International Federation of Pension Fund Administrators

Progress of the Pension Systems
August - September 2019
No. 5

This document compiles the major changes that occurred in the pension systems in the August-September 2019 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)

- ***Europe:*** *The European Union (EU) issued a ruling establishing the Pan-European Personal Pension Product (PEPP), a voluntary savings and individual account retirement program for individuals in the 28 EU member countries.*
- ***Japan:*** *The Government has applied a new increase in the value added tax (VAT), from 8 to 10 percent, as of October 1, 2019. These funds will be used primarily to finance the country's rising social security costs.*
- ***Dominican Republic:*** *New law extends the coverage of the social security system; from now on, survivors' pensions will be one hundred percent of the member's taxable income for the last two years. Likewise, the minimum degree of disability limit for receiving compensation from the Occupational Risk Insurance will be reduced from 15% to 5%.*
- ***Taiwan:*** *The government enacted laws that expand pension coverage and introduce a new voluntary pension program for a trial period of 2 years.*

Investment Options

- ***Chile:*** *The Pensions Superintendent, Osvaldo Macias, announced some 9 regulatory changes to make the AFP investment regime more flexible. They include: authorize investment in vehicles with gold exposure, incentives for investment in alternative assets and requirements for assessing climate risk.*

  Mexico: *Amafore authorizes 42 international mutual funds to receive investments from the AFORES. The list, which was shared for each fund manager to analyze and decide whether to invest in them, is an initial selection of mutual funds with active strategies.*

Crisis in public PAYGO systems

- ***Argentina:*** *The social security deficit is US$ 14,000 million per year, according to the Latin American Economic Research Foundation (FIEL). FIEL's chief economist, Juan Luis Bour, referred to the inappropriate use of the pension funds by Argentina over the years.*
- ***Brazil:*** *Despite the reform, social security expenditure and the deficit will continue to grow in 2020. Social security expenditure is expected to increase by R$ 51.8 billion compared to this year and the deficit of the public system, the INSS, is expected to be $ 244.2 billion in 2020, 13.5% more than expected this year.*
- ***Spain:*** *Social security deficit grows again after pegging pension increases to the CPI. Expenditure on contributory pensions is progressing at a rate of 5% year-on-year and the deficit has risen to 20.4 billion euros.*
- ***Japan:*** *Japanese Prime Minister Shinzo Abe said the main challenges facing the nation are population reduction, population aging and the social security system.*

Changes in decumulation parameters

- ***Chile:*** *The Chilean government will modify the formula for calculating the programmed withdrawal interest rate. This rate will now be calculated on the basis of 80% of the interest rate derived from a rate vector and 20% of the average annual rate of return of pension funds C, D and E.*

Reforms proposed or to be discussed

- ***Brazil:*** *Senate approves pension reform in first round of voting. It is expected to consider amendments to the bill of law before a second round of voting takes place. Since the project amends the country's constitution, a second vote is required.*
- ***Colombia:*** *The Minister of Labor, Alicia Arango, confirmed that the pension reform including the Colombia Mayor and Periodic Economic Benefits Plan (BEPS) programs will be ready by the end of the year. Furthermore, an initiative was approved in the Senate Commission that proposes that individuals responsible for divorce outcomes must pay half the rent of their ex-spouses, so that economically vulnerable spouses are not left destitute.*
- ***South Korea:*** *The South Korean President Moon Jae-in, said he will seek to extend the retirement age so that older people can hold regular jobs for longer.*
- ***Ecuador:*** *The employer retirement payment reform bill of law will include the creation of a cumulative fund financed with a monthly contribution of 2% by employers. This amount can be saved in the Ecuadorian Social Security Institute (IESS) or in private funds.*
- ***Estonia:*** *The Government reached an agreement to make the individual account pension program voluntary and increase the benefits of the social security program.*
- ***Mexico:*** *The government announced an agreement to reduce the management fees on mandatory individual accounts. Under the agreement, the 10 AFORES (pension fund managers) that administer the program will lower the average annual commission to 0.7% of the assets accumulated in the account as of December, 2024.*
- ***Peru:*** *Pension fund managers propose that the minimum 5-year requirement for voluntary contributions be eliminated. This requirement is considered an impediment for those who wish to save for short and medium term goals. The Ministry of Economy and Finance also continued assessing the possibility of allocating part of the General Sales Tax (IGV - Value Added Tax) to the pension fund, as part of the measures to formalize the country's economic activities.*

