Progress of the Pension Systems[1]
July - September 2015

N°3

1. 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 entirely reproduced citing the source.

This document compiles the main legal changes that occurred in the pension systems from July 2015 - September 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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• El Salvador: The government has still not announced the measures to be included in the pension reform.

• Mexico: The amendments to the financial regulations of the Retirement Savings System were approved.

• Uruguay: The 13th FIAP International Seminar was successfully held in Montevideo on September 24 and 25.

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I. Miscellaneous

• 80% of institutional investors invest in at least one kind of alternative assets. According to data collected by Preqin for publishing its latest "Investor Outlook" 4 out of every 5 institutional investors worldwide invest in at least one kind of alternative assets. Among them, private equity, hedge funds and real estate are the most sought after, and half of investors already hold positions in all three of them. Although benefits may vary greatly between one class of assets and others, some of the most common reasons for alternative investments given by respondents are diversification, high returns, reliable income flows and coverage of inflation. The study predicts that investments in alternative assets will grow over the next year. Thus, it appears that the majority of alternative investors are satisfied. So much so that 95% of investors in private equity and 94% in real estate have a positive or neutral opinion regarding different asset classes. The contrary opinion is provided by the 20% of investors who invested in hedge funds, who have a negative opinion of this asset class. (Source: www.fundssociety.com; Date: 29.09.2015).

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Pacific Alliance

• The Integrated Latin American Market (MILA) will deepen the agenda of financial integration proposed by the heads of State of the Pacific Alliance. The Executive Committee of the MILA, comprising the stock exchanges and securities deposits of Chile, Colombia, Peru and Mexico, said that "it will provided technical support to the Council of Finance Ministers, to advance, consolidate and strengthen our platform, looking for overall benefits for the economies and capital markets of the region". MILA announced its decision to support and deepen the advancement of the Financial Integration Work Agenda formulated by the Pacific Alliance, in the declaration issued on the occasion of the 10th Summit held in the city of Paracas, Peru. During the meeting, the presidents of the member countries of the Pacific Alliance instructed their Ministers of Finance to draw up a work agenda for the 2015 - 2016 period, aimed at identifying and coordinating initiatives to strengthen and consolidate MILA. The aim is to implement measures in all four countries, such as the recognition of issuers in primary offerings, the expansion of new instruments that can be negotiated in the different exchange platforms of markets, mutual funds, the extension of MILA to fixed-income and standardized derivatives markets, as well as the approval of the tax treatment (double taxation agreements) and the recognition of local investment of the region's pension funds. (Source: www.fundssociety.com; Date: 13.07.2015).

• The 13th FIAP International Seminar dedicated a block to Financial Integration in the Pacific Alliance. The sixth block of the seminar, attended by regulators and representatives of the industry of the 4 countries of the Pacific Alliance, was dedicated to analyzing the "Financial Integration in the Pacific Alliance: the case of the Pension Funds". Juan Pablo Córdoba, Chairman of the Ibero-American Federation of Stock Exchanges (FIAB), spoke on the role of the pension funds in the integration of the Latin American capital markets. He noted that: "financial integration is the road to progress in the Latin American economy. Integrated stock markets provide growth, and enhance innovation". He added that the pension regulators in Chile, Mexico, Peru and Colombia can play a passive role and maintain the restrictions that prohibit the pension funds from investing in the countries of the region. He added that the creation in 2011 of the Integrated Latin American Market (MILA), to promote market liquidity within the Pacific Alliance, was a big step in the right direction, but it includes very few countries (at present only Chile, Colombia, Mexico and Peru). The space "The regulator's vision", was attended by the superintendents of the four countries of the Pacific Alliance. Tamara Agnic, The Chilean Superintendence of Pensions, said that the Chilean AFPs invest 1.7% in Latin America markets, well below the limits set by the regulator: "As regulators, we cannot force local investors to invest more in Latin American markets". Carlos Ramírez, the Chairman of CONSAR in Mexico, on the other hand, said that the current situation is largely due to lack of demand. (Source: www.fundssociety.com; Date: 14.10.2015).

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Brazil

• **Brazil and the United States sign an agreement to avoid double social security contributions.** Last June 30, the United States and Brazil signed a totalization agreement to exempt workers and employers in both countries from double social security contributions. Each country must complete the review process before the agreement comes into effect. The agreement will exempt citizens of the United States, transferred by U.S. firms to work in Brazil for periods of 5 years or less, from paying Social Security contributions in Brazil. On the other hand, Brazilian citizens sent to work temporarily in the United States by Brazilian firms, will receive a similar tax treatment. Thus, the worker's employer will pay social security contributions only in his country of origin. Individuals who have worked in both countries, but do not meet the minimum requirements for accessing benefits in either of the systems, may qualify for a benefit based on combined credit coverage in both countries. The combined coverage periods can be used for calculating benefits for old age, disability and survivor pensions. (Source: Social Security International Update; Date: August 2015).

