



FIAP Declaration

Efforts aimed at improving the pensions of members of the social security systems

The improvement of the pensions of members of the pension systems requires the timely adoption of a series of measures for improving social security systems, including those necessary for addressing the negative impacts of external factors on the benefits such systems can provide, the most meaningful of which are:

1. The increase in life expectancy at retirement

Life expectancy at retirement has increased steadily in the last couple of decades (and will continue to do so in future), entailing an increase in the period in which people will receive pensions, which must be financed with the savings accumulated in the individual accounts. Failure to take the necessary measures would lead to the deterioration of the financial situation of the PAYGO systems, and a reduction in the level of pensions granted to members of the individually funded systems. By way of example, in the OECD countries the period in which pensions are received increased from 34% for men and 39% for women, between 1958 and 2010.

2. The global drop in interest rates

Since the beginning of the 80s, real interest rates of assets at all terms to maturity have dropped worldwide (average 5.5% in the 80s; 3.5% in the 90s; 2% from 2001-08 and 0.33% between 2008 and 2012). A majority opinion suggests that interest rates in international and regional financial markets will remain low in future.

Falling global interest rates impact the returns of savings during the accumulation period, and the accumulated balances available in individual accounts at the end of working life, as well as the conversion rate of such pension balances, which depends on the expected rates of return in the decumulation stage (the years in which the pension is paid). Each annual point of lower interest rates, considering only the active working stage, translates into approximately 20% to 30% lower pensions, depending on the projection assumptions used.

3. High rates of informality in the labor market

According to ILO data, 47.7% of workers in Latin America and the Caribbean are informally employed, an issue that has multiple causes. This situation affects the coverage of formal contributory pension systems, and the frequency of workers' contributions to the pension programs.



Action Plan

Faced with these challenges, the International Federation of Pension Fund Administrators (FIAP) is implementing an action plan that includes activities and proposals that contribute to improving the pensions granted by the social security systems in general, and by the individually funded systems in particular. Such proposals include measures for counteracting the negative effects of the factors mentioned above. With this in mind, FIAP wishes to state its standpoint regarding the following topics:

1. **Most relevant parameters of the pension systems:** It is essential to review and periodically update the key parameters of the pension systems and the individually funded programs (mainly the retirement age and the contribution rate), depending on the evolution of the variables that are most relevant to the financing of pensions, and the reference replacement rates one wishes to achieve for the average member of the system. Legal retirement ages must be indexed to the growth of life expectancy at retirement, in order to maintain a relatively stable period in which pensions are received.
2. **Multipillar system:** Pensions must be financed through different contributory and noncontributory programs, with clearly defined objectives. This is why FIAP adheres to well-designed, integrated and complementary multipillar pension systems

In order to achieve adequate pensions in these systems, the development of individual and collective Voluntary Pension Savings acquires special relevance as a mechanism for complementing the pensions financed with mandatory pension savings. The proper development of APV requires regulations to authorize and facilitate the application of plan design mechanisms that have been successful internationally, such as automatic (default) enrollment of workers; "matching contributions" schemes, with contributions from the employer and the State; automatic increases in voluntary contributions as workers' wages increase; and appropriate contribution options designed to take into account the reality of savers. Additionally, it is important to have tax and financial incentives that encourage workers to save voluntarily, and are simple to obtain once contributions have been determined.

3. **Investments:** In order to improve the long-term returns on investments, and therefore, final pensions, the investment opportunities of the pension funds must be extended, with the assurance that they can be appropriately diversified. As systems develop and mature, the rules and regulations should allow investments not only in traditional instruments, such as bonds and stocks, but also in alternative assets, which can significantly contribute to increasing expected returns, and the incorporation of new assets to the pension resources portfolios, thereby improving the diversification of investments.
4. **Communications and education:** Efforts made for improving pensions will be insufficient if we do not achieve more active participation of our members in the construction of their pensions. Hence, FIAP will seek the mechanisms for encouraging the improvement of communications, and the pension education of members of the system and the public at



large. It is imperative to inform active workers (future pensioners) of their future pension estimates, so they can make informed savings decisions.

**Agreement of the 20th FIAP Assembly held in Panama
May 18, 2016**

Subscribed by: The Board of Directors of the International Federation of Pension Fund Administrators (FIAP)

- **Mr. Guillermo Arthur, FIAP President**

- **Mr. Santiago Montenegro - FIAP Vice President**
Chairman, Colombian Association of Pension and Unemployment Fund Managers, ASOFONDOS.

- **Mr. Angel Martinez-Aldama - FIAP Vice President**
Chairman of the Association of Collective Investment Agencies and Pension Funds, INVERCO, Spain.

- **Mr. Carlos Noriega - FIAP Vice President**
Chairman of the Mexican Association of Pension Fund Managers, AMAFORE, Mexico.



- **Mr. Rafael Picasso - FIAP Vice President**
Chairman of the Peruvian Association of Private Pension Fund Managers

A handwritten signature in blue ink, appearing to read 'Rafael Picasso', is positioned below the text. The signature is fluid and cursive.