment retirement fund, managed by the RAP. There will also be a guarantee that they will continue to enjoy all the rights and benefits they have acquired. According to the directors of this agency, AFP Solidaria will provide its members with easy access to housing loans, automatic loans, scholarships for their children, as well as the distribution of surpluses and interests, among other advantages. *(Source: Boletín Diario de Seguros América Latina; Date: 08.06.2015).*

Mexico

• Mexican Association of Pension Fund Managers (AMAFORE) requests a wider foreign investment margin. AMAFORE requests an increase in the foreign investment margin, since this would help the AFORES to diversify their investment portfolios and contain the impact of periods of volatility. According to AMAFORE, the SIEFOREs (Investment Companies Specializing in Pension Funds, entrusted with resource investment transactions) can only invest up to 20% abroad. This concentration of investment in domestic market instruments "prevents optimal diversification of financial risks to which the SIEFOREs are subject, particularly during episodes of extreme volatility." *(Source: Boletín Diario de Seguros América Latina; Date: 10.04.2015 and www.fundssociety.com; Date: 14.04.2015).*

• CONSAR participates in Financial Literacy Week in the United States. The National Commission for the Retirement Savings System (CONSAR) participated for the first time in the Financial Literacy Week in the United States, organized by the Institute of Mexicans Living Abroad (IME), for promoting a pension savings culture for retirement among Mexicans living abroad. This event, aimed at the more than 12 million Mexicans living in the United States and Canada, was held from April 20 to 24. *(Source: CONSAR Press Release; Date: 20.04.2015).*

• 60% of Mexican women near retirement will have an inadequate pension. According to AMAFORE, there are currently 60.5% of women in Mexico approaching retirement age and faced with two issues for achieving a decent pension: they have shorter contribution periods and little or no voluntary savings. On the other hand, one must bear in mind that the life expectancy of women is higher than that of men, so they will require much more money to survive those years. The situation worsens when including women in the informal sector, who are financially dependent on their husbands, or lack information regarding financial products for retirement. *(Source: Boletín Diario de Seguros América Latina; Date: 12.05.2015).*

• Promotion of focused public policies needed to raise the replacement rate in Mexico. Currently, 6.5% of workers´ salary plus the social quota is contributed to pension savings, a figure that is insufficient for achieving a pension that satisfies the needs of Mexicans, so it is necessary to increase the contribution rate to at least 11.3%, said Carlos Ramírez, President of CONSAR. In his presentation as part of the campaign to increase voluntary savings, Ramírez explained to the media that the replacement rate in Mexico is less than 30%, whereas in other countries, as is the case in Chile, it is more than 60%. He therefore stressed that focused public policies are needed to raise replacement rates in Mexico and reduce poverty among the elderly. The replacement rate is not the only obstacle for achieving a pension that satisfies the needs of all Mexicans; the lack of interest of Mexicans in saving for the future is also a contributing factor, said the President of the AMAFORE, Carlos Noriega. According to AMAFORE data, 72% of Mexicans do not have any kind of retirement savings plan, since half of them expect their children to maintain them in their old age. Financial education on pension matters is of vital importance, said Noriega, because if a person wants to retire at age 65 with a “decent” pension, he must have saved an amount equivalent to 10 years of work. *(Source: Boletín Diario de Seguros América Latina; Date: 29.05.2015).*

• The Government must increase its participation in pension savings for achieving a decent pension. Future pensioners must increase their mandatory monthly pension savings contribution of 6.5% if they wish to improve their future pensions, but the government must also play a greater role in these savings, according to Enrique Díaz Infante, a researcher at the Espinosa Yglesias Studies Center, who explained that the Government only contributes 0.225 percentage points of this contribution, while the employer contributes 5.15 and the employee, 1.125 percentage points. According to the researcher, since employers are the ones with the biggest stake in the pension savings of workers, they should be given greater incentives. However, companies now have deduction limits on voluntary contributions since the tax reform came into effect, which discourages employers from taking out private pension plans for their workers. He also pointed out that increasing the employer’s contribution could discourage formal employment, which is worrying considering the already high levels of informality in the country. He therefore stressed that the tax reform should be redesigned so as not to limit tax deductions on voluntary contributions, because with them companies will continue contributing to the savings of workers and they will have better replacement rates. *(Source: Boletín Diario de Seguros América Latina; Date: 29.05.2015).*