Canada

• **The Government announced that several central points of the Ontario Retirement Pension Plan (ORPP) have been completed.** Thus, the ORPP will not apply to workers who are currently enrolled in another comparable pension plan. A pension plan is considered comparable if it offers a predictable retirement income stream and a standard of living in retirement similar to what would be provided by the ORPP. Enrollment in the ORPP will also be progressive, to ensure that the ORPP focuses on employees who do not have access to another pension plan, and give employers time to adapt. Like the Canada Pension Plan, the ORPP will be financed by contributions from employers and workers (with contributions of 1.9% by both parties). The benefits will be paid as of 2022. The benefits will be paid in proportion to the paid-in contributions, ensuring that the system is fair and that future generations will not be charged with additional costs related to the benefits of older workers. All workers must be registered in the ORPP or a comparable plan by 2020. (Source: AON Global Retirement Update; Date: September, 2015).

Chile

• **The Superintendency of Pensions approves the creation of Metlife's AFP Acquisition.** The Superintendent of Pensions (SP) has granted commercial authorization for the creation of a new AFP, called Acquisition, belonging to Metlife, which is expected to merge with AFP Provida, and which will enable Metlife to defer tax payments of US$ 288 million over ten years. It must be pointed out that this mechanism was used by Principal Financial Group for the merger of the AFPs Cuprum and Argentum, earning a tax benefit of about US$ 130 million. (Source: Boletín Diario de Seguros América Latina; Date: 01.09.2015).

• **The Superintendent of Pensions (SP) analyzes the conditions of the investment system of the AFPs.** According to the Superintendent of Pensions, it is necessary to determine whether the current conditions imposed by the pension fund investment system provide an adequate risk/return combination, and whether such limits contribute to a pension that is consistent with the level of income of each individual. Thus, if these objectives are not being met in the best possible way, the next step is to determine the limits that prevent it, and then evaluate the possibilities of modifying them, it said. In this regard, it pointed out that the returns of the different assets have been dropping in the last decade, which imposes the challenge of "considering new options, e.g. in alternative assets". In particular, the SP is analyzing "the possibility of pension funds being able to invest in assets, with less restrictions than are currently in place". (Source: Boletín Diario de Seguros América Latina; Date: 09.09.2015).

• **Presidential Advisory Commission delivers its final report on the pension system.** The Presidential Advisory Commission on the Pension System delivered its final report last September 14. Three global proposals were put forward. Proposal A aims to strengthen the existing system by building onto the 2008 Reform. The proposal strengthens the Solidarity Pension System, by (1) Significantly increasing the solidarity pension and (2) Making its coverage universal. It proposes financing this increase (3) Through taxes and (4) By means of a new contribution of 2% by the employer to a Solidarity Fund. It introduces substantive changes to the savings component, introducing (5) A further contribution of 2% to the expense of the Employer, destined to the individually funded accounts, and (6) A State AFP with strict rules of governance and (7) New measures for reducing the commissions of the AFPs. Improve gender equity, by (8) Sharing the contributions of couples every year, (9) Matching the legal retirement ages of men and women over time, and (10) Implementing unisex mortality tables. This proposal had the support of 12 (of 24) Commissioners, including the Chairman of the Commission, David Bravo. Proposal B aims to transform the current solidarity pension system into social insurance with tripartite funding. It would be organized through citizens' Social Security accounts (in the form of notional accounts), and both the basic solidarity pension and the individually funded component would be maintained for the higher incomes of approximately 50% of workers. The proposal would enable raising the pensions of current retirees by setting up a solidarity fund with contributions from employees, employers and State resources. The coverage of the basic solidarity pension would be universal, except for those with very high incomes. The new social security would be financed with the contribution of 10% of all contributors, with a cap of Ch$ 350 million (US$ 497)[2], a 3% or 4% increase in the contribution of employers, complemented by 6% or 7% of government contributions. This proposal had the support of 11 (of 24) commissioners. Proposal C aims at transforming the current system into a public PAYGO system. This proposal had only one vote. The report also included 58 specific measures, which can be reviewed in detail in the following Executive Summary. (Source: Social Security International Update; Date: September 2015).

• **The Association of Pension Fund Managers (AAFP) launches a Pension Education program and a web site.** The AAFP has launched a new Pension Education program and a web site (www.previsionparatodos.cl), which explains how to understand and improve savings in the pension system, addressing factors such as age and type of employment. The Chairman of the AAFP said that one of the main objectives of the trade association is to "promote knowledge of the Chilean Pension System, in order to optimize its use by members, contributors, and pensioners". The site features videos, tutorials and computer graphics for explaining the multifunds, the solidarity pillar, government incentives to the APV, among other topics. A new Pension Education management was also created, with the mission of reaching out to the community through the "Pensions for All" program, with lectures, workshops and online courses, especially focusing on young people. (Source: Boletín Diario de Seguros América Latina; Date: 01.10.2015).

Colombia

• **Old Mutual Colombia proposes a formula for adapting the retirement age to the life expectancy of individuals, and that it should be automatically applied.** According to Daniel Cortes, Chairman of Old Mutual Colombia, the pension system would become sustainable solely with the application of a formula of this type, in which the retirement age is reviewed every 4 years. He also highlighted other points that he deems important to include in a pension reform. First of all, that individuals assume responsibility for their future. Second, that pensions should not increase commensurate with the increase in the minimum wage, but rather with inflation. Third, that special systems should be eliminated, or that the way of recognizing this benefit should be modified. (Source: Boletín Diario de Seguros América Latina; Date: 02.07.2015).