Relevant studies

- *CIEPLAN and University of Talca publish a study that analyzes the political economy of pension systems based on the Chilean experience. Among the study's conclusions is that the defined benefits (BD) system is a falsely solidarity system, since it is subject to pressure from the most influential groups, while the defined contributions (CD) system does not allow such influences, protecting the groups with less political influence.*
- *The OECD conducted a study on the pension systems in Peru. Its main recommendations are: preserve the PAYGO and individually funded systems, integrating them so that individuals contribute mandatorily to both; subsidize the social security contributions of low-income workers and increase the mandatory contribution rate.*
- *The OECD published a report on the challenges of population aging. Some key policy recommendations are: (i) Foster longer and more satisfying careers by providing flexibility in the transition to retirement. (ii) Restrict the use of early retirement schemes financed with public funds, which provide incentives to stop working, even if in good health and capable of working.*

Relevant reports or presentations

CIEPLAN and University of Talca publish a study that analyzes the political economy of pension systems based on the Chilean experience. The study examines different aspects of the pension systems and their operation in case of State and market failures. It also examines the unforeseen events bias that gives rise to the mandatory pension systems and studies the differences that occur in the operation of the system, depending on whether it is defined benefit or defined contribution, PAYGO or individually funded. Some important ideas put forward in the study are: (i) The defined benefit system (DB) often presented as a solidarity system, is in fact a false solidarity system, since it is subject to the pressure of the most influential groups, whereas the defined contribution (DC) system, which is actuarially fair, does not allow such pressures, protecting groups with less political influence. (ii) The PAYGO system involves future commitments that are not recorded in accounting systems with the clarity of the balance sheets of the pension funds, which are backed by real financial assets. (iii) The political system may be severely stressed in a PAYGO system by the adjustments required for correcting imbalances, to the point where democracy may even be jeopardized (iv) It is vitally important to make social security contributions mandatory for self-employed workers. (v) Three factors must be combined for contributory pensions to recover their former levels: raise the contribution rate, postpone the official retirement age, and raise State contributions. (***Source:*** ***https://www.cieplan.org/programa-cieplan-utalca/; Date: 03/09/2019***)

The OECD conducts study on pension systems in Peru. The report proposes several policy options aimed at addressing poverty in old age: establish a solidarity framework for the contributory pension system to meet its objectives; improve coverage and the level of pensions, and optimize the design while improving the regulation of the individually funded component. Some of its most relevant proposals are: (i) Increase the level of benefits and index it at least to inflation. (ii) Preserve both the PAYGO and individually funded systems and make them complement each other, so that all individuals mandatorily contribute to both. It suggests that 2.5% to 3% of contributions should go to the public system and 7% to 7.5% to the private system (to maintain the flow of funds that each system receives). (iii) Adjust the benefits formula of the PAYGO system, so that the level of benefits that members can expect to receive is proportional to the contributions paid into the system. (iv) Subsidize the social security contributions of low-income workers, in order to reduce formalization costs. (v) Consider reintroducing the requirement that self-employed workers must contribute to the system. (vi) Increase the mandatory contribution rate; this can be gradual and linked to wage increases. (vii) Limit early withdrawal of assets from pension accounts and access to early retirement (viii) Adapt the default investment strategy to a more optimal life cycle in which the investment risks are gradually reduced. (***Source:*** ***https://www.oecd-ilibrary.org/; Date: 09/09/2019***)

