

# International Federation of Pension Fund Administrators



## Progress of the Pension Systems April - May 2016 No. 2

*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 April - May 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

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

- ✓ **Germany:** "A la carte retirement" system proposed, so workers can decide to abandon working life progressively, and pension plans with automatic enrollment and "defined ambition."
- ✓ **Bulgaria:** Proposed increase in contribution rates in the PAYGO system (17.8% to 18.8% for those born before 1960; 12.8% to 13.8% for those born after 1959).
- ✓ **Cape Verde:** Social Security contributions increased (15% to 16% for employer; 8% to 8.5% for worker).
- ✓ **United States:** Maryland implements private pension program for workers in small businesses, as of July 1; workers can choose to opt out of the program.
- ✓ **France:** Creation of new voluntary complementary pension model proposed.
- ✓ **Greece:** Reform that creates new universal pension and reduces pensions by 30% approved.
- ✓ **Honduras:** The Private Contributions System (RAP) will start operating as an AFP in June; it must compete with other existing private fund managers (workers can choose to remain in the RAP's AFP or switch their resources to another AFP in the market).
- ✓ **Channel Islands:** Complementary pension system with automatic enrollment proposed as of 2020.
- ✓ **Poland:** Window opens for members of individually funded systems to decide whether to transfer their savings to the public PAYGO system, and vice versa.
- ✓ **United Kingdom:** Sole state pension system implemented and possibility of contracting out eliminated (give up state pension and direct contributions to private plan).
- ✓ **Tanzania:** New non-contributory US\$ 9 per month universal pension introduced.
- ✓ **Turkey:** Government seeks to convert voluntary defined contribution system into an automatic enrollment system.
- ✓ **Uruguay:** Alternatives examined for improving the situation of workers between 50 and 59 years of age who were forced to join an AFAP in 1996, and who are about to retire.

### Crisis in Public PAYGO Systems

- ✓ **Costa Rica:** Government seeks to contain public expenditure on pensions by reforming Government pension schemes (less generous pension, higher rate of contribution).
- ✓ **Panama:** IMF warns that public system will run out of reserves in 10 years; calls for increasing contributions and reducing replacement rate.
- ✓ **Paraguay:** Warning that public system will go into deficit in 2035.

### Withdrawal of Funds on Retirement

- ✓ **Perú:** since late May, members who opted to withdraw 95.5% of their funds, may access their savings; pending legislation for Programmed Withdrawal retirees.

### Pension Education

- ✓ **Chile:** In a public account, the Superintendency announced it will design and implement a pension education plan, and approved resources for 45 pension education projects.
- ✓ **Mexico:** New financial tool introduced for improving quality of information provided to workers; will enable clear understanding of the investment strategy, investment

### Retirement Age

- ✓ **Argentina:** Project being discussed to raise minimum retirement age of women from 60 to 65, equal to men.
- ✓ **Belarus:** As of January, 2017, the retirement age for men will gradually increase from 60 to 63, and for women from 55 to 58.
- ✓ **Brazil:** Bill of law for increasing the retirement age announced.
- ✓ **Canada:** Planned increase in the retirement age from 65 to 67 between 2023 and 2029, scrapped; the retirement age will remain at 65.
- ✓ **Croatia:** Increase in retirement age accelerated (it will reach 67 by 2028, instead of 2038).
- ✓ **Denmark:** Retirement age increases from 67 to 68 for those born from 1963 onwards; there will be automatic increases of one year every 5 years from now on.
- ✓ **Slovenia:** Proposal for raising retirement age from 65 to 67, and linking it to increases in life expectancy from then on.
- ✓ **Estonia:** Proposal for raising retirement age from 63 to 65, and linking it to increases in life expectancy from then on.
- ✓ **Finland:** The minimum retirement age will increase from 63 to 65, and the maximum from 68 to 70, as of January 2017. Thereafter it will be linked to increases in life expectancy.
- ✓ **Portugal:** The retirement age will increase from 66 years to 66 years and 3 months as of 2017 (automatic increase).
- ✓ **Czech Republic:** Proposed increase of the retirement age from 65 to 67.

