International Federation of Pension Fund Administrators

Progress of the Pension Systems
February 2017 - March 2017
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 February 2017 - March 2017 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.

Executive summary by area of interest

New Pension Programs and Social Security Reforms (approved)

Australia: *The means test for qualifying for a non-contributory pension has been modified, for the purpose of reducing fiscal spending on pensions due to this item.*

Bosnia and Herzegovina: *The new complementary voluntary pension program will start operating as of 2018.*

Colombia: *As of March 6, self-employed workers who earn more than USD 3,152 will pay their social security contributions only via an electronic form on the internet; payment in agencies will be eliminated.*

Slovenia: *The agreement on the exemption of Social Security contributions between Slovenia and the United States was signed, so employers will only pay contributions in the country of origin of workers who are transferred for temporary work in either of these countries.*

Hungary: *The employer's contribution rate to the public PAYGO system dropped from 27% to 22% as of January 1, 2017. Thus, the total contribution rate dropped from 45.5% to 40.5%.*

Peru: *A Social Security convention was subscribed with Korea, whereby old age, disability and survival pensions will be able to be transferred to the country of residence.*

Rapprochement and information to members

Chile: *AFP Habitat published its first public account for members in March, while AFP Cuprum announced the creation of a "Committee of Enrolled Members." Both measures aim to provide and communicate timely and relevant information on the management of the AFP to members.*

Mexico: *The pensions regulator published the annual update of an indicator with more than 36 variables measuring the efficiency, coverage, offer and promotion of the services of the Afores. It also published a new tool denominated 'Operational X-ray of the Afores,' which will enable comparing the operational performance of each fund manager. Workers close to retirement will now also be able to achieve savings by selecting their pensions through a new Life Annuity" Offers Document," which provides enhanced information for retirement decisions.*

Peru: *The AFPs will send members over 50 a customized pension projection, between March and May. This information will gradually be made available to all members. The Association of AFPs also launched an educational video on the benefits of pension savings.*

Management Fees

Chile: *AFP Provida announced a reduction in mandatory savings account management fees from 1.54% to 1.45% of salary, and from 0.56% (VPS) and 0.92% of the annual balance (Note 2) to 0.2% in voluntary savings products.*

Corporate Governance

Peru: *The AFPs demanded drastic measures to reverse the drop in the value of the pension funds because of the corruption scandal involving the Brazilian company Odebrecht and its association with the Peruvian construction company Grana y Montero (GyM), leading to the resignation of the upper management of the latter. GyM's legal liability must still be established.*

Investments/Multifunds

Chile: *Ministry of Finance will propose changing the structure of the Multifunds to minimize risks for savers. Among other measures, individuals who are less than 20 years from retirement will not be able to be in Fund A, the riskiest fund.*

Reforms proposed or to be discussed

Brazil: *The pension reform, which sets a minimum retirement age of 65 for men and women, is expected to be approved at the end of 2017. The government would be willing to reduce the number of years of contribution for a full pension, from the proposed 49 years. However, the pension reform would only be applicable to the public sector. Without the reform, the gross public debt could reach 98% of GDP by 2019.*

Bulgaria: *In mid-2017, the Constitutional Court will decide on the legality of the free decision to opt out (up to 5 years before retirement) of the second individual accounts pillar and switch to the public PAYGO system.*

El Salvador: *The Citizens' Initiative for Pensions (ICP) submitted its proposal to the Government for reforming the pension system, concentrating its proposed measures in three areas: (i) Higher returns on savings, requiring the authorization of new investment alternatives and the creation of Multifunds; (ii) More and better benefits for workers, allowing free access to funds under certain conditions; (iii) Sustainability of pensions, through the creation of the "lifetime pension reserve," which kicks in when the balance of the individual account is exhausted. The retirement age (60 for men and 55 for women) remains unchanged.*

Spain: *In a recent book, Inverco proposed establishing an individually funded system with default enrollment, with the company and employees each contributing 2%. It also proposes transforming the PAYGO system into a notional accounts system.*

Lithuania: *The market is expecting reforms to the second individually funded accounts pillar in 2017. The proposals would include merging the mandatory accounts pillar with a voluntary savings pillar, eliminating the payment of contributions from the PAYGO system to private funds, and establishing an occupational pension system.*

Dominican Republic: *The government has drawn up a bill of law for modifying the social security system. Some of the potentially controversial proposals include the superintendency's authority to determine the rules and regulations governing transfers between AFPs; the exemption of micro and small enterprises from contributing for the first three years; a slight increase in the contribution rate to the individual account of the worker (from 8% to 8.39%) but with new costs for members (Social Security Treasury and Members' Defense Board); replacement of the monthly 0.5% management fee and the additional 30% maximum complementary fee on the returns obtained over and above the return of the certificates of deposit of the commercial banks , by an annual fee based on yields and determined by the State; and the determination of minimum returns by the Superintendency. This bill of law has created much uncertainty among the AFPs, encouraging State interference in the investment of the pension funds, without any changes for improving the pensions of workers, or increasing the coverage of the system.*

Romania: *Government plans to freeze contribution to the second individual accounts pillar at 5.1 percentage points in 2017; this contribution should have reached 6% in 2016, according to standing regulations.*

Uruguay: *A bill of law seeks to stimulate competition in the life annuities (LA) market. It establishes new mortality tables for calculating the LAs of the AFAP system and introduces the calculation of a "pure theoretical income," which an individual could theoretically obtain by managing his own retirement, investing only in risk-free instruments, a parameter which must be used by the insurance companies for explaining their gross margins.*