Costa Rica

• **The funds managed by pension operators increase by an average of 16% per year in 5 years.** An accelerated increase in the resources managed by the operators of complementary pensions has been recorded in the last few years. The data announced by the Superintendency of Pensions (SUPEN) show an average annual growth of 16% in 5 years. In fact, on March 31, 2015, the balance of net assets of the six operators amounted to more than USD 9,100 million. Furthermore, 58% of the resources consist in the accumulated contributions of workers, and the remaining 42% in the yield of the investments, according to the Situation Report of the National Pension System, to March this year. (Source: Boletín Diario de Seguros América Latina; Date: 14.07.2014).

Dominican Republic

• **The pension funds are the main institutional investors in the country.** During the commemoration of the tenth anniversary of the Dominican Social Security System (SDSS), the Chairman of the Dominican Association of Pension Fund Managers (ADAFP), Kirsis Jáquez, emphasize the fact

2. At the exchange rate on 30.09.2015 of 1 USD = CLP 704.68.

that through the pension funds, the workers had become the biggest and fastest growing institutional investors in the country in recent years. She pointed out that the more than 260 billion pesos (USD 5.75 billion)[3] accumulated in the Pension Funds are the result of contributions from members, employers and the yield accumulated by the management of the AFPs. According to Jaquez, this accumulation of workers' savings has contributed to the growth of the economy, the financial balance, greater professionalization of investment activities and the deepening of the securities market in the country. Jaquez also pointed out that many challenges lie ahead for the system, such as how to diversify the pension funds, contribute consistently to the development of the country and the possibility of incorporating independent workers into the system. (Source: www.hoy.com.do; Date: 07.07.2015).

• **ADAFP calls for a law that makes social security fraud a criminal offense.** The Executive Chairman of the ADAFP, Kirsis Jáquez, called for an end to irregularities in the contributions to the pension funds, by the passage of a law that criminalizes any kind of fraud and establishes penalties and sanctions similar to those applied for tax evasion. She also said that in order to effectively address and resolve the problems of social security evasion and avoidance, the rules governing the minimum taxable salary for contributions to the pension and retirement fund must be modified. Jaquez also suggested giving the Social Security Treasury (TSS) the legal authority and budgetary autonomy required for fully exercising this duty. Jaquez made this announcement on the occasion of the allegation concerning fraud detected in the Social Security Pensions and Retirement Fund. Jaquez said that the issue merits concrete action, beyond the complaint, in order to definitively resolve the aforementioned practices that threaten the sustainability of the Dominican social security system, causing irreversible damage to the future pensions of the country's workers (Source: www.hoy.com.do; Date: 23.09.2015).

• **Tax ceiling is adjusted in line with the increase in the minimum wage. As of October 1, 2015, the tax ceiling for old age, disability and survival pensions was adjusted in proportion to the increase in the minimum wage.** The tax ceiling is 20 times the minimum wage, which was increased to DOP 9,885 per month (USD 219). (Source: AON Global Retirement Update; Date: September 2015).

El Salvador

• **A new Advisory Committee has been established for reforming the pension system.** Last May, the Government announced the formation of an Advisory Committee that will evaluate the current pension system. The government's goals aimed at improving the existing pension system include: increasing coverage, increasing returns by reducing the limitations on investments, and increasing benefits. A government official said that the Pension Fund Managers (AFPs) will continue to operate and a mixed system - a PAYGO program for the first pillar and individual accounts in the second pillar - is a possibility. Participation in the individually funded system is mandatory for workers in the public and private sectors who entered the labor force after 1998 - and voluntary for self-employed workers. Workers who were 36 or older could choose between an individual account or the PAYGO program. However, according to the Government, the cost of the transition from the PAYGO to the individually funded system is unsustainable. The cost of the transition includes the benefits paid under the PAYGO system, and the rights acquired by those who contributed to the public system and subsequently opted for the individually funded system. (Source: Social Security International Update; Date: July 2015).

• **The Salvadoran Association of Pension Fund Managers (Asafondos) insists on comprehensive pension reform.** Asafondos insisted that the pension system requires a comprehensive consensual reform, not limited merely to tax matters, while expressing its surprise at the government's intention of establishing a mixed system. Last September 4, the Minister of Finance, Carlos Cáceres, said that the Government proposal would consist in making it mandatory for all workers to contribute to a public fund, which would coexist with a private fund, both of them managed by the AFPs. People earning up to two minimum wages (approx. USD 484) would only contribute to the public fund. If the salary exceeds that threshold, the worker would also contribute to the private fund, so that the contribution corresponding to two minimum wages would go to the public fund, and the rest of the income would be saved in the private fund. This proposal has been called "The Cáceres Plan". According to the Treasury,

3. At the exchange rate on 30.09.2015 of 1 USD = DOP 45.19.

this mechanism would allow it to collect the resources for paying the minimum pensions that the State provides to those retirees who exhaust the balance in their savings accounts in the AFPs. Asafondos pointed out that the fiscal problem - which not only arises from the payment of minimum pensions, but also from those granted by the closed down public system - is not the only one that affects the Pension Savings System (SAP). The system does not provide coverage to the entire working population, and the savings of workers also invested in low yield public instruments, which the AFPs are forced to purchase by law. Hence, according to the Association, the focus of the proposals should be comprehensive, not merely fiscal. According to Asafondos, the Technical Office also assured them that the process of drawing up the proposal includes a stage in which the initiative will be submitted to consultation, so the Finance Minister's announcement caused surprise within the institution. (Source: www.elmundo.sv; Date: 07.09.2015).