### Structural Reforms being Discussed

- ✓ **Argentina:** Minister of Labor announces creation of a universal non-contributory pension and President highlights the importance of an upcoming pension reform aimed at making the system fairer, more equitable and sustainable over time.
- ✓ **Armenia:** Launching of mandatory individually funded program delayed from July 1 2017, to July 1 2018.
- ✓ **Bangladesh:** World Bank cooperating in launching the mandatory pension system for private sector workers. If passed, it would start operating in 2018.
- ✓ **Bulgaria:** Proposal for individual account contributions (2nd pillar) to be collected by a common pension fund, which would ensure payment of a Life Annuity.
- ✓ **Colombia:** According to Ministry of Labor, an in-depth study of alternative pension reforms is underway and a proposal will be put forward in 2017 or 2018.
- ✓ **El Salvador:** Proposal for discussing pension reform project in greater depth, at a technical round table, avoiding political bias in the analysis and discussion.
- ✓ **Georgia:** New individually funded program complementary to the public PAYGO system proposed; it would start operating in the third quarter of 2017.

### Diversification and Investment Risk / Multifunds

- ✓ **Chile:** Government drawing up rules and regulations for AFPs to be able to invest directly in alternative assets, including investments in infrastructure and private debt securities.
- ✓ **Colombia:** New rules and regulations unify limit applicable to investment in local private equity funds, creating a new category of "restricted assets" and allowing funds to commit up to 1% in purchase of securities that finance 4G road projects.
- ✓ **Mexico:** Rules and regulations ready for Afores to invest in Investment Projects Certificates (CERPI) and Fibras E. They will now be able to invest in projects in different sectors of the economy (especially energy and infrastructure).
- ✓ **Hong Kong:** Introduction of default fund in mandatory defined contribution program approved, starting in the first half of 2017.
- ✓ **Lithuania:** Central Bank proposes default investment strategy based on life-cycle model.

## News highlights in this issue



*Finance Ministers of the Pacific Alliance agreed to request technical assistance from Multilateral Development Banks to carry out a prefeasibility study of an infrastructure fund, which would encourage participation of private investors in infrastructure projects in the region.*



*Superintendency of Pensions announced pension education plan and expansion of investment alternatives for pension funds. The government is drawing up rules and regulations for the AFPs to be able to invest directly in alternative assets, including investments in infrastructure and private debt securities (real estate, private equity).*



*Assets in which mandatory pension funds can invest are reorganized, separating traditional from alternative assets. Rules and regulations unify limit applicable to investment in local private equity funds, creating a new category of "restricted assets" and allowing funds to commit up to 1% of the value of the fund in purchasing securities that finance 4G road projects.*



*Guidelines established that Afores must follow for direct Investment in Project Certificates (CERPI) and Fibras E. With these new instruments, the Afores will be able to invest in projects in all sectors of the economy (complementary to Development Capital Certificates) and participate in the development of energy and infrastructure projects.*



*As of May 27, members of the private pension system who opted to withdraw 95.5% of their funds, may access their savings (the remaining 4.5% is paid to the State Social Insurance (EsSalud) for maintaining coverage and health services). Passage of the law that will allow this option for Programmed Withdrawal retirees is still pending.*

## Studies or Relevant Reports

**Fitch examines the challenges that the pension system in El Salvador will face if the proposed reform is approved.** In its [published report](#), Fitch states that one of the benefits of the current pension system is the disability and survival insurance<sup>1</sup> taken out by the AFPs for their members. According to Fitch, a significant proportion of the current contributions to the individually funded system would be paid into a PAYGO system if a mixed pension system is adopted, due to which the disability and survival insurance would be eliminated for this group of contributors.

(Source: [www.inese.es](http://www.inese.es); Date: 03.05.2016).

**A study by the National Bureau of Economic Research (NBER), Cambridge, has concluded that transfers between Multifunds destabilize the market and put pressure on prices in Chile.** The [Study](#) examines Chilean evidence of the effects of following the recommendations of certain companies to switch Multifunds. It states that recommendations based on short-term trends produce large coordinated fund flows that put pressure on prices and increase volatility in financial markets, causing a drop in efficiency. For transfers between funds to materialize, fund managers must operate with almost 10% of their local shares and 20% of their bond portfolios within a couple of days. This coordinated noise leads to tremendous pressure on prices, close to 1% of the Chilean stock market.

(Source: [www.dfcj](http://www.dfcj); Date: 15.04.16).

**OECD report states that reducing pensions would relieve pressure on public finances of Mexico.** According to this [report](#), the subsidies granted by the Mexican Social Security Institute (IMSS) when paying pensions with a ceiling of 25 times the minimum wage, coupled with various defined benefit systems, may be unsustainable for the public finances of the country in the long term; one of the measures that would help to relieve pressure on public finances would be to reduce the benefits of the workers of the transition generation (those who can choose to retire under the system of the 1973 Law), reducing the maximum limit of the reference wage for calculating pensions, from 25 to 10 times the minimum wage. .