The OECD published a report on the challenges of population aging. According to the agency, if no action is taken to improve the labor market situation of older workers, standard of living improvements could slow down and lead to unsustainable increases in social spending. Some key policy recommendations are: (i) Foster longer and more satisfying careers by providing flexibility in the transition to retirement. (ii) Restrict the use of early retirement schemes financed with public funds, which provide incentives to stop working, even if in good health and capable of working. (iii) Ensure access to social benefits, such as unemployment and disability benefits, for all people regardless of their age. Additionally, ensure that these benefits are used for their intended purpose and not to encourage early retirement. (iv) Address age discrimination in employment, taking measures such as legislation against discrimination and public awareness campaigns. (v) Discourage or restrict mandatory retirement imposed by employers. (vi) Foster greater investment in the development of skills for people who are at an advanced stage of their careers and improve the attractiveness of training for older workers by adapting teaching and learning methods to their needs. (vii) Support job seekers, regardless of their age. ***(Source: https://www.oecd-ilibrary.org/; Date: 08/30/2019)***

Relevant news of the period

Latin America, the Caribbean and North America

Argentina

Warning that the Sustainability Guarantee Fund (FGS) "lost more than half of its assets." Eduardo Santin, a specialist in social security, considers that due to this situation "the retirees lost" and called for a change of management in ANSES: "As long as the fund is part of the financial hand of cards, we have a problem." The specialist recalls that FGS was created as a "countercyclical fund" whose purpose is to "accumulate funds so that when returns fall below the inflation rate, the most unprotected sectors could be compensated." "The truth is that last year retirees lost almost 20 points between inflation and mobility; this year they will lose about 5% and the fund has not compensated for this loss," he said, adding: "the money was used for financial activities such as lending money to retirees and the provinces and financing the state with bonds." ***(Source: https://elintransigente.com/; Date: 24.09.2019)***

The pension deficit is US$ 14,000 million per year, according to the Latin American Economic Research Foundation (FIEL). In the panel on "Expected reforms: the retirement and pensions system," FIEL economists provided an overview of the status of the pension funds and put forward proposals for resolving their deficit.

FIEL's chief economist, Juan Luis Bour, referred to Argentina's inappropriate use of the pension funds over the years. "We accumulated the funds, then used them (for other things), and now we have underfunded systems." As a result, "the incentives for participating in the system deteriorated considerably."

"The birth rate has fallen worldwide for many years, but the death rate has been falling as well," said the economist Nuria Susmel. "The proportion of people over 65 has a greater impact on the total population." In Argentina, in the 50s, they were 5% of the population, today they are 12% and by the end of this century they will be 30% of the population, she said. The working-age population fell simultaneously. This is a very important fact because the working population supports those who don't work: children and the elderly. "There are ever fewer people to maintain ever more people," says Susmel.

Given this scenario, FIEL's proposal is to rethink the system, which, according to the economist Santiago Urbiztondo, generates a deficit of US$ 14,000 million per year. He also referred to the need for "a much closer and more direct link between what a person has contributed, not only at one time in his life or in the last 10 years of work." ***(Source: https://www.infoarenales.com; Date: 27.09.2019)***

Brazil

Brazilian Senate approves pension reform in first round of voting. This removes another obstacle in the government's attempt to narrow its huge budget deficit. The main text was approved with a vote of 56 in favor - a comfortable margin over the 49 votes required - 19 against and 1 abstention. Only 76 of the 81 senators were present.

The Senate is expected to consider making amendments to the bill of law before a second round of voting takes place. Since the bill amends the country's constitution, a second vote is required. ***(Source: https://pensionpolicyinternational.com; Date 02.10.2019)***

Despite the reform, social security spending and the deficit will continue to grow in 2020. Even with the new retirement rules that are likely to come into effect, the status of social security accounts will continue to be alarming in 2020. Social security expenditure is expected to increase by R$ 51.8 billion compared to this year and the deficit of the public system, the INSS, is expected to be $ 244.2 billion in 2020, 13.5% more than expected this year. ***(Source: https://www.gazetadopovo.com.br; Date 05.09.2019)***

Chile

The Superintendent of Pensions, Osvaldo Macías, announced some 9 regulatory changes to make the AFP investment regime more flexible. These changes are expected to help combat low interest rates. The changes (which will take effect in 2020) are:

i. Gold will no longer be prohibited: the regulator will authorize investment in vehicles with gold exposure.
ii. Eliminate disincentive to foreign alternative assets: the system currently seeks to exclude

infrastructure and foreign real estate income from the variable income limit. Criteria will be standardized to domestic infrastructure criteria.

iii. AFPs will be allowed to invest in Hedge Funds, although such instruments will be required to meet certain conditions.