• **Trade unions demand a broad consultation on the pensions issue within the country.** Last September 11 the workers of several trade unions spoke out against the pension reform plan proposed by the Minister of Finance. The unions agreed to reject changes made for the sole purpose of sorting out the fiscal problem. According to the legal representative of the Committee of Workers in Defense of the Pension Funds, the so-called "Caceres Plan" will not provide benefits for Salvadorans, but only for the public finances. According to their estimates, approximately 55% of the contributors to the existing private system would have to switch all their savings (contributions) to the new PAYGO system that the Minister intends to create. Approximately USD 41 million would be collected by the Treasury every month, which in theory would be used to pay minimum pension commitments and the pensions of retirees. However, there are fears that the money will be used for other purposes. The Committee requested the Government to establish a round table with several sectors to discuss aspects of the pension reform and work towards achieving benefits for workers. (Source: www.elsalvador.com; Date: 12.09.2015).

• **AFPs support a multipillar model, but without a PAYGO fund.** Asafondos believes that in order to improve the pension system, the multipillar model must be strengthened, but it does not deem it appropriate to include a PAYGO fund like the one proposed by the Ministry of Finance. In a private meeting at the beginning of September, the Treasury presented the conceptual framework of the pension reform it aims to promote to the members of the Legislative Assembly, which involves creating a mixed system with four pillars. Asofondos, on the other hand, recommends a three-pillar model[4]: all contributors would pay into the solidarity pillar and their contributions would go to financing welfare pensions; the contributory pillar, which is the one that already exists, where all workers save mandatorily for their pensions with contributions from their employers; and the voluntary system, which would entail creating separate accounts to manage them, since they are currently deposited into the same mandatory savings account. The Treasury proposes the same three pillars as Asafondos, but as a fourth PAYGO pillar for minimum pensions. According to information provided in advance to legislators, this pillar will pay fixed pension annuities and all workers who earn less than twice the minimum wage will make mandatory contributions to it; the contribution rate would be 14%, comprising employee and the employer's contributions. It would also receive contributions from those who earn more than twice the minimum wage. In that case, 14% of two minimum wages will go to the PAYGO fund and 14% of the rest of their income will go to the individually funded pillar, which is the one that is currently operating. Asafondos emphasizes the fact that "a multipillar system is not synonymous with a mixed system". It pointed out that the multipillar system acknowledges that for adequate pension protection, it is necessary to improve and complement the contributory system with other initiatives that provide coverage to sectors that do not pay contributions, such as informal workers. It also involves providing alternatives and incentives for voluntary savings. Asafondos was of the opinion that the return of the PAYGO system would contribute to increasing the pension deficit, would put the sustainability of the system at risk and would generate uncertainty in regard to the future of the money of members in the Pension Savings System (SAP). The Association pointed out that the former PAYGO system that operated in El Salvador was unsustainable and generated a debt of more than US$ 11,000 million. (Source: www.elmundo.sv; Date: 13.09.2015).

4. See the document "Proposals for improving our pension system: sustainability, adequacy and coverage."

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• Asafondos worried about the Government's pension reform plans. Asafondos is concerned about the fact that the Government has still not announced the concrete changes to be included in the pension reform. Although government ministers have held some discussions and consultations with the AFPs, there has been no clear final proposal to ensure that retired workers will continue to receive their pensions and that the new system will not be affected by debt. "We do not know what their specific proposals are for solving past issues", said the Executive Director of Asafondos, Ruth Solórzano, referring to the almost US$ 400 million the government needs each year to pay the pensions of the former public system. According to Solorzano, Asafondos' vision coincides in some respects with the opinions of officials regarding the changes needed to ensure a higher pension for members of the AFPs: for example, open up investments to projects that generate higher profits. However, some statements of officials of the Ministry of Finance who have recommended a mixed pension system, or even the creation of a public AFP that would compete with the existing AFPs, have given rise to uncertainty. (Source: Boletín Diario de Seguros América Latina; Date: 28.09.2015; AON Global Retirement Update; Date: October 2015).

Honduras

• The Private Contributions Regime (RAP) launches a customer loyalty program among its contributors so they can get to know and enroll in AFP RAP Solidaria. The Board of Directors of the RAP has launched a loyalty building process among its contributors, so they can get to know and enroll in AFP RAP Solidaria. The general manager of RAP explained that the new Social Security Framework Law facilitates the creation of AFP RAP Solidaria, which is why they are approaching their members to explain what an AFP consists in. "We have approximately 260,000 members and the mandate given to us by the Board is to launch a project to approach companies and our members to explain what AFPs are and how they can benefit from them", he said. Once that process is complete, RAP executives will request members to sign a document of consent for transferring the funds they currently have in the Housing Fund to the Pension Fund, when the recently announced Social Security Framework Law is promulgated. (Source: Boletín Diario de Seguros América Latina; Date: 17.07.2015).