(Source: [www.quadratin.com.mx](http://www.quadratin.com.mx); Date: 20.05.16).

**OECD report evaluates the regulatory framework of private pensions in Colombia.** The [report](#) shows that the regulation and supervision of private pensions is consistent with the regulatory standards of the OECD. The country has all the elements of a sound supervisory framework. Nonetheless, the OECD's Private Pensions Task Force believes that Colombia could improve its regulatory framework for promoting the development of the private pension system by implementing policies for increasing its coverage and competitiveness, strengthening the ability of members to optimize their investment and retirement decisions, and monitoring the impact of State guarantees to the insurance companies.

(Source: [www.oecd.org](http://www.oecd.org); Date: April 2016).

## Latin America, the Caribbean and North America

### *The Pacific Alliance (PA)*

**Finance Ministers of the Pacific Alliance discuss the Infrastructure Fund for encouraging the participation of private investors.** The [9th Meeting of Ministers of Finance of the PA](#) was held on April 16. They reviewed progress in the work agenda set out in the Paracas Declaration (July 2015) and agreed to request technical assistance from Multilateral Development Banks to carry out a prefeasibility study of an infrastructure fund, which would encourage participation of private investors in infrastructure projects in the region.

(Source: <https://alianzapacifico.net>; Date: 01.05.2016).

**Additional Protocol to the Framework Agreement of the PA** comes into effect. This Protocol came into effect on May 1; it has 19 chapters that facilitate trade and eliminate trade barriers, establishing modern disciplines related to professional and financial services, and enabling the exchange of 92% of products between member countries without any duties (there will be free movement of products by 2030).

(Source: <https://alianzapacifico.net>; Date: 15.04.2016).

### **Latin America and the Caribbean**

IDB presents its first draft of the project '**Pensions Network in Latin America and the Caribbean**'. Through this project, IDB will finance activities for pension institutions in the region to be able to access the best practices of other countries; cooperation will include chats, workshops, technical assistance from government officials and advisory services by international experts. In its initial stage (first two years) the network will call for proposals from its members twice a year; the project has a budget of US\$ 400,000 and 13 countries have so far confirmed their participation: Brazil, Chile, Colombia,

<sup>1</sup> This coverage is provided by insurance companies in the market, and covers the insured against accidents or diseases that make it impossible for him to work.

Costa Rica, El Salvador, Haiti, Honduras, Jamaica, Mexico, Panama, Peru, Dominican Republic and Uruguay. (Source: [www.diariolibre.com](http://www.diariolibre.com); Date: 13.04.16).

## Argentina

**Upcoming pension reform.** Labor Minister Jorge Triaca outlined a pension reform agenda that would establish a "Universal Old-Age Pension" (intended for those who have not contributed, equivalent to 80% of the minimum pension for men and women aged 65), and an additional component reflecting the real contribution of workers to the system. The President of the Republic, Mauricio Macri, [has pointed out the need to adopt a bill of law for paying the lawsuits of retirees and implementing an old age pension](#); He said, textually: "We will conduct an in-depth study on how to convert the existing pension system into a fairer, more equitable system, sustainable over time, in order not to repeat the same mistakes."

(Source: *Global Retirement Update April 2016 and [www.clarin.com](http://www.clarin.com)*; Date: 29.05.2016).

**Retirement age for women increases from 60 to 65.** The government decided to raise the minimum retirement age for women by 5 years (60 to 65), making it equal to that of men. Project must still be approved by Congress.

(Source: <http://www.diario26.com>; Date: 31.05.2016).

## Brazil

**Acting President announces pension reform that would increase retirement age.** The Acting President, Michel Temer, undertook to submit a pension reform bill of law to Congress within a maximum of 30 days; the bill would extend the retirement age within a not very extensive transition period.

(Source: *Global Retirement Update AON*; Date: May 2016).

## Canada

**2016 budget annuls proposed increase in retirement age.** The budget annuls the approved bill of law that was supposed to increase the retirement age from 65 to 67 from 2023 to 2029 in the social security (Old-Age Security, OAS) and the Guaranteed Income Supplement (GIS) programs; the retirement age will now remain at 65. (Source: *International Update Social Security*; Date: April 2016).

## Chile

Superintendency of Pensions (SP) announces pension education plan and additional investment alternatives for pension funds. In a [public account](#), the SP announced that among its challenges for 2016 was the extension of investment alternatives for the pension funds and the design and implementation of a pension education plan.

