

International Federation of Pension Fund Administrators



Progress of the Pension Systems January - March 2016 No. 1

This document reports on progress in pension matters, factually accurate while maintaining maximum simplicity and brevity. It compiles the major changes that occurred in the pension systems in the January - March 2016 period, with emphasis on the development of the individually funded systems.

Document prepared by FIAP, based on press information. We thank FIAP member associations for the information and comments submitted. The content of this document may be fully or partially reproduced citing the source.

Executive Summary by area of interest

Alarming projections of the Public Pension Systems

Citigroup report analyzes the total pension liabilities of the governments of 20 OECD countries. Considering implicit public debt, total debt is US\$ 122 billion, an alarming figure.

New Pension Programs and Social Security Reform (approved or under discussion)

- ✓ **Austria:** A new partial pension program comes into effect as of January 2016
- ✓ **Canada:** A new mandatory pension plan, which will complement the pensions of the public pension system, will start operating in Ontario as of 2018.
- ✓ **Costa Rica:** Public pensions will be reformed in 2017, on the basis of an actuarial study carried out by the University of Costa Rica. The proposals will be announced between August and September 2016.
- ✓ **Greece:** Parliament will put a package of measures reforming the public pension system to the vote, most notably a 0.5% increase in the contributions paid by workers and employers.
- ✓ **Hong Kong:** Government carries out a public consultation for establishing a universal pension. Consultation closes at the end of June 2016.
- ✓ **Norway:** New pension model based on occupational individual accounts receives support.
- ✓ **Vietnam:** A new Social Security law, which among other things increases the contribution rate, came into effect on January 1, 2016.

Withdrawal of Funds and Retirement

- ✓ **Hong Kong:** As of February 1, 2016, retirees will be able to withdraw their funds in monthly installments (unlimited in number or amount).
- ✓ **Peru:** Law that enables withdrawing 95.5% of funds from the AFPs on turning 65 will be discussed in Congress after the elections on April 10.

Structural Reforms being Discussed

- ✓ **Colombia:** Fitch Ratings expects the government to propose a pension reform in 2016 to resolve the challenges facing the system: equity, fiscal sustainability and greater coverage.
- ✓ **El Salvador:** Reform project reverses the individually funded system, making 70% of the population (those who earn less than USD 502) contribute to the PAYGO system. This is a fiscal rather than a social security reform. The proposal is still being studied by the Finance Committee of the Legislative Assembly.
- ✓ **Honduras:** The pension reform will be ready in the first quarter of 2016 and will establish a mixed system, sharing savings management between the government and the private sector.
- ✓ **India:** Supervisor proposes introducing mandatory enrollment of workers in the formal and informal sectors in the individually funded program (this program is currently mandatory only for public employees).

Diversification and Investment Risk / Multifunds

- ✓ **Chile:** Minister of Finance announces a bill of law for the AFPs to be able to invest directly in infrastructure projects, including alternative assets (real estate, private debt and private equity).
- ✓ **Hong Kong:** A default fund with a balanced investment strategy, which would become more conservative as members grows older, could begin operating at the end of 2016.
- ✓ **India:** Supervisor is requested to extend foreign investment and investments in alternative investment funds (such as private equity and venture capital).
- ✓ **Lithuania:** Regulator will limit exposure to risk in the second pillar; it proposes switching from a 4 multi-fund system to a 'default investment strategy' based on life-cycle funds).
- ✓ **Peru:** The very low-risk Zero Fund will be available as of April; the fund concentrates 100% of investments in fixed income; it is mandatory for members who are 65 and have still not opted for retirement.

Retirement Age

- ✓ **Brazil:** Executive wants equal retirement ages for men and women (currently 60 for women/65 for men).
- ✓ **China:** A public consultation for increasing the retirement age will be planned this year (currently: 60 for men and 50/55 for women), and will be implemented in 2022.
- ✓ **Finland:** From January 2017, the retirement age will increase by three months per year, from 63 to 65 and will then be indexed to life expectancy at retirement.