Retirement age

Cayman Islands: *A reform that increases the official retirement age from 60 to 65, and the official early retirement age from 50 to 55, came into effect as of January 1, 2017.*

Crisis in public PAYGO systems

Spain: *According to the Independent Authority for Fiscal Responsibility, new pensions will be 15% lower from 2026 onwards, due to the cuts in the last two reforms (2011-2013). The reduction will be an almost steady USD 212 as of 2021. Regarding the gender gap, the average pension of women will be 37% less than the average pension of men.*

Relevant reports or presentations

A study funded by the IDB indicates that a switch to a mixed pension system in El Salvador would be unsustainable. The proposal of the Salvadoran Government to reform the pension system and transform it into a mixed system would be untenable from day one, and it would end up being public again in future. This is the main conclusion emerging from a study funded by the Inter-American Development Bank (IDB) and conducted by the Mexican consulting firm Farrell, which had been previously shared with Government authorities, but had not been made public until now. According to the National Foundation for Economic Development (Funde), which presented the main results of the study, if a reform resulting in a mixed pension system were to be applied, the Government-managed PAYGO system would be indebted from the outset if it were to pay a minimum pension to all the pensioners existing at that time. Government debt would increase to infinity in the midterm by having to resort to more debt to pay minimum lifetime pensions, a result that would run counter to the reform's main objective: to enhance the country's fiscal sustainability. ***(Source:** www.eleconomista.net**; Date: 15.03.17).***

The Applied Economics Studies Foundation (Fedea) published a study **that analyzes the sustainability of the Spanish pension system and proposes safeguarding the minimum pension against inflation.** The report examines the evolution of the accounts of the public contributory pension system over the last three decades, constructing long-term projections of its expenses and revenue under different macroeconomic scenarios and policy options. The analysis of the 1985-2014 period reveals that the financial situation of the system has been deteriorating with the passage of time, due to: (i) population aging, which has resulted in a gradual increase in the elderly dependency ratio; (ii) the significant slowdown of the growth of productivity, and consequently real wages. The negative impact of these factors has been partially offset by the growing incorporation of women in the labor market and the reduced generosity of the rules and regulations for calculating pensions. The study highlights the fact that due to the provisions of the European Union, the 2011 and 2013 reforms should be able to contain pension expenditure at levels that do not pose serious sustainability issues in the next couple of decades, but there is a risk of significant loss of purchasing power of pensions once they have been granted, for which a solution would be to "shield" the minimum pension by linking it to the inflation rate. ***(Source: www.fedea.net; Date: 20.02.2017).***

Willis Tower Watson published its 2017 study **on global pension assets.** The study covers the 22 major pension markets, which total managed assets of US$ 36,435 billion, 62% of the GDP of those economies. China, Finland and Italy were included in this year's report, and the Australian, Canadian, Japanese, Dutch, Swiss, United Kingdom and United States markets were analyzed in depth. These countries jointly account for 91.7% of the managed assets of the total number of economies analyzed. The main results show that: (i) Managed assets grew by 4.3% within a 12 month period between December 2016 and December 2015; (ii) Pension funds grew at an average annual rate of 3.8% in the past 5 years (the Chinese private pension system recorded the highest growth rate); (iii) The growth of defined contribution (DC) pension funds still exceeds the growth of defined benefit (DB) pension funds [DC funds account for 48% of total managed assets worldwide; the annual growth rate of the DC funds in the last decade was 5.6%, compared to 2.6% of the DB funds]. ***(Source: www.willistowerswatson.com; Date: 30.01.2017.***

A study conducted by the Mexican Pension Regulator shows that the average contribution density of workers is 42.9%. The purpose of this document is to analyze the contribution densities of different cohorts of workers who have contributed to the Mexican Social Security Institute (IMSS) under the defined contribution scheme implemented in July 1997. The results, estimated on the basis of the contribution history of all the workers in the system, show that workers have an average contribution density of 42.9% (i.e. they have effectively paid contributions for 42.9% of the time they have been in the labor market). Lower contribution densities were found for women, older workers, individuals who entered the labor market later on in life, and lower-income workers. The results suggest the need to carry out reforms to strengthen the pension system. ***(Source: www.consar.gob.mx; Date: 21.02.17.***

Relevant news of the period

Latin America, the Caribbean and North America

The Pacific Alliance (PA)

The Ministers of Finance of the PA have charted the course for achieving full financial integration and facilitating investments by the pension funds. The countries comprising the PA (Mexico, Chile, Colombia and Peru) reaffirmed their commitment to work towards facilitating investment in instruments by the pension funds. The meeting of the Ministers of Finance, held on March 10, in Chile, reviewed the efforts for seeking greater standardization of taxes on revenue resulting from the investments of the pension funds in other countries of the PA, for the purpose of improving the returns of their contributors. They also agreed to identify tax, financial and customs barriers that hinder the exportation of services. (Source: http://larepublica.pe; Date: 13.03.17)..