Regarding the first issue, the Government is busy drawing up rules and regulations for the AFPs to be able to invest directly in alternative assets, including investments in infrastructure and private debt securities. (Source: [www.spensiones.cl](http://www.spensiones.cl); [www.df.cl](http://www.df.cl); Date: 27.04.2016).

**More than US\$ 2.4 million approved for funding pension education projects.** The Office of the Undersecretary of Social Security approved resources for 45 projects competing for the Pension Education Fund (FEP); the main objective of these projects will be to train monitors and disseminate social security information countrywide.

(Source: [www.previsionsocial.gob.cl](http://www.previsionsocial.gob.cl); Date: 05.04.2016).

## Colombia

**Pension reform postponed to 2017 or 2018.** The Minister of Labor, Clara López Obregón, acknowledged that no pension reform bill of law would be presented in 2016; she said that proposals have been put forward by the Government, employers and international organizations, and that an in-depth study has already been initiated to define an official standpoint, and an initiative will be submitted in 2017 or 2018.

(Source: <http://caracol.com.co>; Date: 31.05.2016).

**Investment of the pension funds in alternative assets modified<sup>2</sup>.** Rules and regulations adopted in May reorganize the assets in which the mandatory pension funds can invest, enabling the separation of traditional and alternative assets: (i) unifies the limit applicable to overall investment in local and foreign private equity funds at 10% for the moderate fund<sup>3</sup>; (ii) creates a new category of "restricted assets" (issuances in unqualified secondary markets; investment in fixed income instruments rated below investment grade, and leveraged investment instruments); (iii) allows mandatory pension funds to commit up to 1% of the value of the fund in purchasing bonds and securities that finance 4G road projects during the operation and maintenance stages.

(Source: [www.eje21.com.co](http://www.eje21.com.co); Date: 12.05.2016).

## Costa Rica

**Agreement reached to promote [projects for containing public expenditure on pensions](#).** One of them would reform government pension schemes, to put ceilings on pensions, reduce pension increases and make requirements for accessing them stricter. For example, in

<sup>2</sup> Regulatory amendment via [Decree No. 765 of May 6, 2016](#).

<sup>3</sup> This new limit does not include investment in real estate private equity funds or those that finance infrastructure, under the Public Private Association (PPA) system, which are part of the set of alternative assets whose maximum investment limit is 20% for the moderate fund.



the General Pension System on Account of the National Budget, pension amounts will no longer be calculated on the basis of 100% of the average of the 12 best salaries in the last 24 months, but rather on 80% of this average. The Executive may increase the contribution rate paid in by government pensioners by up to 18% (the ceiling is currently 9%).

(Source: *La Nación*; Date: 02.05.2016.).

## *El Salvador*

**Proposal for discussing pension reform project in greater depth, at a technical round table<sup>4</sup>.** The Farabundo Marti Front for National Liberation (FMLN) said it would be interested in discussing and analyzing proposals for reforms to the pension system; the National Association of Private Enterprise (ANEP) proposed removing the discussion from the Legislative Assembly and forming a technical panel of experts, in order to avoid political bias in the analysis and discussion.

(Source: [www.lapagina.com.sv](http://www.lapagina.com.sv); Date: 27.05.2016).

## *United States*

**Maryland implements private pension program as of July 1.** This will be the last State in the country to have an employer-sponsored retirement plan for workers in the private sector. The "Maryland Small Business Retirement Savings Program and Trust" creates a payroll deduction for the individual pension accounts of workers in small enterprises. People who work at least 30 hours per week for employers in the private sector, with 10 or more workers, will contribute 3% of wages, but workers may choose to opt out of the program.

(Source: [www.pionline.com](http://www.pionline.com); Date: 09.05.16).

## *Honduras*

**The Private Contributions Regime (RAP) will start operating as an AFP in June.** With the passage<sup>5</sup> of the [Framework Law of the Social Security System](#), the RAP must become an AFP and manage the savings of workers enrolled in the system through individual accounts; said AFP will start operating in June, and will compete with other existing private fund managers (workers can choose to remain in the RAP's AFP or switch their resources to another AFP in the market<sup>6</sup>). If workers decide to keep their savings in RAP's AFP, they will still be

able to access automatic housing loans and other benefits provided by this institution.

It is worth mentioning that under the new Social Security system, workers make a consolidated contribution of 6.5% to the Disability, Old Age and Death System (IVM, public PAYGO system) (3.5% the employer; 2.5% the worker; and 0.5% the State). Contributions to an individually funded account (in RAP's AFP, or any other) are voluntary for workers who earn up to HNL 8,882.30 (approx. USD 388). Those who exceed that salary threshold must mandatorily contribute 6% on the surplus salary (up to a ceiling of three times the minimum wage) to an individually funded account (managed by RSAP's AFP, or any other private fund manager).