News highlights in this edition



Supervisors advance in regional financial integration of securities markets. They agree on the advantages of regional financial integration, and the discussion on barriers that inhibit growth continues, especially the role of the pension funds. The next meeting will be held in Santiago, Chile.



Minister of Finance announces Bill of Law to allow the AFPs to invest directly in infrastructure projects. The announcement entails a bill of law that proposes the creation of a third investment category (in addition to the pre-existing fixed income and equities categories) for the fund managers, which would include alternative assets (real estate, private debt and private equity).



Fitch Ratings expects the pension reform to be implemented in 2016. The government will present the first reformed document in mid 2016, which should provide solutions to the challenges facing the system, equity, fiscal sustainability and greater coverage.



Strengthening voluntary savings is indispensable.. A combination of incentives is necessary (monetary and non-monetary). Among the proposals are: (i) expand the range of tax incentives for employers; (ii) greater public disclosure of the importance of voluntary savings; (iii) modify incentives for AFORES to make voluntary savings a priority; and (iv) expand potential universe of savers.



The very low-risk Zero Fund of the AFPs will be available as of April. New Fund seeks to maintain stable growth with very low volatility (will focus 100% of investments in fixed income); it is mandatory for members who are 65 and have still not opted for retirement; members can also request to have their resources transferred to this fund after they turn 60.

Relevant studies

1. **Study on [Total Assets of the Pension Funds \(Towers Watson\)](#).** Report highlights the fact that: (i) To 31.12.2015, the retirement assets of the 19 major global markets amounted to USD \$35,316 billion; (ii) On average, in the 7 major economies in the world, pension assets are invested as follows: 44% variable income; 29% bonds; 27% other assets; (iii) in the last 10 years, the assets of DC pension plans¹ have increased by 7.1 percent per year, whereas the growth of DB plans² has been lower (at a rate of 3.4% per year).

(Source: www.willistowerswatson.com; Date: 02.02.2016).

2. **FitchRatings publishes [comparative study of the Chilean and Mexican pension systems](#).** The Mexican system will turn 35, with amounts and proportions distant, in equivalent terms, to those achieved by the AFP system in Chile. The Mexican system could approach the proportions of the Chilean system and increase the replacement rate if it reinforced some pillars of its model and made changes (such as increasing the contribution rate to individual accounts).

(Source: www.fitchratings.mx; Date: 28.01.2016)

3. **World Bank publishes [report on population aging in East Asia and the Pacific](#).** 187 million people had already turned 65 in 2010; aging will accelerate in future. Study recommends that countries adopt several reforms: (i) Improve sustainability with parametric reforms (equal male/female retirement ages; link those ages to changes in life expectancy; modify formulas for calculating benefits considering total life working income and not only the final years); (ii) Expand coverage through social pensions, means-tested social assistance programs, or complementary contributions (**matching contributions**) for workers of the informal sectors; and (iii) Integrate parallel pension programs (e.g. of public employees) with national programs.

(Source: *SSA Social Security International Update*; Date: January 2016).

4. **David Blake, Director of the Pensions Institute, publishes a [report on the need to](#)**

[build consensus regarding retirement income](#).

The study reveals recommendations for a consultation among participants in the industry in the UK, for defining what would be a good DC program. The recommendations indicate that a benchmark DC system must, among other things: (i) Provide adequate and sustainable pensions; (ii) Produce stable and predictable income, even if this income cannot be guaranteed (unless the purchase of a life annuity is allowed); (iii) Offer flexibility to purchase a life annuity at any time (or at predetermined regular intervals); (iv) Offer members flexibility to withdraw part of their funds when they engage in specific types of expenditure.

(Source: <http://www.pensions-institute.org>; Date: March 2016).

5. **Citigroup publishes [report on looming public pension crisis](#).** It analyzes the total pension liabilities of the governments of 20 OECD countries. The public debt reported in domestic accounts amounts to USD 44 billion, but if public pension commitments (implicit public debt) are taken into account, total debt triples to USD 122 billion. Those additional USD 78 billion of implicit debt are equivalent on average to 190% of GDP, an alarming figure. The report proposes: (i) That governments publish pension liabilities visible to all; (ii) Link the retirement age to increases in expected longevity, with an explicit link to mortality tables; (iii) That Social Security pensions provide a minimum level of income to the most needy; (iii) Incorporate "Collective Defined Contribution" (CDC) or "Defined Ambition" (DA) plans; and (iv) Provide incentives for developing private pension plans.

