Santiago de Chile, August 31, 2010

Mr. Herman VAN ROMPUY
President
European Council
Brussels

Dear Sir,

The International Federation of Pension Fund Administrators, (FIAP), respectfully wishes to make its opinion known and calls on the European authorities to reflect on the need for modifying the procedures for calculating the deficit and public debt of the Central and Eastern European countries that have reformed their pension systems, introducing defined contribution, individually funded programs.

In the past, these procedures were modified, reducing the costs of the pension system reform for these countries for a limited period of time. The above leads FIAP to suggest reviewing the situation of these countries, for the purpose of giving equal treatment to the debt generated by the pension programs, but on a permanent basis.

It is common knowledge that many Central and Eastern European countries have carried out important reforms to their pension systems, introducing individually funded programs with defined contributions. Such reforms will not only enable improving workers' pensions, which is the principal purpose of all pension systems, but will also contribute to stimulating economic growth and the development and efficiency of other related markets, such as the labor market and the insurance and finance industries.

The investment and effort already expended by these countries in reforming their pensions systems, with the benefits mentioned above, are being jeopardized by their governments' necessity to reduce public debt and fiscal deficits in order to comply with the objectives and agreements established by the European Union. This has led some political and government sectors to suggest a possible nationalization of the new defined contribution pension programs.

This is a real threat, but it arises artificially from the unequal treatment given to the debt assumed by the state with the pension systems. In countries with reformed programs, the debt is explicit and originates in the need of governments to cover the higher short-term fiscal deficit caused by reductions in contributions, due to workers who are contributing to the defined contribution programs instead of the public program. The debt in the unreformed systems, in contrast, is implicit because it is not recorded in the fiscal

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accounting, but the creditors exist, namely the very workers who are now contributing and who in future will receive the pensions promised by the pension system.

Why treat debt differently, if it exists all the same? It is just that in one case it is transparent and financed through each government's mechanisms, whereas in the unreformed systems it accumulates dangerously over time, generating evident risks to the health of fiscal budgets, given existing demographic trends, as is being observed in the realities of many countries. The fact that debt is contingent in the unreformed systems, and can be modified in future through reductions in benefits or increases in the requirements for accessing them, does not justify it not being recognized.

A reversal of the reforms would not only be harmful to workers and the economy, but also to the debt situation of the public sector. The mid and long-term debt of the unreformed systems should be higher, since the supposed defined benefits of the PAYGO (or partial accumulation) systems are in many cases actuarially higher than the contributions paid in by workers during the active stage, which is pressuring countries with these systems to increase retirement ages and reduce the benefits offered. In fact, the mid and long-term projection of the public debt and the need for making the pension programs financially sustainable were among the main reasons put forward by the governments of different Central and Eastern European countries for creating the private defined contribution pension systems in the first place, since they needed to improve their public sector deficit perspectives.

If the unequal treatment given to debt in the different types of systems is not corrected, there will be an ongoing risk of nationalization of the private defined contribution programs, because governments will feel pressured to assess and eventually adopt this path in order to help reducing short term public debt and contribute to achieving the fiscal deficit objectives agreed with the International Monetary Fund and the European Union. However, to believe that the nationalization of the private pension programs will reduce the public debt is a fallacy, because it will only exchange one type of debt for another and undermine the fiscal situation in the mid and long term. It would be like trying to resolve a problem today at the expense of aggravating a problem in the future.

FIAP has deemed it important to make its voice heard in these matters, convinced of the importance of consolidating and strengthening the new defined contribution pension programs created in Central and Eastern Europe, due to their significant improvement of workers' benefits the economy, debt and the fiscal deficit. Our organization is at your disposal for cooperating in technical matters and providing our support for achieving this objective in the countries in the aforementioned region.

FIAP*, created in May, 1996, is an international agency consisting of the associations of the pension fund managers in the following countries: the Dutch Antilles, Bolivia, Bulgaria,* *Colombia, Costa Rica, Chile, El Salvador, Spain, Honduras, Mexico, Panama, Peru, Poland, the Dominican Republic, Romania, Ukraine, Uruguay and Venezuela. As of December 2009, more than 105 million workers were enrolled in FIAP member agencies, accumulating more than US$ 758,640 million in their respective individual accounts.*

Sincerely,

Guillermo Arthur
President

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