(Source: FIAP, based on [www.laprensa.hn](http://www.laprensa.hn); [www.ssa.gov](http://www.ssa.gov); Date: May 2016).

## *Mexico*

**Pension system at the forefront with the incorporation of biometric data.** Authorities announced start of integration of biometric data of savers in AFOREs (fingerprints, voice and digital signature). The measure will provide greater control and safety in the handling of personal data, will simplify and expedite procedures and reduce the system's operating costs (replacement of paper by electronic means).

(Source: [www.consar.gob.mx](http://www.consar.gob.mx); Date: 16.05.2016).

**Pensions Regulator introduces new tool "Financial X-Ray of the AFOREs," to improve quality of information provided to workers.** [New tool available on the Internet](#) is a Factsheet following international standards of information disclosure; the product will stimulate greater competition between the AFOREs, since it will enable clearly defining the investment strategy and performance of each one of them. By knowing the composition of the portfolio of each AFORE, savers will be better equipped for choosing the AFORE with the profile closest to their preferences.

(Source: [www.consar.gob.mx](http://www.consar.gob.mx); Date: 09.05.2016).

**Regulator sets out the [rules and regulations](#) that Afores must follow for directly investing in Investment Project Certificates (CERPI) and Fibras E.** New instruments extend range of alternatives for the Afores to invest the money of their savers. Fibra E. is a system similar to the Real Estate Investment Trusts (Fibras) already operating in the real estate sector, but will instead be used for the development of energy and infrastructure projects. The CERPI will enable the pension funds to invest in a wide range of projects in all sectors of the economy, complementary to the Development Capital Certificates (DCC).

<sup>4</sup> For further details of the reform being discussed, please review Progress of the Pension Systems No. 1-2016.

<sup>5</sup> This law came into effect on September 4, 2015.

<sup>6</sup> The fund managers AFP Atlántida and AFP Ficohsa are currently operating, and AFP BAC Credomatic will soon join them.

(Source: [www.consar.gob.mx](http://www.consar.gob.mx); [www.bolsamania.com](http://www.bolsamania.com); [www.elfinanciero.com.mx](http://www.elfinanciero.com.mx); Date: April 2016).

## Panama

**IMF warns of need to increase retirement age and reduce replacement rate of the public pension system.** [On its latest mission to the country](#) the agency warns that the public pension system will run out of reserves within 10 years, unless said reforms are carried out.

(Source: *Global Retirement Update AON*; Date: April 2016).

## Paraguay

**Collapse of public pension system by the beginning of 2035 foreseen.** The retirement and pensions system of the Social Security Institute (IPS) will start recording a deficit in 2035, if appropriate corrective measures are not taken. Estimates suggest that in the absence of the required state contribution of 1.5% (on the salary declared to the IPS) and if "bonus" payments continue, the reserve fund will have to be tapped at the beginning of 2035.

(Source: [www.ultimahora.com](http://www.ultimahora.com); Date: 01.04.16)

## Peru

**Members begin withdrawing up to 95.5% of their funds from the AFPs** Members of the private pension system who opted for withdrawing 95.5% of their funds, can access their savings as of May 27. These new regulations were approved by Congress on April 15, and came into effect on May 16. They allow members aged 65 or more who have still not received a pension, to withdraw up to 95.5% of the funds from their AFPs (the remaining 4.5% is paid to the State Social Insurance (EsSalud) for maintaining coverage and health services). This option is also available for men over 55 and women over 50 who have been unemployed for at least 12 months and whose calculated pension is equal to or greater than the minimum wage (PEN 850, approx. 249 USD)<sup>7</sup>. Passage of a law that will allow this option for Programmed Withdrawal retirees is still pending.

(Source: [www.andina.com.pe](http://www.andina.com.pe); <http://larepublica.pe>; [www.elciudadano.cl](http://www.elciudadano.cl); *Boletín Diario de Seguros América Latina*; Date: May 2016).

## Dominican Republic

**Rules and regulations governing the involvement of the AFPs in the real time gross settlement system**

<sup>7</sup> This is the Special Early Retirement System (REJA).

**(RTGS) approved<sup>8</sup>.** Thus, the AFPs can make different transactions in primary and secondary markets, on behalf of the pension funds, through the current account of the Central Bank. All costs arising from participation in the LBTR are on account of the AFPs.