• The Social Security Framework Law comes into effect in Honduras. The Social Security Framework Law came into effect in Honduras last September 4. The RAP authorities must structure the AFP that will manage the agency's capital. Thus, workers' contributions will go to their individual accounts. However, since the accounts are individual, each worker must decide whether he will remain in the RAP or transfer his resources and insurance to another AFP in the market. It is worth mentioning that the AFPs currently operating are AFP Atlantis and AFP Ficohsa, and AFP BAC Credomatic will soon start operating. (Source: Boletín Diario de Seguros América Latina; Date: 10.09.2015).

• Grupo Atlántida becomes the biggest and most solid investor in pension funds in Central America. The recent purchase of 75% of the shares of AFP Confía S.A. in El Salvador, has made Grupo Inversiones Atlántida the largest investor in Pension funds in Central America. The largest acquisition by a Honduran financial group in the Central American region was confirmed last August 13, 2015. After the negotiations with Grupo de Inversiones Atlántida, AFP Confía, formerly a part of Citi group, became part of the Honduran conglomerate. It has more than 4,370 million lempiras (USD 195 million) in managed assets, 1.2 million members and more than 30,900 beneficiaries. (Source: Boletín Diario de Seguros América Latina; Date: 01.09.2015).

Mexico

• The Retirement Savings System, through the AFOREs, celebrated its 18th anniversary. The individually funded pension system turned 18 last July 1. Launched on July 1, 1997, the AFORE pension system was created to resolve two structural issues foreseen at that time: (i) The lack of financial sustainability of the defined-benefit pension system (resulting, in good measure, from the fact that the contribution amounts were completely unrelated to the amounts of the benefits) and, (ii) The profound demographic changes affecting the country since then, which will accelerate dramatically in the coming decades.

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The savings accumulated in the individually funded pension system have contributed to macroeconomic stability in the country, as confirmed in recently published studies. Although the achievements are undeniable, according to the National Commission for the Retirement Savings System (CONSAR) there are still major challenges, which are listed below: (i) Increase coverage; (ii) Increase the replacement rate; (iii) Expand the investment regime; (iv) Strengthen competition; (v) Increase voluntary savings; and (vi) Strengthen financial education and the dissemination of pension information. (Source: CONSAR Press Release; Date: 30.06.2015).

• **According to the OECD, the Mexican pension system faces risks that could prevent workers from accessing higher pensions.** After 18 years of operation, the Mexican pension system faces risks that could prevent workers from accessing higher pensions upon retirement, unless the investment model is modified and contributions and the retirement age are increased, said the OECD. The retirement savings fund managers (AFOREs) invest most of their assets in debt. In addition to the above, current mandatory contributions will not generate a replacement rate greater than 30%, said Pablo Antolín, an economist and head of the Pension Unit of the OECD. The low interest rate environment does not help, because pension funds run the risk of not achieving the expected returns, or are exposed to riskier assets in the search for higher returns, warned the economist. "The risk lies in the probability of not achieving the expected return. That pursuit of returns could be one of the most serious problems for the Afores", said the expert. According to the OECD, the real returns on the funds of the AFOREs from December 2013 to December 2014 were 4.7%. "This is low in comparison with countries like Chile, which achieve real returns of 6% per year", he added. See a synthesis of the OECD Report here. (Source: Boletín Diario de Seguros América Latina; Date: 03.07.2015).

• **AMAFORE calls for increasing contributions to the Retirement Savings System (SAR).** The government's pension expenditure in 2014 was USD 33,000 million, which is 11.6% of the government's total expenditure. According to the Mexican Association of Pension Fund Managers (AMAFORE) pension expenditure represents a risk for public finances, and in order to address this risk in a timely manner, it is necessary to increase contributions to the SAR and consider other complementary measures. The AMAFORE also stressed that the first step should be to raise the contributions to the SAR and review the minimum retirement age. It also stressed the importance of the pension contribution system (providing it with greater progressivity and encouraging voluntary saving), the non-contributory pension programs at the different levels of Government, and voluntary savings. According to the agency, the so-called 'zero base budget' offers the opportunity for authorities, employers, workers organizations, academic centers and public opinion in general to reconsider the actions that contribute to improving pensions and making public finances viable in the long term. The agency highlighted the fact that the fiscal problem is due to pension expenditure, which is higher than expenditure in education, since there has been an 11.6% annual growth in pensions in the past five years, compared with 2% in education. In this regard, he pointed out that the government's pension expenditure will increase from nearly US$ 33,000 billion in 2014 to US$ 58,000 billion by 2020. (Source: Boletín Diario de Seguros América Latina; Date: 13.07.2015).

• **CONSAR launches a new web page section to promote voluntary savings.** As part of its 2013-2018 strategy "Saving in your AFORE was never so easy", launched by CONSAR to encourage voluntary savings among the population, the new section "All about Voluntary savings" was presented on its website today. Various opinion surveys conducted by CONSAR in recent years have revealed that one of the main reasons why workers have not grasped the benefits of voluntary savings in the AFORE is ignorance. The new section seeks to bridge this gap by concentrating, in a single location, all the information relating to this way of saving in the AFOREs. (Source: CONSAR Press Release; Date: 17.07.2015).