• PEMEX encourages the AFOREs to participate in the financing of energy infrastructure projects. Petroleos Mexicanos (Pemex) has proposed that the fund managers that manage the pensions of Mexican workers should participate in the financing of infrastructure projects in the energy sector. According to the CEO of the company, Pemex will be a catalyst for the creation and modernization of the infrastructure in the country, and will also work quickly to incorporate private investment in all the infrastructure projects it carries out. *(Source: Boletín Diario de Seguros América Latina; Date: 17.05.2015).*

• Members can make voluntary contributions to their individually funded accounts in Telecomm branches. Last June 19, a strategic alliance between the Ministry of Finance and Public Credit (SHCP), CONSAR and Telecomunicaciones de México (Telecomm) was formalized; this alliance will extend the infrastructure required for Mexicans to be able to save in an AFORE easily and safely, by 1650 collection points countrywide. This alliance is part of the program launched in October 2014. Telecomm's 1,650 branches will be added to the branches of the 7 - Eleven shops, to reach a total of more than 3,400 collection points authorized for receiving retirement savings countrywide, and facilitating voluntary savings through the AFOREs for millions of Mexicans. Savers can make deposits of 50 pesos (US$ 3.21)[8] or more without paying a deposit commission. This measure is part of the program "Saving in your AFORE was never so easy", launched in October of 2014 by the SHCP and CONSAR, the purpose of which is to promote voluntary savings. *(Source: CONSAR Press Release; Date: 19.06.2015).*

• The AFORE 'Principal Group' seeks to assign its first mandate. The AFORE Principal Financial Group has said that it intends to assign its first mandate this year. According to its Managing Director, Principal could invest a significant amount in a fund manager which would make better foreign investment assessments. The AFOREs market must focus more on this option, in order to diversify its investments more and stop concentrating investments in the domestic market. The executive also stressed the need to modify the investment regime of the AFOREs, especially with regard to increasing the percentage of investments in foreign securities, since the 20% currently allowed is insufficient for increasing the yields they offer. *(Source: Boletín Diario de Seguros América Latina; Date: 22.06.2015).*

Panama

• Pensions increased through tax increase. A plenary meeting of the National Assembly approved, in a third debate, Bill of Law 197, which establishes the legal framework for strengthening, conserving and sustaining the finances of the Disability, Old Age and Death Fund of the Social Security Fund (CSS), allowing for an increase in pensions. The proposal, presented by the Minister of Economy and Finance (MEF), increases the taxes applied to gambling and non-metallic mining for financing the monthly pension increase for the elderly. The initiative also includes soft drinks, wines, beers, liquors and products derived from tobacco, such as domestically produced and imported cigarettes and cigars, which will henceforth be taxed. Article 19 of the project authorizes payment on account of the National Treasury, as of April 1, 2015, of an increase in old age pensions payable as of December 31, 2014, whose amounts are less than U$ 1,000 per month. *(Source: www.centralamericadata.com; Date: 29.04.2015).*

8. At the exchange rate on 30.06.2015 of 1 USD= MXN 15.5744.

Peru

• **According to AFP Prima, it is difficult for the returns of Fund 3 to improve in the short term.** Foreign investments will continue to be the most profitable, given the decline in the local economy. Although the returns of the pension funds have shown a significant recovery in the past year, what calls one's attention is the fact that Fund 3, the most diversified portfolio, has had the lowest returns (9.20%). According to José Antonio Roca, the investment manager of AFP Prima, it is difficult for Fund 3 to 'take off' in the short term, since investment in the Lima Stock Exchange is at 20% so far this year, and the stock market has dropped 4.39% in the midst of a scenario of social conflicts and political noise. In this regard, he pointed out that the growth of the economy will depend on the direction the Government takes and the recovery of confidence. However, he advised members in Fund 3 to remain in the fund, since it will have better returns in the next few years. "In order to avoid short-term losses, one sometimes avoids long-term gains," he said. *(Source: www.larepublica.pe; Date: 19.04.2015)*