(Source: [www.sipen.gov.do](http://www.sipen.gov.do); Date: 09.05.2016).

**Resolution approved that modifies conditions for the investment of pension funds in shares of closed-end investment funds and open-ended mutual funds.**

Among other things, the legislation increases the maximum limit of indebtedness for closed-end funds, from 30% to 50% of net worth.

(Source: [www.sipen.gov.do](http://www.sipen.gov.do); Date: 05.04.2016).

**Resolution approved that establishes conditions for the investment of pension funds in securities issued by public offer trusts.** The trust securities, which may be considered alternative investments for the pension funds, must be approved by the Risk Classification Committee; these securities must have investment grade risk classification, or higher.

(Source: [www.sipen.gov.do](http://www.sipen.gov.do); Date: 05.04.2016).

## Uruguay

**Alternatives examined for improving situation of "people in their fifties" who were forced to join an AFAP and are now in a position to retire.** The affected parties are workers currently between 50 and 59 years of age (they fell within the transition stage in 1996 when they were under 40 and they were forced to join the AFAP due to their wage level); when calculating pensions, the Social Security Bank (BPS) does not recognize all of their former contributions, but only considers the amount up to the first level of the mixed system. The AFAPs estimate the number of affected workers at 30,000. BPS is considering the following options for resolving the issue: (i) Change the retirement calculation<sup>9</sup>; the affected parties would receive a pension in the transitional system (only via BPS) stemming from an apportionment of their contributions prior to 1996, and another pension under the mixed system with their subsequent contributions; in the long term this measure entails an additional overall expenditure for the State of USD 968.4 million (2% of GDP); (ii) Give workers between 51 and 59 the option of choosing between the mixed system and the transitional regime (i.e., the ability to opt out of the AFAP), which would have an overall long-term cost for the State of a

<sup>8</sup> This is an electronic payment system of the Central Bank, through which participants can transfer funds electronically between one another and the Central Bank, and give ongoing payment instructions or orders, in real time and in gross amounts.

<sup>9</sup> Interpretive bill of law submitted by the Deputy of the Colorado Party, Conrado Rodríguez.

maximum of US\$ 2,098 million (4.3% of GDP). The discussion on the road ahead is still in progress.

(Source: [www.elpais.com.uy](http://www.elpais.com.uy); National Association of AFAPs, ANAFAP; Date: May 2016).

## Europe

### Germany

**"À la carte retirement" combined with work proposed.** The International Monetary Fund (IMF) has invited the German Government to initiate reforms, especially to delay the retirement age. To this end, an "à la carte retirement," called "Flexi-rent," has been proposed. The system will provide customized solutions, whereby each worker can decide when he wants to stop working, maybe even gradually, also allowing retirees to work, encouraging the obtainment of income in addition to the pension, but also including improvements for those who opt for an early retirement.

(Source: <http://www.abc.es>; Date: 18.05.16).

**Government seeks to strengthen occupational pensions through automatic enrollment and collective defined contribution plans.** Proposals of the Department of Finance and Labor, together with economists and legal experts, include the option of introducing "collective defined contribution" or "defined ambition" plans, based on a consensus between employers and trade unions; they also propose introducing automatic enrollment with an opt-out option; The draft of the initiative will be ready by the end of 2016, and any changes would come into effect as of 2017.

(Source: Global Retirement Update AON; Date: May 2016).

### Armenia

**Start up of mandatory individually funded program delayed.** Parliament has delayed the startup date of the program by one year, from July 1, 2017, to July 1, 2018. This program was approved in 2014, but due to a series of legal reviews, its implementation has been postponed.

(Source: Global Retirement Update AON; Date: May 2016).

### Belarus

**Increase in retirement age decreed.** As of January 2017, the retirement age will rise gradually from 60 to 63 for men and from 55 to 58 for women, by 6 months per year over a period of 6 years. The decree also calls on employers and workers to participate in voluntary pension schemes.

(Source: Global Retirement Update AON; Date: April 2016).

### Bulgaria

**Proposal for funds of individual accounts to be collected by a common pension fund.** The Ministry of Finance has conducted a public consultation for amending the Social Security Code. Changes to the second pillar: (i) proposal that funds paid into individual accounts be collected by a common pension fund, which would ensure a life annuity; (ii) prohibits investment in real estate and adds shares and bonds in Initial Public Offerings (IPOs) and bonds guaranteed by international financial institutions to the investment portfolio. The pensions industry insists that it has not been properly consulted regarding this proposal, and has threatened to file formal complaints before the European Commission.