• **Amendments to the financial regulations of the Retirement Savings System (SAR) were approved.** The amendments to the general provisions governing the financial matters of the SAR, also known as the Sole Financial Circular (CUF), were published in the Federation's official newsletter last August 11. This is the first comprehensive amendment of the CUF since its creation in 2011. According to

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CONSAR, the changes are due to the greater sophistication of the AFOREs and provide greater legal certainty and strength to matters regulated by the CUF. The published changes seek to protect the equity of SAR's workers and generate higher returns for their savings, also encouraging the AFOREs industry to work in accordance with the best international financial practices. The approved amendments include: (i) Certification of officials. Make it mandatory for all AFORE officials involved in the investment process to be certified. Certification was previously not required of officials in the back-office, accounting and the risk assessment area. (ii) Investments in structured instruments. The rules governing structured instruments are adjusted and reorganized for the purpose of: deregulating the investment decision process of the AFORE to enable more agile decision making and differentiating requirements by structured instrument (i.e. CKDs, Fibras, REITs and real assets) since these are very different instruments, and clarify the policies regarding eligibility of the manager of the structured instrument. (iii) Corporate governance. The corporate governance requirements of the AFOREs are strengthened in order to establish a better balance between the interests of workers and those of the managers. Further details here. (Source: CONSAR Press Release; Date; Date: 12.08.2015).

• AMAFORE and the Ministry of Labor and Social Security (STPS) will promote retirement savings culture. AMAFORE and the STPS subscribed a collaboration agreement to carry out joint actions to promote a pension savings culture, pledging to promote studies in pension matters, the right to Social Security and pension savings culture, in addition to the design of outreach materials and the implementation of joint communication campaigns. The document also states that they will jointly seek strategic alliances with companies, agencies, academic institutions, trade unions and agencies of the three powers of Government, as well as social organizations committed to financial education, social security, pension culture and savings. The exchange of information and international best practices will also be promoted, as well as seminars targeting the labor force to disseminate the benefits of social security and promote retirement savings financial education. (Source: Boletín Diario de Seguros América Latina; Date: 01.09.2015).

• CONSAR proposes rising the retirement age of Mexican workers. CONSAR has proposed raising the retirement age of Mexican workers, so that the pension amounts they accumulate throughout their working lives will be sufficient for covering their expenses in their old age. According to the agency, despite its undeniable progress, the system faces a series of important challenges, and changes are required in key variables in order to be able to provide higher pensions to workers. Thus, rising the retirement age from 60 to 70 - for a worker who began his professional career at age 20 - would result in replacement rates of up to 91% of the last salary. It is estimated that people with a retirement savings account in Mexico will retire with a replacement rate of about 28% of their last salary, one of the lowest percentages in Latin America. (Source: Boletín Diario de Seguros América Latina; Date: 09.09.2015).

• According to the Chairman of CONSAR, the pension system must generate greater yields in a controlled risk environment. Carlos Ramírez, the Chairman of CONSAR, said that in the current volatility scenario, the AFOREs should use instruments such as derivatives to advantage and protect themselves against exchange rate fluctuations. Currently, only 6 of 11 fund managers are certified to operate hedging on interest rates, and 9 in currencies. In this regard, Carlos Noriega, the Chairman of AMAFORE, acknowledged that it is in the interests of the sector to operate with these instruments, although certification is a process that involves time and money. Noriega acknowledged that not all the AFOREs are certified for operating with derivatives, "but that does not mean that we are not interested, on the contrary, the last year and a half was intense for the system due to the adjustments in the business and investment models". Finally, the CONSAR Chairman emphasized that the objective of the pension system is to generate greater yield within a controlled risk environment "and the way to achieve this is through greater diversification". (Source: Boletín Diario de Seguros América Latina; Date: 17.09.2015).

• The AFOREs presented their proposals for improving the pension system. Within the framework of the discussion of the Federation's Budget Expenses Project for 2016, the Afores presented a series of proposals for improving the SAR, which in turn would help to reduce federal spending on pensions, which in 2014 represented 11.5% of the total expenditure of the Federal Government. The measures proposed by the AFOREs are: (i) Raise the contribution rate to the average of the OECD member countries; (ii) Increase the minimum retirement age; (iii) Provide incentives for voluntary savings; and (iv)Transform the pension systems of the States, municipalities and universities to individually funded account systems. (Source: AMAFORE Bulletin Vol. 1 No. 1; Date: October 2015).

Paraguay

• The Executive Branch takes the first step for the creation of the Superintendency of Insurance, Pensions and Retirement. The Executive Branch is planning to draw up a bill of law to satisfy the country's requirement of a supervising agency to control the different funds comprising the pension system. The bill of law creates the Superintendency of Insurance, Pensions and Retirement, and will be submitted to Congress by the Executive. The Superintendent of Insurance of the Central Bank of Paraguay (BCP), Bernardo Navarro, said that the bill of law does not propose a change in the retirement age, but rather proposes defining an appropriate framework of action, creating a supervising agency and making minimal changes in the funds. (Source: Boletín Diario de Seguros América Latina; Date: 09.07.2015).

Peru

• The AFPs invested in 44% of the debt securities that were offered on the stock market in the first half of this year. According to data of the Superintendency of the Securities Market (SMV), 25 companies were able to obtain financial resources in the stock market through the placement of debt securities for a total amount of USD 891.1 million during the first half of 2015. The AFPs invested in 44% of the debt securities that were offered on the stock market in the first half of this year, the insurance companies in 19% and the mutual funds in 13%, said the SMV. (Source: Boletín Diario de Seguros América Latina; Date: 02.07.2015).