• **According to a study by SURA Asset Management, the Peruvian Private Pension System (SPP) has proven to be far superior to the National Pension System (SNP).** The study "How to strengthen the Latin American pension systems: experience, lessons and proposals", by Sura Asset Management, points out that in order to improve the low coverage of the Peruvian Social Security System, the SPP should prevail in the contributory pillar, and therefore eventually absorb the SNP over time[9], so as to arrive at a single tax system which will enable the state to acknowledge its pension liabilities. It also proposes sanctions for the infringement of existing regulations and encourages the publication of measures that make compliance mandatory, in order to reduce the enormous pending debt and avoid its recurrence and, finally, by the creation of incentives for pension savings, through state subsidies, especially for lower-income workers. *(Source: www.fundssociety.com; Date: 21.04.2015).*

• **AFP Integra was awarded the distinctive "Socially Responsible Company" prize for the third time.** The award was presented by Peru 2021 and the Mexican Center of Philanthropy due to its voluntary commitment to the promotion of the integral development of the country. Source: *(Boletín Diario de Seguros América Latina; Date: 24.04.2015).*

9. The Peruvian pension system currently comprises four pillars: the so-called "zero pillar," run by the Ministry of Development and Social Inclusion (MIDIS) through the Pension 65 program, the purpose of which is to provide direct subsidies to the elderly in conditions of extreme poverty and without a pension; "pillar one," which is the National Pension System (SNP), a PAYGO system managed by a public agency; "pillar two," which is the efficient Private Pension System (SPP) with individually funded accounts managed by private companies; and the "third pillar" of voluntary savings, which is available mainly to the members of the latter.

• Line 2 of the Lima Metro System will be the first AFP trust investment. The AFPs are very optimistic that the first investment of USD 1 billion in infrastructure projects by the trust will be Line 2 of the Lima Metro System, said the Deputy General Manager of AFP Integra, Aldo Ferrini. He explained that whatever any one of the AFPs can allocate to these types of projects can be added to the fund. He also announced that investment in the Huacho-Pativilca highway is being studied, which would involve some PEN 700 million (about USD 250 million)[10]. *(Source: www.andina.com.pe; Date: 02.05.2015).*

• Superintendency of Banks, Insurance and AFPs (SBS) extends the foreign and local investment alternatives of the AFPs. Last June 09, 2015, the SBS announced that it has extended the local and foreign investment alternatives of the private pension funds, continuing the implementation of the reform of the investment system of social security institutions. Throughout 2014, the SBS approved a number of initiatives for making the investment system more flexible and speeding up the AFP investment process. Thus, the AFPs will be allowed to seize investment opportunities when they arise in the financial market, and also diversify the managed portfolios, reducing their volatility and maximizing returns. "All for the benefit of the members of the Private Pension System (SPP)," said the SBS. According to Resolution SBS 3233-2015, , the local and foreign investment alternatives of the pension funds are extended, establishing regulations in line with international best practices, within a more robust regulatory framework of risk management by the AFPs. This resolution also aims to continue simplifying the investment process of such agencies. From now on, the AFPs can invest the pension funds directly in the following instruments: local and foreign securities lending transactions and reporting transactions, within and without the centralized trading mechanisms, and primary public share offers, trusts and securitizations that have bank loans, syndicated loans, credit card debt and trade receivable accounts or remittances as underlying assets. They can also invest in shares of listed companies whose exposure is in alternative instruments. Another aspect to highlight is that the pension funds can invest in new infrastructure projects and projects in the maturity stage in Peru. The resolution also allows investment in traditional and alternative, local and foreign funds, among others, that use derivatives in accordance with their investment objectives. Thus, the new rules and regulations issued by the SBS create a scenario of greater flexibility in direct and indirect investments performed by the pension funds, thereby contributing to stronger economic growth. *(Source: www.andina.com.pe; Date: 09.06.2015).*

10. At the exchange rate on 30.06.2015 of 1 USD = 2.795 PEN.

Dominican Republic

• Changes in the rules and regulations governing disability pensions are approved. ast April 26, the National Social Security Council (CNSS) adopted a resolution amending the rules governing disability pensions. As part of the individually-funded program, the insurance companies (contracted by the AFPs) provide benefits to individuals whose disability reduces their ability to generate income by at least 50% until the age of 60. Under the new rules, the disability pension will be received until age 65. During the time that the member receives the disability pension, the insurance company will pay his contributions into his individual account managed by an AFP, and after he turns 65, the worker can access a pension financed by his accumulated fund (either through the purchase of a life annuity indexed for inflation or through programmed retirement). The other change introduced is that, from now on, workers will have 7 years (instead of 2) after their disability to apply for their disability pension. *(Source: Social Security, International Update; Date: May 2015).*