(Source: Global Retirement Update AON; Date: May 2016).

**Proposal to increase the contribution rate to the PAYGO system.** The government has proposed increasing the contribution rate to the public PAYGO program, to reduce the need for the State to transfer resources to the National Social Security Institute (NSSI); for those born before January 1, 1960, the rate would increase from 17.8% to 18.8% in 2017; for those born after December 31, 1959, the rate would increase from 12.8% to 13.8% in 2018.

(Source: Global Retirement Update AON; Date: May 2016).

### Croatia

**Reform to accelerate increase in retirement age approved.** The original plan was to raise the retirement age to 67 by 2038; this will now be achieved by 2028. The early retirement age will also increase from 60 to 62.

(Source: Global Retirement Update AON; Date: May 2016).

### Denmark

**Reforms implemented that delay transition from work to retirement stage.** Reforms include: (i) increase of the mandatory retirement age by one year, from 67 to 68, for everyone born from 1963 onwards; future adjustments to the retirement age will be automatic (increase of one year every 5 years); agreement stipulates that duration of old-age pensions should be about 14.5 years, based on the life expectancy of a person at 60; (ii) prohibition of incorporating a mandatory retirement age in existing and future employment contracts<sup>10</sup>.

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

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<sup>10</sup> In Denmark, employment contracts usually stated that the worker would retire at 70, and almost the entire population works under contract, so this was implicitly the mandatory retirement age countrywide, even though it was not stipulated by law.



## Slovenia

**Pensions white paper suggests increasing the retirement age.** Paper states that funds of the public PAYGO system will be exhausted by 2022-23, unless measures are implemented, such as: (i) raise the retirement age from 65 to 67 for men and women, and thereafter link it to life expectancy; (ii) gradually eliminate wage increases from pension indexing (Indexing based only on the CPI after 10 years); (iii) calculate pensions on the basis of the best 34 years of contributions (instead of the best 24); (iv) eliminate the early retirement option and give bonuses for more than 40 years of service.

(Source: *Global Retirement Update AON*; Date: May 2016).

## Estonia

**Proposal to increase the retirement age and transfer part of the cost of social security and of health to workers.** The Ministry of Social Affairs unveiled social security reform proposal to increase the retirement age from 63 to 65 by 2026; thereafter, the retirement age will be automatically linked to life expectancy; the government task force has also recommended establishing minimum and maximum limits for social contributions, and transferring part of the cost of social security and health to workers.

(Source: *Global Retirement Update AON*; Date: April 2016).

## Finland

**Parliament approves gradual increase in retirement age.** As of January 2017, the minimum retirement age will increase from 63 to 65, at a rate of 3 months per year; the maximum age will also increase, from 68 to 70, at the same rate. The minimum and maximum retirement ages will subsequently be indexed to life expectancy, with maximum increases of 2 months per year.

(Source: *Global Retirement Update AON*; Date: May 2016).

## France

**Creation of new voluntary complementary pension model proposed.** Model would enable avoiding restrictions on investment of pension schemes based on insurance under Solvency II<sup>11</sup>; the new pension scheme would maintain a high level of protection for participants while reducing the capital requirements of companies and allowing increased investment in equities.

(Source: *Global Retirement Update AON*; Date: May 2016).

<sup>11</sup> Solvency II is a Directive that changes the European security standards to strengthen this industry, which is fully solvent, and to promote better insurance products for citizens.

## Georgia

**Individually-funded program proposed** The program would complement the public PAYGO system, with tripartite financing by workers, employers and the State; if approved, it should start operating in the third quarter of 2017.

(Source: *Global Retirement Update AON*; Date: April 2016).

## Greece

**Parliament approves pension reform.** The reform stipulates among other things: (i) create a new national pension of EUR 384 per month (eligibility after 20 years of contributions); (ii) reduce pension (up to 30% of new and complementary pensions); and (iii) merge pension funds.

(Source: *Global Retirement Update AON*; <http://www.abs.es>; <http://noticias.terra.com>; Date: May 2016).

## Channel Islands

**Pension system with automatic enrollment proposed as of 2020.** A new secondary pension scheme was recently proposed by the inter-ministerial task force. Features: (i) employers may enroll all of their employees in this secondary pension scheme, or any of the existing pension schemes.<sup>12</sup>; (ii) proposed contribution rate will increase gradually, reaching 10% of the gross wage of the worker by 2027, and will remain there from then onwards (3.5% by the employer and 6.5% by the employee); (iii) employees can choose to opt out of the scheme, but they will be re-enrolled every two years.