• The Superintendency of Banking, Insurance and AFPs (SBS) has proposed legislation for preventing the AFPs from speculating with exchange derivatives. The SBS is working on new legislation to prevent the pension fund managers from speculating with exchange derivatives. This legislation, which will soon be published, is of a preventive nature. These derivatives are instruments that allow investors to cover the risk of currency fluctuations, in order to avoid negative impacts on their portfolios, although they are also used for speculative purposes in other situations. The Assistant Superintendent of the SBS, Michel Canta, said that the agency will continue to allow the pension fund managers to use these instruments to protect their portfolios, as they have been doing. (Source: Boletín Diario de Seguros América Latina; Date: 21.09.2015).

Uruguay

• The 13th FIAP International Seminar was successfully held in Montevideo on September 24th and 25th. The International Federation of Pension Fund Administrators (FIAP) and the Pension Savings Fund Managers (AFAPs) of Uruguay (República, Sura, UniónCapital e Integración), organized the 13th FIAP International Seminar entitled "The Multipillar Pension Systems: Investing in the Future". The meeting was held on September 24th and 25th, 2015, in Montevideo. The main objectives of this seminar were to examine the lessons learnt and the recommendations arising from experiences with multipillar pension systems in different countries, including the so-called fourth pillar, and the discussion of proposals for increasing the expected returns and safety of investments in the long term, and the pension amounts that members can obtain. The seminar coincided with the celebration of the 20th anniversary of the promulgation of the Law that created the individual savings system in Uruguay, as well as the holding of the 19th FIAP Annual Assembly. As on former occasions, the seminar was attended by international experts and participants from different parts of the world (FIAP member countries 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. You can see the presentations at the seminar here (Source: FIAP; Date: 29.09.2015).

II. Latin America and North America

• The Government proposes a bill of law regulating the insurers of the AFAP. During the 13th FIAP International Seminar, the Chairman of the Central Bank of Uruguay (BCU), Mario Bergara, announced that the government has undertaken to study a bill of law that will regulate the companies that insure the pension fund management system. "The idea is to have special regulations that ensure that the savings of workers are effectively transformed into their retirement or pension", he said. The role of the insurers in the pension fund management system has been under scrutiny by the BCU for some time. (Source: Boletín Diario de Seguros América Latina; Date: 29.09.2015).

United States

• Women in the United States are more likely to live in poverty during retirement, according to a report presented by a Senator. According to a report presented by Senator Patty Murray, women in the United States are much more likely to live in poverty during retirement than men. According to Murray, the average annual income of women during retirement is about USD 16,000, compared to USD 30,000 per year for men. Women are also much more dependent on the benefits provided by Social Security. This disparity is obviously a faithful reflection of events during working years, since women tend to earn less and their pension fund contributions are often more discontinuous than those of men, because they often stop contributing for periods of time while taking care of their children or sick family members, to name the most common reasons. If we add to the above the fact that women tend to live longer and retire earlier, we have all the ingredients for fully justifying Senator Murray's conclusion. (Source: www.fundssociety.com; Date: 23.07.2015).

• Prohibition of replacement for lump sum benefits. The Internal Revenue Service issued a notice prohibiting the defined benefit pension plans from paying a joint survival, individual or any other kind of life annuity, that replace the monthly payments of lump sum benefits. The prohibition came into effect on July 9, 2015. (Source: AON Global Retirement Update; Date: July 2015).

III. Europe

Bulgaria

• **Changes of the pension legislation.** On July 28, parliament passed a Law for amendment and supplement of the Social Insurance Code (SIC) that increases the retirement age, the contribution rate, and the number of contribution years required for a benefit. The law also changes to some extend the status of the insurance in second-pillar from mandatory to voluntary. A set of changes aims that the PAYG program becomes more sustainable: the deficit is expected to fall from an estimated 2.4% of GDP in 2015 to 1.2% of GDP by 2037. The retirement age will gradually increase to 65 years for men and women by 2037. Thereafter, the retirement age will be linked to the increase in life expectancy. Additionally, the number of contributions for a full pension would increase by two months each year until reaching 40 years for males and 37 years for females in 2027. The total contribution rate (employees plus employers) would increase from 17.8% to 18.8% in 2017 and to 19.8% in 2018. The new law entitles workers born after 1959 with a multiple choice for insurance in the second-pillar and first pillar PAYG program or only in the first-pillar until 5 years before retirement. New entrants to the labor force who do not make a choice for insurance in a particular universal pension fund (second pillar) for a period of three months after beginning their first job will be automatically assigned to one of the registered universal pension funds. (Source: BASPSC).

France

• **New rules for collective savings plans.** A new law promulgated on July 10, 2015, which will come into force in 2016, introduces changes to the collective retirement savings plans provided by employers. These are voluntary defined-contribution plans, financed by the employer and the worker. These changes encourage companies to offer such plans through the reduction of company tax. This tax is currently 20%, but for those companies with less than 50 employees that incorporate a collective pension savings plan, it will be reduced to 8% for a period of 6 years. Furthermore, the company tax will be reduced to 16% for companies whose collective retirement savings plans (i) Invest at least 7% in instruments that finance small and medium-sized enterprises, and (ii) Offer the default option of gradually reducing the investment risk as the worker ages. (Source: Social Security International Update; Date: August 2015).