iv. Change the way risk is measured: the convenience of incorporating rules for measuring pension fund investments will be analyzed based on the overall risk of the investment portfolios.

v. Measuring climate risk, the new requirement: The regulator reported that climate risk will be incorporated into the risk matrix used in the risk-based monitoring process (SBR).

vi. Investment in foreign currency will be hedging: Today the positions in current accounts in foreign currencies should be excluded in the amount covered by foreign exchange risk; the elimination of this exclusion is being considered so that the funds are not forced to incur in unnecessary exchange hedging adjustments that give rise to inefficiencies and additional costs.

vii. Make investment in fund E more flexible: Fund E will be allowed to invest in variable income vehicles with non-significant restricted investment.

viii. Improve counterpart risk measurement: The bank counterpart limit in derivatives will be modified.

ix. Adjustment to the compendium of alternative asset rules: The compendium of rules governing alternative assets will be updated.

(Source: https://www-latercera-com.cdn.ampproject.org; Date September, 2019)

Chilean government will modify the current formula used for calculating the programmed withdrawal (PW) interest rate. The Executive's measure seeks to prevent the ongoing drop of the PW interest rate in the short term and ensure that the performance of the funds will help boost this rate in the mid-term.

The interest rate used for the calculation of programmed withdrawals will be the one resulting from weighting the interest rate derived from a rates vector by 80%, and the average annual rate of return of pension funds C, D and E by 20%. **(Source: www.df.cl; Date 30.09.2019)**

Colombia

Bill of law proposes that those responsible for divorce outcomes pay half the rent. The initiative, which was approved in the first debate in the Seventh Committee of the Senate, with the support of all political parties, seeks to prevent the most economically vulnerable spouses from being left destitute in case of divorce.

The benefit would also apply to separations in common law marriages and would eventually not only include pensions, but also the Periodic Economic Benefit, BEPS.

Three debates remain for the initiative to become a law of the Republic. ***(Source: https://www.radionacional.co; Date 15.08.2019)***

The Minister of Labor, Alicia Arango, confirmed that the pension reform, including the Colombia Mayor and Periodic Economic Benefits Plan (BEPS) programs, will be ready by the end of the year. The Minister said that the project will be submitted to Congress, after significant progress and consultations with experts that have allowed this National Government project to advance rapidly.

“We will have the pension reform at the end of this year, because it is already very far advanced. We are giving it the final touches and listening to opinions; we have called on different sectors of the country to contribute to this reform,” she said. The Minister said that this project is integrated with the Colombia Mayor plan and everything related to Periodic Economic Benefits (BEPS) and pensions.

Alicia Arango highlighted the fact that the Government will carry out a comprehensive reform of the old age system, which includes formal workers, the elderly and the 44% of the population who earn less than the minimum wage. ***(Source: https://www.rcnradio.com; Date 26.09.2019)***

Ecuador

The bill of law reforming employer retirement payment will include the creation of a cumulative fund, which will be financed with a monthly contribution of 2% by employers. This amount can be saved in the Ecuadorian Institute of Social Security (IESS), or in private funds, according to the President of Ecuador, Lenín Moreno.

This pension is independent of the one received by workers from the IESS on retirement. The Labor Code establishes a formula based on the average annual income over the last five years. It can be received monthly or accumulated. The Minister of Labor, Andrés Madero, has made it clear that workers will be entitled to the employer's pension, regardless of the amount of time they work in the same place.

Regarding the cumulative fund system, Rodrigo Ibarra, executive president of Actuaria Consultores, explains that this mechanism works through individual accounts, which means that the worker must receive account statements informing him of how much he has accumulated, where his retirement money is being invested, and the return generated. "It would be advisable for this individual account not to be deposited in the IESS, but rather that it be managed through private, public or mixed trusts, because if Social Security fails, employer's retirement will also fail," stressed Ibarra. ***(Source: www.elcomercio.com ; Date 07.10.2019)***

El Salvador

Efforts have begun to reform the pension law for the benefit of workers. The Minister of Labor, Rolando Castro, announced that there will be a comprehensive reform of the pension law, and that a high-level team is already drawing up several proposals.