Bolivia

Government drawing up a bill of law granting farmers access to the resources resulting from the 5% of the pension funds managed by the AFPs. The executive decree would allow farmers to access some MUSD 150. A "Closed Investment Fund" (FIC) would be created for small and medium-sized farmers. Regarding the guarantees provided by the farming sector to cover any risk to the stability of the funds, the Ministry of Economy has announced that 30% will be guaranteed by the agro-industrial enterprise with which the farmers subscribes a sales contract; another 30% will be guaranteed by the Guarantee Funds for the productive sector, and the remaining 40% will be covered with the returns generated by investments in publicly offered securities. ***(Source:** http://www.entornointeligente.com**; Date: 09.02.17)..***

Brazil

Pension reform still being discussed; Government is prepared to ease some modifications, which would be limited only to the public sector. As already known, the Government has proposed a constitutional amendment (PEC 287) that would prevent an imminent crisis looming in the pension system, which absorbs an ever-increasing part of the public expenditure, and has significant unfunded liabilities. The pension reform establishes a minimum retirement age of 65 for men and women, requiring workers to contribute for 49 years to receive a full old-age pension. It is planned to include all male workers under 50 years of age in the new program, with rules of transition for older people (the threshold for women is 45 years of age). The Chamber of Deputies began discussing the reform in mid-February. Workers' Trade Unions and some legislators of President Michel Temer's alliance in Congress have demanded changes to the unpopular reform, which the Government expects to approve by the end of 2017. As a result, the Government has indicated that it would be willing to reduce the number of years of contribution for full retirement from the proposed 49 years to a shorter period. According to the Government, without the Social Security reform, the gross public debt (which reached 69.5% of GDP in 2016, already considered high for emerging countries), could increase to 98% of GDP by 2019. The Finance Minister, Henrique Meirelles said that the Government would definitely not negotiate changes to its proposal for a minimum retirement age. However, according to the latest information, the PEC - 287 amendment will be limited only to the public sector. ***(Source:** www.americaeconomia.com**;** https://boainformacao.com.b**; Date: 22.02.17; Source: Economist Intelligence Unit Diario Financierol; Date: 03.03.17; Source:** www.telesurtv.net**; Date: 22.03.17).***

Chile

Ministry of Finance will propose changing the structure of the multifunds to reduce risks for members. The measure would include: (i) That people less than 20 years from retirement can no longer be in Fund A (the riskiest) so that men of 46 and women of 41 will not be able to choose this multifund (this fund is currently optional and is prohibited only for people who are 10 years from retirement, on the grounds that they do not have a sufficient number of years to recover from periods of negative returns which can cause losses); (ii) Members who are less than 10 years from retirement (men of 56 and women of 51) cannot opt for Fund B; (iii) Redefine the default strategy, including switching to Fund E (the most conservative) at the end of active working life (fund E is currently only optional, as well as Fund A, and people 10 years from retirement are assigned to Fund type D by default); (iv) Require individuals who actively choose a fund type to confirm their decision every now and then, which would limit the effect of the recommendations of some pension consultants (if the choice is not confirmed in the terms and deadlines stipulated, the individual would return to the default funds, always being able to actively choose another fund, should he wish to do so). ***(Source: www.economiaynegocios.cl; Date: 20.03.17)).***

AFPs create the means for rapprochement and informing their members. The AFPs recently started implementing actions to improve the information provided to their members, and their relationship with them. A case in point is AFP Habitat, which published the first public account for its clients, with 2016 data, at the beginning of March. Another case in point is AFP Cuprum, which announced the creation of a "Committee of Enrolled Members," whose main purpose will be to provide information on the investment and returns of the pension funds belonging to members. The committee will comprise members chosen at random, ensuring participation by gender, age, regions and the fund manager's pensioners, and will meet once every quarter. Participants will be renewed annually. The Chairman of the Association of AFPs (AAFP), Andrés Santa Cruz, valued these types of initiatives that aim to provide members and the community in general with timely and relevant information on the activities of the fund managers. Therefore, at the beginning of March, the AFPs also decided to travel to Holland, Sweden and Denmark to get ideas for improving transparency and the participation of members. ***(Source: www.df.cl; El Mercurio; Date: 03.03.17/13.03.17).***

AFP Provida announces a drop in voluntary and mandatory savings account fees. On March 1, the AFP announced a reduction in the fee for managing monthly contributions in mandatory savings accounts (from 1.54% to 1.45%) in order to provide a more competitive value to members. It will also reduce the fees on its voluntary savings products for members to 0.2%: the VPS fees, which are currently at 0.56%, and the Account 2 fees, which have so far been at 0.92%. According to the AFP, this is in line with its strategy of rethinking how to create value and serving its members in the best possible way. ***(Source:*** www.latercera.com***; Date: 01.03.17).***

An idea that is gaining ground at the political level does not consider assigning the additional 5% to the AFP accounts. One of the issues that must still be agreed on in the pension reform project is to determine how the 5 additional percentage points of contribution will be assigned. Discussions for reaching a consensus began again in March. According to Government sources, the Executive expects to announce an agreement between the ruling coalition and the opposition by next April at the latest. The congressmen of the governing coalition are seeking a consensus on dividing these 5 points into three group: (i) A portion destined to a permanent cross-subsidy, or PAYGO system, between generations and between men to women; (ii) Another part destined to a transitional PAYGO system, which would last until the generation that started its working life contributing 15% to pensions retires; (iii) The third portion would be destined to savings in a notional accounts system, with some being of the opinion that the management of the fund should be subject to bidding, and others that it should be managed by a government agency. ***(Source:*** www.elmostrador.cl***;; Date: 02.02.17; Source: www.economiaynegocios.cl; Date: 16.02.17; Source:*** www.df.cl***; Date: 06.03.17).***