• The Dominican Association of Pension Fund Managers (ADAFP) report that fictitious employers are committing Social Security fraud. The ADAFP reported that fictitious employers are committing social security fraud, by reporting contributions with salaries much lower than the established minimum wage. The Executive Chairman of the ADAFP, Kirsis Jáquez, warned that this fraudulent action seriously affects the sustainability of the system and the effective protection of workers. The authorities have been tracking these cases and taking the necessary measures to halt and remedy this situation, with the support of all the agencies of the system. Jaquez said that in the particular case of pensions, contributions on income below the minimum wage impact negatively on the future pensions of workers. *(Source: www.hoy.com.do; Date: 01.06.2015).*

• Entrepreneurs will be tried for fraud against the Social Security Treasury (TSS). Last June 8, 2015, the TSS announced that it will sue entrepreneurs who commit fraud when reporting salaries below the taxable minimum wage. The TSS said that through its audits it had repeatedly detected this practice in payrolls, as well as individuals with virtual structures who act as sellers of health insurance to others who are not their employees. The TSS said that it will take drastic action against evaders in the Dominican Social Security System, since payrolls falsified with insignificant amounts affect the sustainability of health and pension protection. *(Source: www.elnacional.com.do; Date: 08.06.2015).*

• The Chairman of the Dominican Association of Pension Fund Managers (ADAFP) highlighted the growth and strength of the pension system, in its 12th anniversary celebrations. According to Kirsis Jáquez, more than RD$ 260 billion (USD 5,792 million)[11] currently accumulated by the pension system are the result of contributions by members and employers and the returns accumulated due to management by the AFPs. According to the Chairman, this accumulation of resources is an important achievement of the Social Security system and the net worth of Dominican workers. She said that through the pension funds, workers have become the most important and fastest growing institutional investor in the country in recent years. She also said that this accumulation of workers' savings has contributed to the growth of the economy, the financial balance and the deepening of the securities market in the country. The Chairman of the ADAFP stressed that the purpose of the pension system is the accumulation of the wealth of workers, providing them with sufficient resources upon retirement for ensuring a pension in accordance with their standard of living in their working lives. Finally, Jáquez said that the system is facing great challenges ahead, such as the diversification of the pension funds, ongoing contribution to the development of the country, the

11. At the exchange rate on 30.06.2015 of 1 USD = 44.89 DOP.

incorporation of self-employed workers, continuous growth and strengthening of the system, with greater coverage, achieving steady, ongoing contributions, job security and enabling workers to access a decent and appropriate pension upon retirement. *(Source: http://hoy.com.do; Date: 06.07.2015).*

Uruguay

• The Government and CAF - Latin American Development Bank are setting up a USD 500 million fund as an instrument for financing infrastructure projects with the resources of an international agency and the AFAPs. The representative of the CAF in Uruguay, said that the process of setting up an infrastructure fund had advanced considerably. He estimated that the infrastructure fund would be set up by mid-2015, but in order not to generate expenses; it will not start operating until the first infrastructure projects it will finance have been identified. For example, the works tendered under the public-private participation system (PPP) for improvements to Routes 24 and 21 are "one of the candidates" to be financed by this fund. *(Source: www.elpais.com.uy; Date: 16.04.2015).*

• FIAP will hold its XIII International Seminar in Montevideo in September. The venue of the 13th FIAP International Seminar to be held on September 24 and 25, 2015, is Montevideo, Uruguay. As on previous occasions, the event will feature international experts speaking of their experience and knowledge in different areas of interest. The Seminar will be attended by guests from different regions of the world (FIAP members and others), including government officials, legislators, officials of international agencies, representatives of pension fund managers, mutual funds and insurance companies, and other personalities related to the financial sector and social security. More details in www.seminariofiap2015.com. *(Source: www.fundssociety.com; Date: 13.05.2015).*