The Minister also said that a round table will be created with representatives of the workers and universities to support the content of the proposals, aimed at modifying the law, to the benefit of employees contributing to the pension system.

In the Ministry of Labor, the labor market unit was created, and a labor intelligence department will be established to project where entrepreneurs will invest and where professionals will be trained in 10 to 20 years' time, says Rolando Castro. ***(Source: www.ultimahora.sv; Date 02.09.2019)***

Mexico

The Mexican government announces agreement to reduce management commissions on mandatory individual accounts. Under the agreement, the 10 AFORES (pension fund managers) that administer the program will lower the average annual commission to 0.7% of the assets accumulated in the account as of December, 2024. To ensure that the AFORES meet this goal, the agreement requires them to send annual projections of their administration commissions between 2020 and 2024 to CONSAR (National Commission of the Retirement Savings System), which oversees the individual accounts program. The agreement is expected to bring commission amounts closer to international levels and increase pension income for future retirees. **(Source: International Update SSA, September 2019; Date: September 2019).**

Amafore authorizes 42 international mutual funds to receive investments from the AFORES. The list, which Amafore shared with the investment departments of the AFORES, for each fund manager to analyze and decide whether or not to invest in them, is an initial selection of mutual funds with active strategies, which were studied on the basis of the information provided by each fund manager, also ensuring that these vehicles meet the criteria determined by the CONSAR Risk Analysis Committee (CAR).

According to Amafore, "this change will provide the AFORES with further options, a more diversified portfolio for accessing international markets and the possibility of improving the pensions of its members through higher returns. ***(Source: https://www.fundssociety.com; Date: 09.20.2019)***

Peru

SBS amended the operating regulations for freely opting out of an AFP. On August 16, the SBS issued a resolution amending the Regulations, stipulating that members who withdrew their funds from the AFPs - through the laws that allow the use of 95.5% and 25% of such contributions - must return them to their accounts before switching to the ONP.

In a resolution published on August 16, the SBS stated that "given this regulatory framework providing greater flexibility on retirement and/or pension options in the SPP (…) we must point out that members who used their pension funds under the option of withdrawal of up to 95.5%, as well as the use of up to 25% of their mandatory contribution CIC (individual account), for the payment of the down payment or amortization of a mortgage loan for the purchase of a First property, must return all of the funds they withdrew to their CIC account, including the number of fees withdrawn, in order to subsequently access Free Informed Opting Out to return to the SNP (National Pension System, managed by the ONP).”

Along these lines, the SBS stated in the resolution that amendments must be made to the operative procedure set forth in Law No. 28991, approved in 2007, in order to access Free Informed Opting Out. ***(Source: www.gestion.pe; Date 20.08.2019)***

Pension fund managers propose that the minimum 5-year requirement for voluntary contributions be eliminated. This requirement is considered an impediment for those who wish to save for short and medium term goals.

Jaime Vargas, Commercial Manager of Prima AFP, said that this measure should be evaluated since there are many people who do not know where to invest their money.

“In the case of Prima AFP, we have 951 thousand members with less than five years in the Private Pension System (SPP), of which 645 thousand actively contribute, i.e. 67% of people who may want to save, but are unable to do so,” he added. ***(Source: www.larepublica.pe Date 30.08.2019)***

The Ministry of Economy and Finance is still assessing the possibility of allocating part of the General Sales Tax (IGV/VAT) to the pension fund. This would be part of the measures to formalize economic activities in the country.

"Once the electronic vouchers have been massified, this will work because the amount paid in any purchase they make will be returned, as long as a receipt is issued," said the head of the sector, Carlos Oliva.

It is worth mentioning that a bill of law was submitted in May that proposes that 3% of the VAT on the acquisition of goods and services be allocated to the Individually Funded Accounts (CIC). As the proposal points out, in this way, tax collection would also increase, since demanding the electronic receipt combats tax evasion by some suppliers of goods and services.

According to Jorge Guillen, professor of finance at Esan, this proposal must be thoroughly analyzed, since it could generate impacts on fiscal sustainability.