The investment of the AFPs in alternative assets could reach USD 27 billion with the new legal limits that will come into effect in November 2017. The new investment regime of the AFPs and the complementary regulations for the fund managers to be able to invest in alternative assets, with established limits, is expected to be ready by November 1, 2017. This measure seeks to diversify the investment portfolios for obtaining a better risk/ return combination to increase pensions. This is expected to drive high investments of the AFPs in alternative assets in 2018. The law stipulates that the investment limits in alternative assets cannot be less than 5%, or more than 15% of the value of the pension funds (with the Central Bank being responsible for fixing the definitive maximum limit). Considering the range of the maximum investment limit in non-traditional assets, the Superintendency of Pensions believes that the AFPs could invest between USD 9 billion and USD 27 billion in alternative assets. ***(Source: www.economiaynegocios.cl; Date: 09.02.17).***

Colombia

Asofondos says that the reform of the pension system cannot be delayed any longer, and that it must be a priority for the next President. Asofondos is promoting a reform of the pension system, which includes the elimination of the subsidies to Colpensiones pensioners granted by the Government, due to the fact that there is a deficit of COP 38 billion (approx. MUSD $13,091). The Chairman of Colpensiones also deems the measure appropriate, but believes that it should structured in a different way, without the individually funded and PAYGO systems competing, but rather complementing one another, so that Colombians can access a subsidized pension of up to one minimum wage with Colpensiones, and those who can save more for a higher pension can do so in the private funds. I.e., pensioners would receive a minimum pension from Colpensiones, and additional resources from the fund managers. ***(Source: https://es.panampost.com; Date: 21.02.17; Source: www.rcnradio.com; Date: 23.02.2017; Source: www.elpais.com.co;; Date: 26.02.17).***

Independent workers start contributing to social security only through an electronic form. People with services rendering contracts, earning more than COP 9,200,000 (approx. USD 3,152) will pay their contributions only via an electronic form on the Internet as of March 6 ; payment in agencies will be eliminated. This will apply to people receiving fees over and above COP 7 million (approx. USD 2,397) as of June, and those receiving more than COP 2 million (approx. 685 USD) as of December. ***(Source: www.noticiasrcn.com; Date: 03.03.17).***

El Salvador

The Citizens' Initiative for Pensions (ICP) submitted its proposals for resolving the pensions issue. The ICP released its report with its proposals for reforming the pension system, on February 22. The proposals for improvement can be grouped as follows:

1. Higher returns on personal savings. For such purposes it proposes: (i) Authorizing new investment options in shares of open and closed investment funds, domestic and foreign, among others; (ii) Creating up to 4 different types of Multifunds (growth, moderate, conservative and special programmed withdrawal), differentiated by the minimum and maximum limits to exposure to equities; (iii) Restructuring the Social Security Investment Certificates (CIP), to offer better interest rates to the pension funds; (iv) Encouraging voluntary pensions savings in an account separate from statutory mandatory contributions (these voluntary pension savings can be offered by other agencies, not only the AFPs); (v) Increasing revenue, by means of: a single database for drawing up health and pensions forms; reporting of employers in arrears to the Risk Assessment Unit of the Superintendency of the Financial System; amendment of the Public Administration Bidding and Contracting Law (LACAP) for maintaining the solvency of government providers.
2. More and better benefits and options for workers. For such purposes, it proposes the following, without increasing the retirement age for men (60) and women (55): (i) That all workers should be able to access up to 25% of their savings if they have contributed to their AFP for at least 10 years; in order not to affect their future pensions, workers must restore the withdrawn amount by the legal retirement age (being able to do so in installments), and if they fail to restore it by retirement age, they can replace it either with money or with time, deferring their retirement; (ii) Give workers with between 10 and 20 years of contributions the option of accessing a Temporary Economic Benefit (BET) charged to their individual accounts until the balance is exhausted. Workers with between 21 and 24 years of contributions will be able to access a Permanent Economic Benefit (BEP), charged to their individual accounts, and when they are exhausted, charged to the Lifetime Pension Reserve (RPV); (iii) Provide lifetime health coverage for all members; (iv) Allow the reimbursement of the balance in case of serious or terminal illness; (v) Greater involvement of employees in the operation of the system by including representatives of the workers and employers in the Risk Committee; (vi) Ensure workers that they will have stable and lifetime pensions, through a new calculation formula that improves pensions and keeps them stable for life.
3. Sustainability of pensions. For such purposes it proposes: (i) The creation of the Lifetime Pension Reserve (RPV), which will be part of the equity of all members, and will be managed as part of the Conservative Pension Fund. It will be established with the following contributions: (a) A 2 pp increase in the contribution rate, from 13% to 15% (with employers paying1 additional pp, from 6.75% to 7.75%; and workers 1 additional pp, from 6.25% to 7.25%); (b) A 16% reduction in the fees charged by the AFPs (from 1.26% to 1.06%); and (c) a solidarity contribution to pensioners, of 3% of their pensions, except for those receiving minimum pensions. The RPV will initially be financed with 5 pp of the total contribution rate of 15%, being gradually reduced to 2 pp, with the remaining contribution being assigned to the individual accounts and the payment of the Disability and Survival Insurance and the management fee. The RPV will provide guarantees and sustainability for the financing and payment of pensions; (ii) Create an Actuarial Committee to make recommendations for adjusting the retirement age, the contribution rates and other parameters, based on technical studies, in order to keep replacement rates and the costs of the system in line with social security objectives. According to the ICP, implementing this proposal would save the Government more than half of the future pension payment debt, and the fiscal deficit would be reduced by 0.5% of GDP. The Government will ask the opinion of the International Monetary Fund (IMF) before deciding if it supports the new proposal for reforming the pension system proposed by the ICP. ***(Source: http://fusades.org, www.elsalvador.com; Date: 22.02.17).***