• The newly formed National Association of AFAPs proposes changing the criteria for assigning members by default. The creation of the National Association of AFAPs (ANAFAP), comprising Integración Afap, Afap Sura and UniónCapital Afap, chaired by María Dolores Benavente, was announced last June 30. During the launch event, its Chairman proposed changing the criteria for assigning members by default, for the purpose of reducing the high concentration. According to his diagnosis, the current criteria for the assignment of members by default, based on the lowest commission, leads to higher concentration in the Uruguayan pension funds market. If one considers the pension savings fund, Uruguay today has the highest level of market concentration among comparable regimes. If current trends prevail, the Uruguayan market will soon also have the highest levels of concentration in terms of numbers of members. This is why the ANAFAP proposes that the assignment of new members by default should be based on the highest annualized net return of the last 36 months, rather than the lowest management commission. This proposal upholds the importance of rewarding a low commission, but adds an award for greater yield. According to the ANAFAP, the main beneficiaries of this change would be the members themselves, since it would help them to achieve a greater cumulative fund at the time of their retirement. This would occur in a context in which the current trend towards greater concentration in the market would also slow down. *(Source: ANAFAP Press Release; Date: 30.06.2015).*

• Republic AFAP does not share the ANAFAP's proposal for changing the law of assignment of members by default. According to technical studies carried out by Republic AFAP, if one considers the values of the relevant variables (particularly management commissions and net returns) of each one of the fund managers, in the first 20 years of their working lives, workers benefit from being in the fund manager with the lowest commission, since its accumulated fund will in all cases be higher than the one accumulated in the AFAP with the best net return. Hence, Republic AFAP would not support the ANAFP's proposal for changing the assignment by default criteria from the lowest management commission to the highest net returns. According to República AFAP, the highest retirement funds are built up by remaining in the AFAP with the lowest commission for 20 years and then switching to one with the highest net returns, should they not coincide. Additionally, it added that the rule currently in place in Uruguay for the assignment of members by default is similar to the one applied in other countries of reference in this matter, such as Chile, Peru, Costa Rica and Colombia. Finally, República AFAP points out that if the concern (of the ANAFP) is high concentration, all that is necessary is for some of the AFAPs to lower their management commissions sufficiently for 50% of the assignments by default to start being assigned to them, pursuant to law. *(Source: Republic AFAP Press Release; Date: 31.07.2015).*

Miscellaneous

• First stress test for institutions providing pension plans. The European Insurance and Occupational Pensions Authority (EIOPA) conducted its first stress test for the institutions providing employment pension plans, as well as a quantitative assessment for new work on Solvency II in these types of institutions. These stress tests will assess the recovery capacity of these institutions and their pension plans in an adverse market scenario, and another scenario of greater longevity. The exercise will be conducted in seventeen European countries. The stress test includes both defined contribution and defined benefit plans. "The tests will provide information and will create awareness of the risks and vulnerabilities of the pensions sector, while also assessing the potential transmission mechanisms of the agencies that provide plans with the rest of the financial sector and the real economy," states EIOPA in its press release. The results of the stress tests will be available in December 2015. *(Source: Boletín Diario de Seguros América Latina; Date: 12.05.2015).*

Spain

• The net worth of individual pension plans grew nearly 6% in the first quarter of 2015. The net value of the pension plans of the individually funded system grew 5.88% between January and March 2015, to EUR 67,020 million (USD 74,732 million), according to data provided by VDOS Stochastics. A total of EUR 2,673 million (USD 2,980 million) of the aforementioned increase corresponds to the returns of the assets portfolio, with EUR 1,048 million (USD 1,169 million) corresponding to net contributions. The mixed plans were the ones that attracted most interest from investors. Regarding returns, the consulting firm points out that the favorable evolution the stock markets allowed equity plans to accumulate returns of 14.73% in the quarter. *(Source: Boletín Diario de Seguros América Latina; Date: 17.04.2015).*

• The "Ciudadanos" political party calls for a system of notional accounts like the one used in Sweden. The political party "Ciudadanos" (center-right) has proposed a pension reform within its economic program that mimics the Swedish system. The party advocates a PAYGO system with notional accounts, like the one used in Sweden. One of the measures arising from this proposal consists in making the retirement age more flexible. Each contributor would be able to retire when he deems it appropriate. The idea is that workers always know how much money they are contributing and what their benefits would be in case of retirement. The calculation of benefits would take into account the "principle of proportionality," i.e. the initial pension would be estimated on the basis of the contributions that each worker has paid into Social Security. "Life expectancy at the time of retirement and other aspects," would also be taken into account, they say. Further details here. *(Source: http://vozpopuli.com; Date: 17.04.2015).*