He added that this initiative of allocating part of the VAT to pension funds has not been implemented in other countries, so it would be implemented for the first time in Peru. In this regard, he stated that a measure for increasing retirement funds would be to provide incentives for the incorporation of other segments of the population, such as domestic workers, laborers, SMEs. ***(Source: www.larepublica.pe; Date 04.09.2019)***

The executive’s proposal for pension reform in Peru will be ready in January 2020. Congress set up a special commission to analyze and construct proposals to improve the country's pension system, including the ONP and the AFPs.

The Minister of Labor, Sylvia Cáceres told reporters that: "The commission has 180 days to analyze the situation of the system. That term expires in January, and we will have the pension reform proposal in that month."

She also pointed out that the Peruvian Government still has no position on the recommendations for the country’s pension system proposed by the OECD a few days ago. ***(Source: www.larepublica.pe; Date 12.09.2019)***

Dominican Republic

New law extends coverage of the Dominican Social Security System. Law 379-19 creates the Dominican Institute for Prevention and Protection against Occupational Risks (Idoppril), dissolves the Dominican Institute of Social Security (IDSS) and converts the Occupational Risks Administration (ARL) into an institute.

Idoppril will have a Board of Directors, chaired by the Ministry of Labor. The Board will be dependent on and comprise executive management and the employer and labor sectors.

When explaining the law, the General Manager of the National Social Security Council (CNSS), Rafael Pérez Modesto, pointed out that from now on, survivors' pensions will be one hundred percent of the member’s taxable base income in the last two years.

The law, in turn, modifies the minimum degree of disability limit for receiving compensation from the Occupational Risk Insurance, which will be reduced from 15% to 5%.

Meanwhile, the rule provided for an increase of 0.13% in the contribution amounts of those enrolled in the Family Health Insurance (SFS) contributory scheme, of which 0.04% will be charged to the member and 0.09% to the employer. With this increase, healthcare has become 0.15% more expensive, rising from 9.43% to 9.58%, with 0.08% for the payment of subsidies. ***(Source: https://www.diariolibre.com ; Date: 09.10.2019)***

Uruguay

Minister Ernesto Murro reported that the amendment to Law 18.384 will enable retired artists to continue with their careers. There are 5,478 individuals registered in the National Registry of Artists and Related Activities, who can now access these benefits.

He also mentioned that 5,352 individuals who were once involved in cultural and artistic activity had obtained retirement and pension benefits from the Social Security Bank. 69 individuals, in turn, retired, and 13 death or widowhood pensions were granted through Law No. 18,384.

The Minister valued the positive dialogue with the unions in a respectful environment that resolved the way in which rehearsal time and the time between contracts was calculated, as well as the definition of the minimum number of activities per year that would make up one year for retirement purposes. ***(Source: www.republica.com.uy ; Date 20.08.2019)***

Costa Rica

The Union of Workers and Costa Rican Education Workers (SEC) expressed its satisfaction with the government's decision to eliminate luxury pensions. Despite the above, the union said that "it will continue to work to defend the rights of the working class."

The President of the Republic, together with Víctor Morales Mora, Minister of the Presidency, issued a decree revoking Bill of Law 21.130 "Cap on luxury pensions and sustainability of pension regimes," promoted by Franggi Nicolás (PLN). ***(Source: www.elperiodicocr.com; Date 09.08.2019).***

The Pensions Commission (Supén) proposed five changes to the Disability, Old Age and Death (IVM) regime. The purpose was to make the system sustainable in the long term. The initiatives proposed by Álvaro Ramos, head of Supén, include:

i. Increase contributions: the contribution rate is currently 10.66% and will rise to 12.16% by 2028. Supén proposes increasing it to 16%.
ii. Coverage of the regime: first balance the IVM actuarially before continuing the process of increasing coverage, as this generates future obligations.
iii. Inheritance pension: apply the same principle of Jupema, socioeconomic analysis, before granting a retirement to relatives of a deceased pensioner.
iv. State contribution: separate the State contribution from the salary mass of contributors and establish a contribution based on the regime's requirements.
v. Universal pension: the principle of this new pension is that if a person contributed without achieving the minimum pension amount, the state will provide the additional funds for completing the basic amount.