United States

Contribution to pension funds cut in order to avoid default on debt. The country's Treasury will temporarily suspend its contribution to several government employee pension and compensation funds, after the country's debt limit was not increased. The federal debt is now limited to about USD 20 billion until Congress, which has the prerogative, decides to increase or once again suspend this ceiling. ***(Source: http://expansion.mx; Date: 16.03.17).***

Cayman Islands

Reform increases the official retirement age from 60 to 65. An amendment to the Pensions Law governing the Mandatory Occupational System (introduced in 1998) came into effect on January 1, 2017. It will be implemented over a period of three years, with the aim of ensuring that workers aged 18 or more can work more years and retire with greater security. This country does not have a public pension system, so retirement income can only be obtained through personal savings and the mandatory occupational pension system. Among the main changes under the Law are: (i) Increase in the official retirement age from 60 to 65, and from 50 to 55 for early retirement (the increase only applies to people born after 1969); (ii) Increase in the annual taxable ceiling used for calculating contributions (from US$ 72,000 to US$ 87,000); (iii) Requirement for fund managers to improve their corporate governance plans, providing more information on their investment policies when registering a pension plan, and the amount of training provided by the fund manager; (iv) Allow members access to any voluntary additional contributions before retirement, in order to be able to cope with housing expenses, medical bills, temporary unemployment and education. ***(Source: Social Security International Update; Date: February 2017).***

Mexico

Workers close to retirement can achieve savings by opting for a pension through the new Life Annuity Offer Document. The National Commission for the Retirement Savings System(CONSAR), together with other agencies, put the new "Offer Document" at the disposal of workers applying for pensions. This document helps workers to choose the Fund Manager that will pay their Life Annuity, since available evidence shows that today, despite the existence of incentives all workers to choose the best option, a significant number of pensioners continue to choose fund managers which entail smaller pensions for them. The new "Offer Document" must necessarily be signed by workers close to retirement. The measure is expected to enable workers to choose the best Fund Manager option, saving a significant amount of money, and thus obtaining a higher pension, while encouraging competition among Fund Managers, by allowing the applicant to identify the best offer in terms of the pension amount offered. The new document was designed considering the best practices of behavioral economics, seeking to "guide" and orientate the consumer to make the best decisions. Further details here. ***(Source: www.gob.mx; Date: 13.03.17).***

The annual update of the comparative indicator of the services offered by the AFOREs, and the new tool for comparing the operational performance of the fund managers, was published. The indicator, +MAS AFORE, comprises more than 36 variables, and its latest edition ranks the Fund Managers in terms of efficiency, coverage, provision and promotion of services provided to more than 57 million customers registered in the retirement savings system in 2016. Since its initial publication in 2013, the Afores have recorded significant improvements in the services offered by the AFOREs, which highlights the importance of creating this type of comparative indicator. The regulator also published a new tool, Operational X-Ray of the Afores,' at the beginning of March, which will enable comparing the operational performance of each fund manager, encouraging greater competition and transparency in the pension system. ***(Source: www.consar.gob.mx; Date: 27.02.17; (06.03.17).***

Roberto Walker, President of Principal International for Latin America, identifies fundamental problems that must be resolved as soon as possible to avoid a pensions crisis. Among them, he mentions that the mandatory savings contribution rate in the country is 6.5%, whereas average contributions in the OECD countries are 20%, so if the savings rate does not increase, it will be difficult to find a solution. On the other hand, he points out that by 2050 there will be one person at retirement age for every two people at working age, so there will be considerable financial stress in the IMSS. He also calls for allowing greater international diversification, which will improve the risk-return ratio of the portfolio and provide greater flexibility for investing in local projects, as well as encouraging voluntary collective saving through group solutions, with appropriate mechanisms for companies to be able to offer benefits to their workers. ***(Source: http://eleconomista.com.mx; Date: 12.02.17).***

Migrants will be encouraged to send resources to the Afores. CONSAR is working with Western Union, one of the biggest money transfer companies, for remittances from Mexicans living abroad to be assigned to retirement savings, which is expected to be ready in the second half of 2017. The project involves the possibility of the migrant community being able to save in their Afores from the United States, facilitating the sending of resources to their families. Progress has also been made on a project for facilitating remittance directly to the Afores, without an intermediary, but this is still in the planning stage. ***(Source: http://eleconomista.com.mx; Date: 22.02.17)***

Peru

Peru signs Social Security Convention with Korea. The Social Security Convention makes it possible to transfer old age, disability and survival pensions to a bank account in the country of residence, whether Korea, Peru, or any other country. ***(Source: http://cdn7.larepublica.pe; Date: 03.03.17).***

The entire senior management of the company Graña y Montero resigned in response to the demands of the AFPs. After the impact of the corruption scandal involving the Brazilian company Odebrecht and its association with the Peruvian construction company Grana y Montero (GyM), and the cancellation of the Southern Peruvian Gas Pipeline (GSP), the AFPs demanded drastic measures to reverse the drop in the value of the pension funds (the AFPs have about 1.1% of their total equity investments portfolio, approx. US$ 467 million, in GyM shares), including changes in management, which occurred. The courts must still determine GyM's liability. ***(Source: www.df.cl; Date: 01.03.17).***

Approximately 71 thousand pensioners have withdrawn 95.5% of their pension funds, while about 36 thousand have withdrawn 25% of their funds for housing. To December 2016, a total of 70,700 retirees had applied for the return of 95.5% of their AFP funds, and the total amount of the refunds amounted to PEN 4.751 million (approx. US$ 1,432 million) reported the Association of AFPs. The maximum number of people (14,656) requesting the return of 95.5% of their contributions was reached in August 2016, and there has been a downward trend since then, to the extent that last December only 6,299 retirees withdrew money from their pension funds. The Association is conducting a study to determine how the people who withdrew their 95.5% made out, compared to those who opted for a pension. To December 2016, a total of 36,172 members had withdrawn 25% of their funds for the down payment on an apartment, or to pay off an existing loan.