(Source: *Global Retirement Update AON*; Date: April 2016).

## Lithuania

**Central Bank proposes default investment strategy based on life-cycle model.** The model would reduce investment risks as people get older.

(Source: *Global Retirement Update AON*; Date: April 2016).

## Poland

**Window opens for members of individually-funded systems to decide whether to transfer their savings to the public PAYGO system, and vice versa.** The window will be open from April 1 to July 31. For those who currently only contribute to the PAYGO program, and who choose to participate in the individually funded program, 2.92% of their gross salary will be deposited in an

<sup>12</sup> These are defined benefit pension schemes in the public or private sector, and occupational defined contribution schemes.

individual account and managed by an Open Pension Fund (OFE) (16.6% of the wage will still be paid into the PAYGO program). Those already enrolled in individually-funded programs may decide to opt out and transfer their savings to the PAYGO program (this decision is irreversible). According to the law enacted in 2014, which made enrollment in the individually funded program voluntary for new entrants to the labor market, this types of time windows for transferring from one program to another will open every 4 years (the next one should be in 2020).

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

## Portugal

**Retirement age will increase as of 2017.** The [provisions](#) governing the automatic increase in the retirement age were published in April; based on these provisions, and considering an average life expectancy of 65 between 2014 and 2015, the retirement age should increase from 66 to 66 and three months in 2017.

*(Source: Global Retirement Update AON; Date: April 2016).*

## United Kingdom

**Sole state pension system implemented** This single-tier state pension (STP), replaces the former two-tier State system (the Basic State Pension, BSP; and the Second State Pension, S2P). With the elimination of the S2P, the possibility of the worker "contracting out" of the private pension plan is also eliminated<sup>13</sup>. The level of STP benefits is set above the level of the previous basic pension (approx. USD 228 per week), with a full benefit level for 35 years of contributions to National Insurance (30 years were formerly required for a full benefit in the BSP or S2P).

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

## Czech Republic

**Safeguarding pension funds from devaluation and increasing the retirement age proposed.** The State Pension Commission is preparing a decree amending the Pensions Law to protect pension funds against devaluation; the Ministry of Labor and Finance, on the other hand, has proposed increasing the retirement age from 65 to 67 in the long term.

*(Source: Global Retirement Update AON; Date: April 2016).*

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<sup>13</sup> The S2P allowed individuals to opt out of the State benefit, and instead pay contributions (of the worker and employer) into a private pension plan (on the assumption that the benefits of the contracted plan are greater than the State benefit that they opted out of).

## Turkey

**Government wants to convert voluntary defined contributions scheme into an automatic enrollment scheme**

New entrants to the labor market and those who change jobs would be automatically enrolled in this scheme and would not be able to opt out for the first 6 or 8 months; this would initially apply only to workers under 45 in companies with at least 50 workers; participants would contribute at least TRY 50 (approx. 17 USD) per month; the employers' contributions have not been determined yet; there would be a State subsidy based on the time spent in the plan.

*(Source: Global Retirement Update AON; Date: May 2016).*

## Africa

### Cape Verde

**Social Security Contributions Increase.** Social Security contributions increased as of April: from 15% to 16% of the gross wage for employers; and from 8% to 8.5% for workers.

*(Source: Global Retirement Update AON; Date: May 2016).*

### Tanzania (Zanzibar)

**New universal pension introduced.** New non-contributory monthly benefit of TZS 20,000 (approx. USD 9.16), applies to all residents of the archipelago<sup>14</sup> aged 70 or more.

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

## Asia and the Pacific

### Bangladesh

**Foundations of the mandatory private pension system are put in place.** The World Bank is helping the Government to create a pension funds regulatory authority for preparing a mandatory private sector pension system; the regulatory body should be operating at the beginning of 2018; legislation will be enacted after analysis by the Ministry of Finance and consultation with all stakeholders.

*(Source: Global Retirement Update AON; Date: April 2016).*

### Hong Kong

**Introduction of default fund in Mandatory Provident Funds (MPF) approved.** The default fund would start operating in the first half of 2017, with a maximum commission of 0.95% of managed assets per year (under

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<sup>14</sup> Zanzibar is an archipelago, officially part of Tanzania.

discussion); the change would improve results of 600,000 workers who currently invest their funds in a default option, as well as others who do not have the time/interest for differentiating between 38 MPF schemes and 462 funds currently available in the market.

***(Source: Global Retirement Update AON; Date: May 2016).***