



MAIN CONCLUSIONS AND RECOMMENDATIONS EMERGING FROM THE FIAP-AMAFORE ROUND-TABLE¹ "Voluntary savings in the future of pensions"

I. Introduction

This round-table, organized by the International Federation of Pension Fund Administrators (FIAP) and the Mexican Association of Pension Fund Managers (AMAFORE), was held in Mexico City on January 28, 2016.

The purpose of the meeting was to share the experiences of Chile, Brazil, Colombia, Costa Rica, Mexico and Peru, highlighting the achievements in Individual and Collective Voluntary Pension Saving, and past and future challenges.

The event was attended by representatives of the pension fund managers and supervising agencies, authorities and leading Latin American experts in voluntary pension savings matters, who analyzed the experiences of different countries and proposed future actions for promoting the development of this industry.

The discussion focused on three central themes: i) The relevance of Voluntary Pension Savings for achieving pensions in line with workers' expectations; (ii) The most important reasons for the lack of development of Voluntary Pension Saving; and iii) Proposals for promoting the growth of the Voluntary Pension Savings industry.

The results that FIAP considers important to highlight in relation to each one of these topics, are presented below.

II. Results of the Round-Table

A. Relevance of Voluntary Pension Saving in the Provision of Pensions

1. Voluntary Pension Saving (VPS) is essential and necessary for the provision of adequate pensions to workers and for the sustainability of the system.
2. The granting of adequate pension amounts to the largest possible number of workers, requires the appropriate complementation and integration of the different pillars comprising pension systems: the solidarity or non-contributory pensions pillar, whose main purpose is to fight poverty in old age; the mandatory contributory programs, which seek to grant pensions in the

¹ The conclusions presented do not necessarily apply to all countries included in the analysis carried out in the Round-Table. Document prepared by FIAP with the assistance of Rodrigo Acuña, FIAP's external advisor.

passive stage that replace the income received in the active stage; and the VPS pillar, intended to complement the pensions offered by the remaining pillars.

3. Although the VPS pillar has grown steadily in several Latin American countries in recent years, it is still poorly developed and is not contributing significantly to the provision of pensions, unlike the situation in more developed countries such as the United States, the United Kingdom or New Zealand. According to OECD estimates² approximately 21% of the total pensions of workers in the organization's member countries come from VPS schemes. In Latin America, we are far from achieving these figures.
4. VPS can help to make the issue of savings more attractive to members and improve pension awareness and the public image of the pension fund managers, due to the voluntary nature of the decision, which should make savers more concerned about participating in savings decisions. They know that it is their money. This could also increase the likelihood of them defending their savings when faced with circumstances, or reforms, that threaten them.
5. Consistent with the above, it is important to promote personal responsibility in the construction of adequate pension amounts through mandatory and voluntary pension saving. Companies should contribute to this by facilitating workers savings, providing education, and contributing to plans, among other measures.
6. The growth and development of VPS not only improves the situation of workers' pensions, but also implies lesser future commitment by the State to financing pension programs.

B. Factors that explain the lack of development of the VPS industry

The main factors that have emerged as obstacles to further development of VPS (not necessarily applicable to all countries under the current situation of the industry):

1. Negative perception of the system and the pensions industry, which affects the confidence of savers.
2. Prevailing informality in Latin American countries.
3. The low average income levels of workers.
4. A marked preference for present consumption, which leads people to favor short-term benefits; people do not envisage their situation in retirement.
5. Intangibility of the benefits offered by VPS.
6. Lack of liquidity or restrictions on withdrawals from the funds accumulated in the plans.
7. Difficulties in paying contributions and/or obtaining existing tax benefits.
8. Granting of tax incentives only for workers who pay income tax (tax benefits); in the majority

² Pensions at a Glance 2013.

of countries, there are no tax benefits for low and middle-income workers.

9. Scant education and financial preparation of workers, which, together with the complexity of social security, tax, and financial issues, scares them away from saving.
10. The absence of a State voluntary savings policy, which defines final objectives and the actions needed to achieve them.
11. Lack of interest of the fund managers in promoting VPS.
12. Lack of knowledge of the characteristics of VPS and its attributes.
13. Cumbersome enrollment or membership processes.
14. The existence of tax ceilings on savings and the tax benefits that can be obtained (several limits are defined in absolute terms, and then gradually lose relevance over time as earnings increase), and the inability to accrue amounts to reduce gaps in past contributions.
15. Lack of sufficient incentives and little commitment by employers.
16. Limitations in the application of the lessons offered by behavioral economics applied to the saving process, such as automatic enrollment and scaling, and the definition of default options.
17. Insufficient competition in offering VPS plans in some countries, although there is high competition in others.
18. Complex communications with the average worker and failure to focus on the characteristics, needs and goals of the target segment of members; communications sometimes include irrelevant messages.

C. Proposals for stimulating the development of VPS

Legitimacy of the system: The State must assign greater legitimacy to the pension system and VPS plans, promoting them and disseminating their advantages.

Public Policies

1. Define public policies that encourage savings, targeting different groups with different characteristics, such as age, gender and income.
2. Establish a level playing field for all agencies offering VPS plans.