Members of the AFPs will receive a projection of the pension with which they will retire, and the Association of AFPs launches an educational video. Between March and May of this year, the AFPs will send their members over 50 years of age the projection of the monthly pension they will receive on retirement if they maintain the same savings conduct that they have maintained so far. The information will be sent either physically or in virtual format. This information will gradually be sent to the rest of the members. This new format was prepared by the Association of AFPs, which also produced an educational video that highlights the impact of the main variables (contribution frequency, salary or contribution, returns and the age at which one begins contributing) on the fund of the member at age 65, precisely at the time of his retirement. These efforts seek to educate and raise awareness of pension saving. ***(Source: http://peru21.pe/;*** http://gestion.pe***; Date: 21.02.17).***

Dominican Republic

The government is working on a bill of law to modify Law 87-01 which created the Dominican Social Security System (SDSS). The following points of the draft have caused concern:

1. **The draft creates uncertainty regarding the revenue and costs of the AFPs.** This is because it has been proposed to establish an annual fee on the return of the individual accounts, determined and regularly reviewed by the National Social Security Council (CNSS). I.e., the amount of the fee that the AFPs will receive will be determined by the State, without stipulating a clear calculation formula. Furthermore, since it will be subject to the performance of the individual accounts, it will also be subject to the ups and downs of the market. The bill of law also grants the Superintendency of Pensions the authority to determine the minimum guaranteed return that the AFPs should offer their members, which gives rise to uncertainty regarding the formula for calculating it.
2. **It limits healthy competition between the AFPs,** because the draft empowers the Superintendency of Pensions to set out the rules and regulations that will govern transfers between the AFPs, and even leaves the choice of the AFP in which the worker must enroll if he does not choose freely, to the discretion of the regulator, without setting any objective criterion in this regard.
3. **It violates the acquired rights of contributors,** by limiting the provision of the recognition bond exclusively to members who cannot finance a minimum pension, due to the little time they have contributed to the individually funded system.
4. **It affects the coverage of the system.** Even though the exemption from contributing for the first three years of operation for the workers and employers of micro and small enterprises that are formed, can encourage the formalization of employment, it also affects the coverage of the system. It also gives rise to a "pension gap" of at least 3 years in the individual accounts of workers, which will negatively impact pension amounts later on.
5. **It creates new costs for members, without significantly increasing the contribution to the individual account.** In particular, it has been proposed to assign 0.1% of taxable income for financing the operation of the Social Security Treasury (TSS), which is responsible for collecting contributions. 0.05% of taxable income will also be assigned to financing the operation of the Board for the Information and Defense of Members. Furthermore, contributions to individual accounts will increase from 8% to 8.39% of taxable income, when it would be advisable to assign a higher proportion of the contribution to the individual accounts of workers.
6. **It indirectly promotes investment by the AFPs in government instruments.** The new investment alternatives emphasize government instruments. Additionally, strong interference by the State in the new formula for calculating minimum returns could encourage the AFPs to invest in government securities. This does not appear to be in line with the pursuit of a greater return on the investments of the pension funds, which would further increase the pensions of workers
7. **It proposes the creation of a State Insurance Company,** for managing and paying the Disability and Survival Insurance benefits.

In summary, the draft does not provide clear solutions for improving the coverage of the social security system, stimulating competition in the industry, improving the returns of the investments of the pension funds, and ultimately improving the pensions granted by the system, which should be the axes on which any modification required by the Dominican Social Security System should be based. ***(Source: FIAP based on the preliminary draft of Act 87-1 agreed to the 31.01.2017; Date: March 2017).***

Uruguay

Central Bank sets new management standards for the AFAPs. The Central Bank (BCU) - the regulator of the AFAP system - published new Minimum Management Standards (EMG) applicable to the pension fund managers, which will take effect as of July, 2017. These include a series of practices addressing the structure and corporate governance of the AFAPs (management methods, monitoring and control), as well as the risk management systems (techniques for the identification, control and monitoring of the risks to which the funds managed by the AFAPs are exposed). The EMGs state that senior management must "establish and follow a proper and continuous process for the strategic management of the entity pursuant to the guidelines of the Board of Directors, being accountable to it for its actions." It must also define and implement an adequate system of information "to quantify, evaluate and notify the Board of Directors of the volume, composition and quality of the exposure to risk that the AFAP assumes." ***(Source:*** www.elpais.com.uy***; Date: 09.03.17).***