Ireland

• **The Irish Government announced that it will not renew the tax of 0.15% on the assets of the occupational pension funds.** This tax was introduced in October 2013 and was applied during 2014 and 2015. However, due to the improvement in public finances, this tax will only apply until the end of 2015. (Source: AON Global Retirement Update; Date: July 2015).

Italy

• **The government has introduced a bill of law designed to promote competition between pension funds.** Workers may transfer all their contributions from a collective agreement fund to an individually funded pension fund. Workers can currently transfer their contributions from a collective fund to an individually funded pension fund after two years; however, the employer's contributions cannot be transferred unless there is an agreement to transfer all contributions to the individual fund. Industry analysts question whether in the long run the bill will be really beneficial for workers, because the costs associated with collective funds tend to be low due to the amount of assets managed. Nonetheless, the government insists that despite higher costs, the number of individual plans continues to increase and the legislative change will improve the portability of the pension system. (Source: AON Global Retirement Update; Date: July 2015).

Netherland

• **The Pensions Regulator announced a change in the calculation of the final rate used for calculating future pension liabilities.** The rate dropped from 4.2% to 3.3%, because the Pensions Regulator considers that the new rate is more realistic. In its announcement, the Pensions Regulator says that the use of the lower rate will result in a slightly lower funding ratio, which may mean that some plans will have to submit a recovery plan. He also mentioned that the change in the rate is not expected to translate into a lower return, but that it could lead to higher contributions. (Source: AON Global Retirement Update; Date: July 2015).

Australia

• **Entry and means testing rules will be changed.** Last June 22, Parliament adopted a law modifying the rules governing entry and means testing required for the old age pension and other social security benefits, which will come into effect in January, 2017. According to the government, this measure will result in savings estimated at USD 1.84 billion over a period of 5 years. The effect on the current pensioners will depend on the value of their assets: around 90,000 pensioners will no longer receive their old-age pension, while approximately 170,000 retirees will experience an increase in their biweekly pensions. At the same time, some 50,000 people who currently receive a partial pension will receive a full pension, since the means testing limits will be increased from USD 155,084 to USD 191,935 for individuals and from USD 219,958 to USD 287,903 for couples. (Source: Social Security International Update; Date: July 2015).

India

• **A new pension program for low-income workers is launched.** Last June 1, the Indian government launched a new voluntary pension program for low-income workers. This program covers citizens of sectors that have not been categorized (farmers, independent and low-wage workers) that make up the greater part of the workforce in India. The new program applies to citizens from 18 to 40 years of age who have a bank savings account, are not covered by any mandatory social security scheme and do not pay income tax. (The contributions are automatically deducted from the bank account). The subscriber can choose the contribution rate, the number of contributions and the desired pension level, from 1,000 rupees (USD 15.16)[5] to 5,000 rupees (USD 75.81) per month. In April, subscribers have the option of adjusting the monthly contribution in order to receive a greater or lesser pension. The legal retirement age is 60 and early retirement is permitted under conditions such as: terminal illness or death of the subscriber. The survivors receive the total balance of the account once the subscriber has deceased. The new program is administered by the Pension Fund Regulatory and Development Authority. (Source: Social Security International Update; Date: July 2015).

Indonesia

• **The new defined benefit program comes into effect.** A new old age, disability and survival program that compliments the Provident Fund was introduced last July 1. Enrollment in the new program is mandatory, but its implementation will be gradual, starting with large and medium-sized enterprises. The contribution rates for the new program will be 1% of the income for workers and 2% for the employer, with a tax ceiling of 7 million rupees (USD 477)[6] per month. Contribution rates will be reviewed and adjusted at least once every 3 years. The tax ceiling will also be regularly adjusted according to changes in inflation. The legal retirement age for the new program is 56, will increase to 57 in 2019 and to 65 in 2043. Furthermore, coverage of the Provident Fund was extended to all companies with more than 10 workers. The contribution rates to the Provident Fund remained the same (the workers contribute 2% of their monthly income and employers contribute 3.7%). (Source: Social Security International Update; Date: September 2015).

Thailand

• **The National Assembly passed amendments to the social security fund aimed at increasing retirement savings.** Under the current Pension Fund rules and regulations, employers can voluntarily establish a pension fund for workers. Employers and workers can contribute between 2% and 15% of the salary; the employer must match the contribution of each worker. When a worker retires, he receives programmed withdrawals from the fund; If enrollment in a fund terminates due to early retirement or a job change, a lump sum is paid to the worker. Under the new rules, employers do not have to match the contributions of workers; workers can contribute at a higher rate than the one paid by their employers. The range of contributions is maintained between 2% and 15%. Workers can choose stopping or deferring contributions, for a maximum period of one year, in case of a natural disaster or financial crisis. Workers over 55, who have lost their job, can access programmed withdrawals. Furthermore, if enrollment in the fund ends due to cessation of employment or dissolution of the

5. At the exchange rate on 30.09.2015 of 1 USD = 65.95 INR.

6. At the exchange rate on 30.09.2015 of 1 USD = 14,671.87 IDR.

fund, workers may require the balance of the account to be transferred to a mutual fund or other similar fund. Once the amendments become law, their effective date will begin 90 days after publication in the Official Gazette. (Source: AON Global Retirement Update; Date: July 2015).