• The pension reform would enable cutting an additional EUR 1 billion of spending each year. The pension reform passed by the Government of Mariano Rajoy is on the point of achieving a reduction in pension expenditure of an additional EUR 1 billion (approx. USD 1,115 million) per year, as detailed in the 2015-2018 Stability Program submitted to the European Commission on April 30, 2015 (see details here). If this reform had not been implemented, pension spending would have skyrocketed from 11.8% of GDP to 12.5% of GDP in 2020 and to 15.8% in 2050, says the Executive. However, the different changes introduced to the system will keep pension spending stable below 12% of GDP over the next few years. The brake on pension expenditure is explained because, despite growing life expectancy and the upcoming retirement of the "baby boomers" (the ones exerting upward pressure on Social Security expenditure), the latest reforms have reduced the generosity of the system (the period used for calculating the pension has increased from 15 to 25 years in the last few years; the retirement age has been gradually raised to 67; early retirement has become more difficult; the adjustment of benefits has been detached from the CPI and linked to Social Security revenue and expenditure; and a sustainability factor has been introduced to limit the initial benefit on the basis of life expectancy, becoming effective as of 2019). The mere application of the sustainability factor will cause the initial benefits of the highest pensions to drop by 18% between 2018 and 2060. Further details here. *(Source: http://vozpopuli.com; Date: 04.05.2015).*

The Netherlands

• Government backtracks on the planned changes to the life annuity laws for Defined Contribution (DC) plans. The legal proposals for allowing retirees in the DC systems to postpone the purchase of a Life Annuity (LA) have been annulled. At present, all the funds accumulated in DC plans must be fully converted into a Life Annuity when the plan member reaches the official retirement age. The government had intended to allow the ongoing investment of the accumulated savings to a date after the official retirement age. However, the Ministry of Social Affairs, in a letter sent to Parliament, said that the Government needs more time to analyze the responsibilities of the pension providers to the members of those DC plans who opt for this type of agreement. Both Parliament and the pensions industry urged the Ministry of Social Affairs to introduce legislation on the matter as soon as possible, since low interest rates are leading to low pension incomes for workers when funds are converted into a Life Annuity. The implementation of the new legislation will be postponed for 6 months, until July 1, 2016. *(Source: www.ipe.com; Date: 06.05.2015).*

Macedonia

• Pension reform has been successful 10 years after its introduction. Macedonia reformed its pension system in 2005, including a mandatory individually funded 2nd Pillar (which started operating in 2006) and a 3rd Pillar of voluntary individual savings (which started operating in 2009). 10 years after the reform, it is deemed to have been successful. Nonetheless, the pension funds are in negotiations with the Government to improve some aspects of the existing system. The diversification of investments is among the priorities of the pension funds. The current regulations are very restrictive, leading to a concentration of investments in debt instruments. Thus, for example, the limit of investment in equity is 30%. The use of derivative instruments is also prohibited, which hinders risk management, according to the pension funds. Greater diversification of investment would also enable reopening the discussion on the creation of Multifunds, another one of the pending issues. Finally, the existing pension modes must be improved. So far, retirees have the option of programmed retirement, life annuity or a combination of both. However, the regulation of the life annuity market must be improved, since it is now very limited. *(Source: USAID, Global Experience in Pension Reform; Date: May 2015).*

Malta

•Report reveals weaknesses of the public PAYGO system. The report of the Strategic Pension Group, entitled Strengthening the Pension System: A Strategy for an Adequate and Sustainable Maltese Pension System was published last June 17. The report states that if there are no changes, the income of the public pension system would be reduced from 9% of GDP in 2013 to 7.7% of GDP in 2060, with which expenditure on pensions would reach 12.5% of GDP in

2060. Furthermore, the population of Malta is rapidly aging, while the birth rate is dropping. Among the measures proposed for improving the sustainability of the public pension system are: (i) correct the formula for calculating benefits; (ii) encourage voluntary pension savings; (iii) promote continuity in the labor market beyond the legal retirement age (65). *(Source: Social Security, International Update; Date: July 2015).*