Incentives when saving, or upon retirement

1. Establish a government commitment to maintaining VPS fiscal incentives, both tax and non-tax (for those who are not subject to income tax), clearing up uncertainties and threats.

2. Extended fiscal incentives to all workers, especially to lower and middle income workers who do not pay income tax and have no tax benefits. This has been a significant factor in the promotion of voluntary savings.
3. Increase government contributions to the savings of low- and middle-income workers, who are not subject to income tax. For example, in Chile it has been proposed to increase the tax rebate from 15% to 20% or 30% of the amount saved.
4. Allow tax benefits to be obtained directly from the payroll, to facilitate their provision.
5. Extend tax incentives to enterprises, especially for contributions they pay in on behalf of low-income workers. In countries where there are no such tax incentives, legislators and authorities should create them.
6. Correct existing imbalances in some countries (e.g.: Mexico), regarding the tax benefits offered when savings are used for purposes such as housing (or others), versus the benefits granted when the resources are used for VPS.

Enrollment and Contribution Mechanisms

1. Expand and simplify enrollment and savings mechanisms, designing new channels without the physical intervention of executives: phone calls, commercial networks.
2. Promote regular savings with automatic individual enrollment, with government "matching" and the possibility of paying in retroactive contributions for filling in "gaps."
3. Establish SMART-type default contributions³ for self-employed members with quasi-permanent contracts in formal enterprises, with an opt-out option.
4. Simplify sales process (digital, paperless).
5. Establish non-traditional means of contribution that facilitate the process. For example, stipulate that a percentage of the income tax paid by members must be deposited in their individual voluntary savings accounts.

Possibility of withdrawal and assignment to a pension

1. Provide liquidity, but with disincentives to withdrawal. Lack of liquidity must not become a significant barrier for voluntary savings.
2. Make withdrawal conditions flexible.
3. Incorporate multipurpose VPS withdrawals to make saving more palpable: catastrophic health, education, first housing unit and other contingencies.

³ In these types of plans, members begin contributing, or increase their contribution rates when their income increases, so starting or increasing savings does not imply a reduction in the liquid income received.

4. Ensure that a significant part of VPS is used for pension purposes.
5. Allow voluntary savings to be used as collateral on loans for specific objectives.

Savings ceilings

1. Adjust VPS ceilings in line with the increase in the real wages index, in countries with absolute amount limits.
2. Define VPS limits for obtaining physical or tax benefits, and extended them for periods of more than one year (e.g. 5 years), so that VPS contributions in favorable economic cycles more than compensate for the periods in which there are no VPS contributions, due to unfavorable economic cycles. This is the typical case of some professions in which high-income periods are concentrated in a limited period of time (e.g.: football players).
3. Ease limits for the elderly participating in collective VPS plans.
4. Protection of savings: Make voluntary pension savings unattachable.

Products and competition

1. Improve the characteristics of the products offered, adding life insurance policies.
2. Make the products offered more flexible, in order to adapt to the different savings characteristics and objectives of potential customers.
3. Boost competition between the different fund managers, and use technology to enable more efficient transfers between agencies.
4. Allow the subscription of agreements with other companies, to give more added value to savers.
5. Reduce management costs.

Collective VPS (CVPS), matching, vesting and behavioral economics

1. Promote CVPS, since it is a way of reaching out to low and middle income workers and makes the fund managers financially viable by allowing for greater coverage.
2. Authorize the automatic enrollment of workers, with opt-out and default options.
3. Make it mandatory to periodically re-enroll workers who opt out of their plans.
4. Authorize enrollment via text message, in order to simplify and reduce the cost of the enrollment process.

5. Reduce commissions due to the savings generated by automatic enrollment.
6. Authorize differentiated VPS plans within companies.
7. Extend the term of ownership or "vesting," to strengthen the ability of companies to retain workers through VPS.
8. Make automatic enrollment of workers mandatory, and make collective plans mandatory for employers.
9. Establish rates or deductibles limits differentiated by age or permanence of the worker in the plan, and differentiated rates or deductible limits for employers, depending on the percentage of the company's employees enrolled in the plan.
10. Involve employers, even with small contributions, as they are a gesture to workers and help to approach and educate them, reduce distribution costs and increase participation in plans; this is especially important for middle and lower income workers.
11. Hold informative presentations within companies, since they are very effective for encouraging the involvement of workers (65% end up enrolling, based on experience to date).
12. Create conditions for behavioral economics lessons to be used to advantage in the savings process, especially enrollment and automatic re-enrollment with opt-out and default options, including investment portfolios.

Education, advisory services and communications

1. Improve information and education regarding the need for VPS and the characteristics and attributes of savings plans, explaining and teaching the tax benefits of VPS, and providing the necessary information for obtaining all of them.
2. Make the benefits of VPS palpable by having people visualize their futures in retirement in an entertaining and intuitive way, using vivid images. Existing technology and computerized simulations can be used to advantage to portray the future more vividly for individuals, in an attempt to generate behavioral changes.
3. Provide better information on the objectives and benefits of VPS through the pension fund managers, which is usually less expensive and diversified, and small amounts can be saved. Position the pension fund managers as efficient savings and VPS agencies.