(Source: <https://ir.citi.com>; Date: March 2016).

¹ DC = Defined Contributions.

² DB = Defined Benefits.

Latin America and North America

Pacific Alliance

Supervisors advance in regional financial integration of securities markets. Securities Supervisors from Chile, Colombia, Mexico and Peru met at the 7th Convention of Supervisors of the Pacific Alliance. The authorities agree on the advantages of regional financial integration and reaffirm their commitment to strengthen the market, seeking balance between promotion and protection of investors. Discussion on barriers that inhibit growth of trading volumes and mechanisms for encouraging such growth continue, especially the role of the pension funds. Next meeting will be held in Santiago, Chile, to evaluate other technical proposals requested by the industry.

(Source: www.svs.cl; www.superfinanciera.gov.co; Date: 01.04.2016).

Brazil

Government seeks to unify retirement rules for men and women. Executive wants to unify rules of retirement for both genders and insists on setting a minimum age for applying for this benefit. Retirement age is currently 60 for women and 65 for men, with at least 15 years of contributions.

(Source: *BDS Boletín América Latina*; Date: 04.02.2016).

Canada

New mandatory pension plan in Ontario (Ontario Retirement Pension Plan (ORPP), to be implemented as of January 1, 2018. Objective is to supplement income from the public pension system (Canada Pension Plan (CPP)). It was scheduled to begin operating as of 2017, but the date has been postponed for more extensive national dialogue. The ORPP Law was passed on May 5, 2015.

(Source: AON Hewitt; *Social Security Update*; www.ontario.ca; Date: February 2016).

Chile

Minister of Finance Announces Bill of Law to allow the AFPs to invest directly in infrastructure projects. The announcement The announcement entails a bill of law that proposes the creation of a third investment category (in addition to the pre-existing fixed income and equities categories) for the fund managers, which would include alternative assets (real estate, private debt and private equity); a range with a maximum investment as a percentage of the portfolio will be established; quotas could be established within an overall limit for the subdivisions of private equity, private debt and private equity, depending on the type of multifund.

(Source: www.latercera.com; Date: 02.04.2016).

AFP Planvital wins the bidding for the portfolio of new members for a period of 24 months, from August 1, 2016 to July 2018. AFP Planvital offered a commission of 0.41% on taxable income.

(Source: *BDS Boletín América Latina*; Date: 22.01.2016).

Pensions of self-employed workers could drop up to 20% due to postponement of new law that makes it mandatory for them to contribute. Mandatory contribution by self-employed workers was postponed from 2015 to 2018, entailing a deterioration in the final pension of between 6% and 20%, depending on the number of years of contributions, reported the Chilean Association of AFPs.

(Source: *BDS Boletín América Latina*; Date: 14.01.2016).

Colombia

Proposal for reducing the number of weeks of contributions by women in the public regime. Bill of Law reduces contributions by women to 1,150 weeks for accessing a pension in the PAYGO system (current requirement: 1,300 weeks and 57 and 62 years of age for women and men, respectively).

Source: *Boletín Diario de Seguros América Latina*; Date: 03.03.2016).

Fitch Ratings expects the government to propose a pension reform in 2016. The government will present the first reform document in mid 2016, which should provide solutions to the challenges facing the system: equity, fiscal sustainability and greater coverage.

(Source: *BDS Boletín América Latina*; Date: 08.01.2016).

Costa Rica

Superintendency will launch financial rating system for pension funds. The purpose is to avoid funds suddenly acting in an irregular manner and putting the money of members at risk. The first rating will be conducted in the first quarter of 2016, based on 2015 data.

(Source: *BDS Boletín América Latina*; Date: 10.02.2016).