Poland

• Government is urged to clarify regulations governing stock lending and the use of derivatives. The Polish Chamber of Pension Funds (IGTE) is pressing the Government to issue the regulations governing stock lending (short sales) and the use of derivatives by the second pillar pension funds (OFE). These two activities were introduced as part of the 2014 pension reform, but the industry is still waiting for the government to specify the procedures and conditions of use. According to IGTE, stock lending is a cost-free means used by the pension funds for obtaining additional revenue in shares that cannot be traded in short periods of time. The practice, according to IGTE, would reduce the volatility of asset prices, and improve market appraisals and the competitiveness of the capital market. The Financial Supervision Authority (KNF), the country's pensions regulator, is also pushing for a rapid introduction of such regulations. Moreover, the use of derivatives would allow the pension funds to cover currency and other risks. This activity, with the support of the Warsaw Stock Exchange, has become increasingly important since the OFEs were allowed to increase their investment abroad from 5% to 10% in 2014, and to 30% in 2016. *(Source: www.ipe.com; Date: 27.04.2015).*

Portugal

• The IMF demands that Portugal introduce a pension and salary reform. The IMF acknowledges the progress made by the country, but considers it too weak, so it has recently requested greater restriction of public expenditure, as well as a reform of pensions and the salary system. If the reforms are implemented as planned, the IMF expects unemployment to decrease slightly this year (to 13.1%) and by another point in 2016. To achieve that goal, according to the IMF, the labor market must be made more flexible. Further details here. *(Source: www.abc.es; Date: 12.05.2015).*

United Kingdom

• New pension law passed. The new pension law was passed last March 3, and will become effective on April 6. The changes introduced by the law include: (i) greater flexibility in access to benefits for members of defined contribution (DC) plans; (ii) extend the shared risk options in pension plans; and (iii) introduction of new requirements for providing advisory services to members, in particular to members of defined benefit (DB) plans who wish to switch to a DC plan, who must have received adequate independent advice when they wish to transfer more than GBP 30,000 (USD 47,155)[12]. For such purposes, the law stipulates the creation of a new free public service called Pension Wise, which will provide independent advisory services to members regarding their retirement options. Further details here. *(Source: Social Security, International Update; Date: May 2015).*

12. At the exchange rate on 30.06.2015 of 1 USD = 0.6232 GBP.

• Despite regulatory changes, defined contribution (DC) pension plans can continue to be based on life annuities. Changes to the pension system came into effect last April 6, whereby the savers in DC plans are no longer required to purchase a life annuity at the time of retirement and can access alternative products, or withdraw their savings in a lump sum. However, according to research by the DC Investment Forum, the largest pension plans of the United Kingdom's have made no effort to modify their pension offer and are still focused on life annuities. *(Source: www.ipe.com; Date: 01.05.2015).*

• Pensioners who recklessly spend their pension funds will not be able to access a State pension. Since the introduction of regulatory changes to the DC pension schemes, which allow the lump-sum withdrawal of pension funds, concerns have been raised that retirees spend the pension funds within days or months. The director of the Financial Conduct Authority warned that since April (when the legislation came into effect) the number of reservations on cruise ships had increased by 8%. In response to these concerns, the Government has made it clear that those who recklessly spend their pension funds, will not be entitled to a State pension, and will be considered to still be making use of their fund. This measure aims to prevent retirees from making irresponsible decisions. *(Source: USAID, Global Experience in Pension Reform; Date: May 2015).*

Romania

•Privatization program implemented by the Government offers greater investment opportunities for the pension funds. The Government has been implementing an aggressive privatization program since 2013. The private pension funds have had a pivotal role in this privatization process, since they have acquired 15% to 30% of the privatized State enterprises. The participation of the private pension funds in the local stock market brings great benefits to the economy in general; for example, it limits the country's dependence on foreign investment flows that tend to be very volatile. Since their inception in 2008, the private pension funds have accumulated a total of EUR 4.2 billion (USD 4,683 millions)[13] and an average return of 11.2%. These figures show that Romania is developing one of the most successful pension systems in the region. *(Source: USAID, Global Experience in Pension Reform; Date: May 2015).*