Private insurers could show renewed interest in life annuities with the regulatory changes for encouraging competition. The number of retirements in the mixed system (AFAPs + Social y Bank, BPS) will increase in the coming years, and so far only the State Insurance Bank (BSE) is offering pensions. Therefore, in order to increase competition in the life annuities market, the Central Bank (BCU) called a public consultation at the end of 2016 on a draft amendment of rules and regulations for mitigating the issues of currency and returns "mismatch," as well as other issues, which led the AFAPs (pension fund managers) to stop offering life annuities at the outset of the mixed system. The project for the amendment of the rules and regulations essentially: (i) Establishes new mortality tables for calculating the life annuities of the AFAP system, which will be updated annually; (ii) Stipulates that the interest rate of reference in readjustable units (UR) for calculating the initial pension will be the result of applying a rates curve, which will be updated every six months, and will be tied to the performance of the debt securities that are issued in UR or instruments linked to the Average Wage Index, a market that does not yet exist, but which the Ministry of Finance wants to develop; (iii) Introduces the calculation of a "pure theoretical income", which is what the person who manages his own retirement could theoretically obtain by investing solely in minimal risk securities (this income would be "the new regulatory parameter that insurers must use to explain their gross margin). Given these proposals, the National Association of AFAPs has suggested that the particular situations of members should be taken into account, rather than making merely generic changes to the parameters. They also suggested that there should be some kind of product similar to temporary pensions that would allow pensioners to opt for a higher pension in the first years of retirement, which would then be compensated with a lower benefit, providing greater flexibility in the way people decide how to receive their pensions. Should the regulatory changes proposed by the BCU be approved, they will come into effect in January, 2018. ***(Source: www.busqueda.com.uy; Date: 23.02.17).***

Europe

Bosnia and Herzegovina

A new voluntary, complementary pension program will start operating as of 2018. The Srpska Republic (RS), one of the two political entities comprising Bosnia and Herzegovina, will introduce a voluntary complementary program to its pension system as of 2018. This program will initially operate with a single fund and a single fund manager belonging to the Pension Reserve Fund of the SR (PREF), the European Bank for Reconstruction and Development (EBRD) and the Slovenian fund manager, Skupna. The Federation of Bosnia and Herzegovina, the second entity in the country, is expected to reform its tax laws so that its workers can contribute to this voluntary pension fund in the SR. ***(Source: www.ipe.com; Date: January 2017).***

Bulgaria

In mid-2017 the Constitutional Court will decide on the legality of the free choice to opt out of the second pillar, and switch to the public PAYGO pillar. In 2015 the Government introduced a reform to enable free opting out from the second individual accounts pillar and switching to the PAYGO system, up to 5 years prior to retirement, should the PAYGO pillar turn out to be a better pension option. The Administrative Court decided to cede the decision on the legality of such measure to the Constitutional Court, and a resolution in this regard is expected by mid-2017. According to the IMF, if all workers had decided to leave the individual accounts pillar and switch to the public PAYGO pillar, pensions expenditure would have increased by 3% of GDP in the short term and by 33% in the long term, by 2100. Government sources point out that all plans for closing down the second pillar individual accounts system have been abandoned for the time being. ***(Source: www.ipe.com; Date: January 2017).***

Spain

Inverco proposes an individually funded system with the employer contributing 2%, and workers 2%. A book recently presented by the Association of Collective Investment Agencies and Pension Funds (Inverco) "Pension Systems, Social Security and complementary pensions: measures for boosting Pension Plans," proposes measures for making the Spanish pension system sustainable. Its main proposals are: (i) The gradual transfer of the contingencies of widowhood and orphanhood from the Social Security System to the General Budget of the State, which would enable generating major surpluses (from 0.47% of GDP in 2038 to 2.68% of GDP in 2075); (ii) The introduction of notional accounts in the public PAYGO system, which would achieve the actuarial balance of benefits, intergenerational equity and the financial sustainability of pensions; (iii) Establish an individually funded system with default assignment, in which the contributions will consist of 2% of salary paid by the employer, and 2% by the worker, which would provide a minimum of 5 additional percentage points to the replacement rate at the time of retirement. The reforms establishing the individually funded pillar and notional accounts in the PAYGO system, would be possible due to funding of the contingencies of widowhood and orphanhood with taxes. ***(Source: www.grupoaseguranza.com; Date: 01.03.17).***

New pensions will be 15% lower from 2026 onwards, due to the cuts in the two last reforms; the average pension paid to women would also be 37% less than the average pension of men. The Independent Authority for Fiscal Responsibility (AIReF) has warned that the 2011 and 2013 reforms to the pension system introduced to reduce spending, will reduce the initial pension by 15% as of 2026, and it will gradually decrease thereafter. The reduction will be an almost steady USD 212 as of 2021. The AIReF calculates that the containment of expenditure achieved in 2050 will be 5 points of the GDP. Regarding the issue of the pension gap between men and women, the Aviva Institute also pointed out that the average pension of women is 37% less than that of men. ***(Source: http://eleconomista.es; Date: 08.02.17).***

Slovenia

An agreement on the exemption of social security payments has been subscribed between Slovenia and the United States. Before coming into effect, this agreement must be ratified by the authorities of both countries. It stipulates that United States citizens employed by American companies who are transferred to Slovenia for work, will not be obligated to pay the Slovenian Social Security contributions. On the other hand, Slovenian citizens sent by Slovenian companies to work in the U.S. will receive similar treatment. As a result, employers will only pay Social Security contributions in the country of origin of the workers (avoiding the double contribution). Individuals who have worked in both countries, but do not meet the minimum eligibility requirements of their social security systems, may qualify to obtain a benefit based on the combined coverage credits of both countries. ***(Source: Social Security International Update;; Date: February 2017).***