Public pensions system will be reformed in 2017. An actuarial study carried out by the University of Costa Rica will be the basis for a national discussion. Proposals with medium and long-term measures will be announced in August and September 2016. The Superintendency of Pensions and the Ibero-American Social Security Organization (CISS) will monitor the process. According to previous studies, the public pension fund runs the risk of exhausting its reserves in 2023. Changes could entail eventual changes in the retirement age, number of contributions or level of benefits for retirees.

(Source: www.nacion.com; Date: 16.03.2016).

El Salvador

Reform project confirms establishment of mixed system. On February 24, 2016, the Executive submitted a bill of law to Congress for reforming the pension system. The document states that:

- (i) People who earn less than twice the minimum wage (USD 502) will contribute only to the PAYGO system (managed by a new agency, the National Institute of Pensions, INP).
- (ii) People who earn more than USD 502 will also contribute to the PAYGO system, but contributions on income over that amount will be paid into the private system managed by the AFPs.

The reform proposal is still being studied by the Finance Committee of the Legislative Assembly. The Trade Association of the AFPs of El Salvador, (ASAFONDOS), along with 5 other organizations, opposed the reform when invited to the Commission to submit their comments in March. They say that the mixed system would be born in imbalance, since collected resources would be used entirely to generate reserves and support payment of future pensions. A mixed system could work if it is not used to cover "fiscal voids," if the appropriate calculations have been made, and there are no high pension subsidies.

The proposed reform would only be comparable to the nationalization of pensions in Argentina (2008), erasing the debt today, but creating a larger debt in the medium and long term.

(Source: *Boletín Diario de Seguros América Latina*; www.elsalvador.com; <http://www.lapagina.com.sv>; Date: Marzo 2016).

Honduras

Pension reform will be ready in the first quarter of 2016. The Executive intends to submit a proposal for reforming the pension system; it would establish a mixed system that includes the Government and the Pension Fund Managers (AFPs) sharing the management of the savings of workers in relatively equal parts.

(Source: *BDS Boletín América Latina*; Date: 11.01.2016).

AFP Solidaria, of the Private Contribution System (RAP), ready to capture the savings of workers in the toll manufacturing industry as of March. They will then follow with other productive sectors. AFP Solidaria will capture the contributions of workers in individual labor reserve accounts, which will be in the name of the worker. People contribute to the Collective Individually Funded Regime of the Honduran Institute of Social Security on the

basis of the minimum wage, and 3% of their salary exceeding that amount to the AFPs of the RAP, until the special law is promulgated.

(Source: *BDS Boletín América Latina*; www.laprensa.hn; Date: March 2016).

Mexico

Regulator and industry discuss whether methodology for measuring the quality index of AFORES services will be maintained. [Comparative Chart of AFORE Services \(CAS\)](#), indicator used to compare AFORES in terms of quality of services provided, was published for the first time in June 2013; in 2014 the Regulator did not publish results, resuming publication in February 2015 and publishing its [third issue](#) at the end of February, 2016. Modifications in the methodology are expected.

(Source: *AMAFORE*; *CONSAR*; Date: March 2016).

Minimum wage will no longer be used as an index for Social Security and pension calculations. Measure came into effect on January 18, 2016. Change enables significant increases in the minimum wage without dramatically altering other pension thresholds.

(Source: *AON Hewitt Social Security Update*; Date: February 2016).

Indispensable to strengthen voluntary savings. Voluntary savings remain at one of the lowest levels in the world (1.3% of the total resources of the SAR). To overcome socio-economic and behavioral obstacles for long-term voluntary savings, there must be a combination of incentives (monetary and non-monetary). Among the proposals are: (i) expand the range of tax incentives for employers; (ii) greater public disclosure of the importance of voluntary savings; (iii) modify incentives for AFORES to make voluntary savings a priority; and (iv) expand potential universe of savers.

(Source: *BDS Boletín América Latina*; Date: 23.02.2016).