• The Romanian Association of Private Pension Funds (APAPR) gives its recommendations for improving the pension system. According to the APAPR, the current priority is to establish rules for the retirement phase, since members who opt out of the system can only withdraw their funds through a lump sum withdrawal. This is because there is no legislation in place that allows retirement by means of life annuities, for example. Another priority is to improve the current investment system in order to encourage the diversification of investments. Existing regulations are very restrictive, which leads to 95% of pension funds being invested in local assets. Finally, the APAPR recommended expanding voluntary private savings (3rd Pillar), for which it suggests that tax incentives that encourage companies to contribute to voluntary pension funds are lacking. *(Source: USAID, Global Experience in Pension Reform; Date: May 2015).*

13. At the exchange rate on 30.06.2015 of 1 USD = EUR 0.8468

III. Asia and the Pacific

Australia

• Government changes entry limits and value of assets for accessing an old age pension. Last June 22, Parliament approved a bill of law that changes the maximum income requirements and the maximum value of assets for accessing the Age Pension. Such changes would become effective as of January, 2017. According to the Government, this measure will save about AUD 2.4 billion (USD 1,835 million)[14] over a 5-year period. The effect on current pensioners will depend on the value of their assets; some 170,000 pensioners with fewer assets will see an increase of AUD 30 (23 USD) in their weekly pensions; about 235,000 pensioners will see their pensions reduced; and another 90,000 pensioners will lose their Age Pension2. *(Source: Social Security, International Update; Date: July 2015).*

New Zealand

• Government subsidy to savers in the KiwiSaver system eliminated. The government subsidy to the new KiwiSaver accounts was eliminated as of May 21, 2015. This subsidy was introduced in 2007 when these voluntary retirement savings plans were launched. It consisted in the deposit of NZD 1,000 (USD 717)[15] by the Government in the new KiwiSaver account. However, according to the Government, this incentive is no longer necessary since the KiwiSaver accounts are very popular and have had greater than expected enrollment (there were 25 million members in April, 2015), in addition to being very expensive for the Treasury (it has entailed a cost of NZD 2.5 billion to date, some USD 1,793 million). It is estimated that the elimination of this subsidy will entail savings for the government of NZD 125 million (USD 90 million) per year for the next four years. Further details here. *(Source: Social Security, International Update; Date: June 2015).*

China

• Government plans to increase the legal retirement age. As a means of reducing the burden on the State Pension Fund, the Government has raised the possibility of increasing the legal retirement age. The current retirement age is 50 for women and 60 for men. Experts anticipate that by 2020 the retirement age should increase by 5 years. *(Source: USAID, Global Experience in Pension Reform; Date: March 2015).*

India

• Government introduces new pension program for low-income workers. On June 1, the Indian Government launched a new program of voluntary pensions for low-income workers, called Atal Pension Yojana (APY). APY focuses on workers in unorganized sectors (farmers, low-income workers and the self-employed), who make up the majority of the workforce in India. APY offers a guaranteed rate of return. APY is available for workers between 18 and 40 years of age, who have a bank account, are not covered by any other social security program and do not pay income tax. Contributions will be deducted automatically from the worker's bank account. Each Member of the program can choose the contribution rate, which varies according to the age at which the

14. At the exchange rate on 30.06.2015 of 1 USD = AUD 1.3079.

15. In addition to the Age Pension, which is a State benefit funded through taxes, Australia has a mandatory individually funded system, which is financed with the contributions of employers (contribution by workers is voluntary).

individual joins the program, the number of required contributions, and the desired pension amount (starting at 1,000 rupees (USD 15.7)[16] to 5,000 rupees (USD 78.4 per month)[17]. During the first five years, the Government will provide a subsidy equivalent to 50% of the contributions made by the employee (with a cap of 1,000 rupees per year). Each year, the employee will have the option of adjusting the contribution amount, for the purpose of accessing a higher (lower) pension. The retirement age is 60, but workers can access their funds in advance under special circumstances, such as for example, severe illness. The funds are also inheritable in case of death. APY will be manage by the Pension Fund Regulatory and Development Authority. Further details here. *(Source: Social Security, International Update; Date: July 2015).*

16. At the exchange rate on 30.06.2015 of 1 USD = INR 63.7549.

17. For example, in order to receive a monthly pension of 1,000 rupees, a person who joins the program at age 18, must contribute 42 rupees (USD 0.66) per month for 42 years, while someone who joins at the age of 40 must contribute 291 rupees (USD 4.56) per month for 20 years.