Eurogroup

Eurogroup agrees to establish a benchmark for the fiscal sustainability of the pension systems of the Euro area countries as of 2018. The purpose of the measure is to provide a tool that will enable guiding the pension reforms, assessing the fiscal sustainability of the pension systems, considering he reference indicators (such as the official and effective retirement age, and the level and evolution of benefits) that measure the medium and long-term risks, focusing on the impact of expenditure on pensions. The exercise will be conducted for the first time in 2018, and every 3 years thereafter. ***(Source: www.ipe.com; Date: 21.03.17).***

Greece

Pension cuts and other reforms are sought for reaching agreement in the next bailout stage. A group of EU and International Monetary Fund officials began working, fully aware that the Eurozone Finance Ministers and the markets are looking for signs of progress in the next EUR 86,000 million Greek bailout stage. The possibility of reaching agreement on fiscal and pension reforms, which would remove an obstacle for the IMF to become fully involved in the bailout, is at stake. The IMF is convinced that the measures will help ensure that Greece is committed to achieving the target of a budget surplus of 3.5% set by the Eurozone. The agency has called for a broadening of the tax base and cuts in pensions equivalent to 2% of GDP. ***(Source: www.expansion.com; Date: 01.03.17).***

Hungary

The employer's contribution rate to the public PAYGO system has been reduced. The rules and regulations have stipulated a reduction in the contribution rate paid by employers to the public PAYGO system, from 27% to

22% of the monthly gross salary, as of January 1, 2017. The Government has anticipated that this rate will be reduced by approximately 2 percentage points per year, and up to 14% by 2022. According to the government, this reform is part of a plan for increasing the competitiveness of the country within the EU. The workers' contribution rate remains unchanged at 18.5% of the gross monthly salary, so that the total contribution rate to the PAYGO system is now 40.5% of gross salary (instead of 45.5%). ***(Source: Social Security International Update; Date: February 2017).***

Lithuania

The market expects reforms in the second mandatory individual accounts pillar. The pension sector is hoping that the new Government, elected in the fall of 2016, will reform the pension system in 2017. The main proposals are: (i) That funds accumulated in individual accounts form a single pillar, combining the mandatory and voluntary savings pillars; (ii) That the contributions from social insurance (PAYGO system) to the private funds should be canceled; (iii) That an occupational pension system be established. Any changes are expected to be extensively analyzed before a decision is reached. The pension laws and regulations have been amended 23 times since 2003, when the individual accounts system was introduced, so the system has been affected by a great deal of instability. ***(Source: www.ipe.com; Date: January 2017).***

Norway

The Norwegian Government wants to raise the equity investment of its sovereign fund to 70% The Government wants to extended the maximum limit of exposure to equity investments that can be assumed by the Global Pension Fund, the biggest sovereign fund in the world, to 70% from the current 60%. The proposal will be submitted to parliament on March 31, as announced by the Prime Minister and the Minister of Finance. Thus, one of the most significant changes in the investment strategy of the country's sovereign fund, which manages the oil-generated wealth, will be introduced. The Fund's investment strategy had remained unchanged with regard to the proportion of resources that it could invest in stocks, bonds, and real estate assets since 2007, when exposure to equities rose from 40% to the current 60%. ***(Source:*** www.expansion.com***; Date: 16.02.17).***

Romania

Government plans to freeze contributions to the second individual accounts pillar at 5.1% in 2017. An amendment to the plan for increasing contributions to the second individual accounts pillar, proposed by the Government, would freeze the contribution to that program at 5.1 percentage points in 2017. According to the Association of Private Pension Funds (APAPR), the regulatory contribution should have reached 6 pp of the total contribution to the Social Security system in 2016, but that did not occur due to fiscal budget constraints, so it is now advocating for the contribution to the private pension funds to effectively reach that level in 2017 (the current contribution of each employee to social security is 10.5% of salary, of which 5.1 pp are assigned to the second pillar individual accounts, and 5.4 pp remain in the public PAYGO system). ***(Source: www.business-review.eu; Date: 24.01.17).***

Asia and the Pacific

Australia

The means test for qualifying for a non-contributory pension and other public pensions, has been modified. This reform came into effect as of January 1, 2017, and is applicable to the non-contributory "Pension Age" (PA) pension, and other public pensions. The modifications reduce the ceiling of assets that a person can have to access a partial pension, and the maximum limit of assets that a person can register and still receive a full pension increase (assets include property, investments, and other monetary values the individual possesses inside and outside of Australia). As a result, some 327 thousand people receiving a partial PA in 2016 saw their benefits reduced or eliminated. At the same time, the partial benefit was increased for almost 171 thousand people (50 thousand went on to qualify for a full pension). The Government expects that PA and other public pensions expenditure will be reduced by US$ 1,820 million over the next 5 years. ***(Source: Social Security International Update; Date: February 2017).***

China

Authority stresses the importance of prudent investment of the pension funds. The Deputy Minister of Human Resources and Social Security, called for exercising caution in pension fund investment activities, thus throwing cold water on expectations regarding the listing on the stock exchange of a large number of these instruments. Since the end of 2016, seven provincial-level regions have ceded the management of their pensions to the National Council for the Social Security Fund (CNFSS) in the hope of achieving higher and more diversified interests. Local authorities are in the process of transferring a total of CNY 360,000 million (approx. US$ 52,330 million) from their accounts in banks across the country to the CNFSS. ***(Source: http://spanish.xinhuanet.com; Date: 01.03.17).***