CONSAR sends workers pension estimates. Workers start receiving [personalized estimate of future pension](#), with the account statement for the first time. Measure stimulates awareness and importance of voluntary savings for achieving an adequate pension. Format will have an appealing heading to call the attention of savers regarding their future. Design considers elements of behavioral economics, to provide clear and simple indicators to bear in mind on retirement.

(Source: *CONSAR*; *BDS Boletín América Latina*; Date: 12.02.2016).

AFORES will require voice recognition and fingerprints for transfers. From May 2016, all AFORES must attach biometric data (fingerprints and voice recognition) to their members' files. When the measure has been fully implemented, these data will be required for performing transfers between AFORES.

(Source: *BDS Boletín América Latina*; Date: 08.01.2016).

Peru

Law that enables withdrawing 95.5% of funds from the AFP on turning 65 will be discussed in Congress after the elections on April 10. Debate will be held after the country's President rejected the bill of law on January 8. According to the Executive, the measure would be detrimental to workers, since the longevity and return risk would be transferred to them, defeating the purpose of the pension funds (the payment of pensions).

(Source: *BDS Boletín América Latina*; <http://tribumagazine.net>; Date: March 2016).

The very low-risk Zero Fund of the AFPs will be available as of April. New Fund seeks to maintain stable growth with very low volatility (will focus 100% of investments in fixed income); it is mandatory for members who are 65 and have still not opted for retirement; members can also request to have their resources transferred to this fund after they turn 60; the AFP will transfer the member's fund to the Zero Fund within one month after he turns 65, unless this communicates his decision to remain in the type 1 or 2 fund.

(Source: www.andina.com.pe; Date: 29.03.2016).

Presidential candidate of Alianza Popular, Alan García, proposes that a percentage of the money accumulated in the AFP be used to finance housing purchases. According to the proposal, purchase will be possible with the free opting out of AFP membership by workers.

(Source: www.andina.com.pe; Date: 29.03.2016).

Dominican Republic

Deputies approve reform that reduces the maximum complementary annual commission of the AFPs from 30% to 15%.³ Kirsis Jáquez, Chairman of the Trade Association of AFPs (ADAFP), considers that this modification occurs without taking into account the fact that the Government is engaged in a study-evaluation of the Social Security system, led by the IDB, for improving the system. She says that any initiative aimed at amending Social Security Law 87-01 must be based on technical studies for the benefit of members.

(Source: www.elcaribe.com.do; <http://eldia.com.do>; Date: March 2016).

Europe

Austria

³ This is a % of the returns obtained over and above the average weighted passive interest rate of the certificates of deposit of commercial banks.

A new partial pension program comes into effect as of January 2016. Workers aged 62 or more, with at least 780 weeks of contributions to unemployment insurance in the last 25 years can reduce working hours by 40% or 60%, without a similar reduction in their retirement income. This measure will increase the number of workers remaining active in the labor force until they reach the legal retirement age (65 for men, 60 for women).

(Source: *SSA Social Security International Update*; Date: January 2016).

Spain

Public pensions will be 35% lower after recent reforms in 2011 and 2013, estimates the Savings Fund Foundation. This is due to: (i) The initial pension drops due to the increase in the number of years for calculating the pension; (ii) the pension for each year of contributions drops; (iii) the number of years required for obtaining a full pension increase; (iv) increased life expectancy; (v) value of pensions after retirement decreases because the revaluation index makes benefits grow below inflation for many years.

(Source: *Boletín América Latina*; Date: 08.02.2016).

Finland

Increase in the legal retirement age confirmed. President confirmed proposal for the contributory pension program, already agreed in 2014. As of January 2017, the retirement age will increase by three months per year, from 63 to 65, and will then be indexed to life expectancy on retirement.

(Source: *AON Hewitt Social Security Update*; Date: February 2016).

Greece

Social Security reform being discussed. Parliament will put a package of measures reforming the public pension system to the vote, most notably: (i) consolidate the six pension funds in one; (ii) guarantee a basic pension to anyone who has worked at least 15 years; (iii) increase contributions to social security by employers and workers by 0.5 percentage points each; (iv) cuts in pensions of up to 30%; (v) achieve a 60% replacement rate for those who retire at 67 with 40 years of contributions; (vi) set new minimum and maximum range for monthly benefits of EUR 384 and EUR 2,300 respectively.

(Source: *AON Hewitt Social Security Update*; Date: January 2016).

Lithuania

Regulator will limit exposure to risk in the second pensions pillar. Participants in the second pillar can currently choose one of 4 types of Multifunds, each one

with exposures to equities of 100%, 70%, 30% or 0% (only fixed income in this case); People aged 55 or more, are advised to choose a fund with lower risk, but it is not mandatory. 22% of members save in funds with risk exposure that does not correspond to their age. The proposal aims to create a 'default investment strategy' based on life-cycle funds, where the funds are automatically configured so that exposure to equities decreases each year as members approach retirement age.

(Source: *Investment & Pensions Europe*; Date: 10.03.2016).

Norway

Support for new pension model based on occupational individual accounts. A worker will be able to choose a provider to create a personal pension account. The employer will contribute to the account at a rate agreed with the company, and workers will be encouraged to contribute the maximum allowed rate.

(Source: *AON Hewitt Social Security Update*; Date: February 2016).

Asia and the Pacific

China

Plan for raising the retirement age announced. The plan will be submitted to public consultation this year (2016) and will be implemented in 2022 after a transition period of five years. The current retirement age is 60 for men and 55 or 50 for women (depending on whether they are employed in an industrial or office job).

(Source: www.latercera.com; Date: 01.03.2016).

South Korea

Measures taken to mitigate the economic effects of the increase in the retirement age (previously 55, now 60). Measure aims to prevent increased labor costs that could discourage recruitment of young workers, through a wage peak system. The wages of workers will gradually decrease as they approach retirement age, according to a predetermined formula applied after the worker reaches a specific age (which may vary from employer to employer).

(Source: *Social Security International Update*; Date: February 2016).

Hong Kong

Government conducts public consultation to establish universal pension. The consultation presents two alternatives: (i) A pension of HKD 3,230 (USD 417) for all individuals over 65, without any proof; (ii) the same pension amount, excluding individuals with assets of more than HKD 80,000 (USD 10,316) and couples with assets of more than HKD 125,000 (16,119 USD), approximately 75% of elderly people. Several financing

systems have been proposed, including the levying of a payroll tax for elderly people or a goods and services tax. The consultation ends on June 21, 2016.

(Source: *AON Hewitt Social Security Update*; Date: January 2016).

Mandatory pension fund (MPF) already has a monthly withdrawal option and could have a default fund by the end of 2016. A new alternative came into effect on February 1, 2016, whereby those who access a pension may (i) Withdraw their funds in monthly installments (unlimited in number or amount); (ii) choose to postpone their retirement until after the retirement age. Furthermore, a default fund with a balanced investment strategy, which would become more conservative as members grows older, could begin operating at the end of 2016, with a maximum level of management commissions of 0.75%.

(Source: *AON Hewitt Social Security Update*; Date: February 2016).

India

Greater diversification of investments of pension funds and possibility of establishing mandatory enrollment in private sector funds (formal and informal) has been proposed. The Government has entrusted the supervisor of pensions with extending foreign investments and investments in alternative investment funds (such as private equity and venture capital). Investments in alternatives will initially be limited to 2% of assets, and will be restricted to companies registered on the Stock Exchange. The Supervisor also published a document that proposes the introduction of mandatory enrollment in the formal and informal sectors (the individually funded program is currently mandatory only for public employees).

(Source: *AON Hewitt Social Security Update*; Date: February 2016).

Vietnam

Reform of social security law implemented. The new Social Security law came into effect on January 1, 2016. It: (i) Extends coverage; (ii) increases the contribution rate; (iii) gradually increases the number of contributions required for accessing old age pension (men, 15 to 20 years); (iv) changes the formula used for calculating benefits; and (v) improves the protection of workers' rights. This is the first phase of the reform of the social security law; second stage will be implemented in 2018. According to the ILO report, without reform, social security reserves would be exhausted by 2027.

(Source: *SSA Social Security International Update*; Date: January 2016).