Jaime Barrantes, pension manager of the CCSS, said that Supén's proposals will be evaluated for the fund reform process. ***(Source: www.nacion.com ; Date 20.08.2019)***

CCSS would only support early retirement of complementary pensions "in highly qualified cases." Representatives of the Costa Rican Social Security Fund (CCSS) warn that allowing early retirement in complementary pensions would impact of the returns of the pension fund, and therefore future pensioners.

This reply comes in response to a bill of law that proposes that all retirees can withdraw the accumulated amount of their complementary pensions, as if they were savings, so they can dispose of them in one fell swoop as soon as they retire.

However, the institution pointed out that it would like to "propose a working group, with very qualified and very well regulated conditions under which full withdrawal would be allowed, so the installments will fulfill their function as a complement to the IVM. ***(Source: www.semanariouniversidad.com; Date 07.10.2019)***

Asia and the Pacific

China

Social security agreement between China and Japan, which includes citizens working in either country, came into effect on September 1. Under this agreement, Japan will exempt transferred Chinese employees, crew, cabin crew, diplomatic personnel and public servants who work in the country from the obligation to pay two large annuities, while China will do the same with its Japanese counterparts.

Wives and children living with Chinese citizens in Japan may also request the exemption of certain social security contributions during their stay in Japan, under certain conditions.

The agreement is expected to safeguard the social security rights and interests of Chinese and Japanese workers working in the other country, reduce the burden of social security contributions on companies and employees of both parties, further promote economic and commercial ties and facilitate personnel exchanges. ***(Source: www.spanish.china.org.cn; Date 29.08.2019)***

South Korea

South Korean President Moon Jae-in said he will seek to extend the retirement age, so that older people can hold regular jobs for longer.

Moon also referred to the rapid demographic change in the nation of more than 51 million inhabitants.

"In 2026, South Korea will become a super-aged society with people over 65 comprising 20% of the total population," said the president.

Last month, the Ministry of Economy and Finance announced a series of political measures to help counter demographic challenges.

These included an incentive for the introduction of a system that requires companies to employ workers up to a certain age, beyond the current retirement age of 60. ***(Source: www.prensa-latina.cu ; Date 02.10.2019)***

Japan

The Japanese Government has applied a new increase in the value added tax (VAT), from 8 to 10 percent, as of October 1, 2019. These funds will be used primarily to finance the country's rising social security costs.

This increase follows on another one applied in 2014, when the rate stood at 5%, and is a key piece in the strategy of the executive, led by Shinzo Abe, to give new impetus to the country and to remedy its high public debt.

In order to mitigate the impact on household spending, the Government has decided to exempt fresh food and other essential products from the tax increase, and has promoted a system of bonuses for consumers who pay their purchases by credit card or other electronic payment systems.

The VAT increase is expected to generate additional annual revenues for the public coffers of 5.7 billion yen (48,382 million euros / 52,708 million dollars), which will be directed to finance public health and pension systems or the construction of more preschools ***(Source: www.eleconomista.es ; Date 01.10.2019)***

The Japanese Prime Minister, Shinzo Abe, said today that the main challenges facing the nation are population reduction, population aging and the social security system. He stressed, in turn, that Japanese society is aging rapidly and experiencing a steady increase in social security disbursements, along with the decline in population, as the birth rate continues to decline.

He also pledged to safeguard jobs for workers up to 70 years of age and expand the part-time welfare pension system to give them a sense of security in their old age. ***(Source: www.prensa-latina.cu ; Date 04.10.2019)***

Taiwan

The Taiwanese government enacted laws that expand pension coverage and introduce a new voluntary pension program. The laws are expected to strengthen retirement safety in Taiwan, since rapid population aging and other social changes have undermined traditional family support systems for the elderly. The country's working age population (15 to 64 years of age) peaked in 2015 at 74% of the population, and the elderly population (65 or over), exceeded the young population (0 to 14) in 2017. According to official projections, the proportion of the population aged 65 or more will grow from 14.5% to 41.2% by 2065.

One of the new laws will increase coverage under the mandatory individual accounts program, by requiring all foreign employees resident in Taiwan to participate. In this program, employers must still contribute at least 6% of employee's salaries, while employees may choose to contribute up to 6% of their monthly salary.

Under another new law, Taiwan launched a voluntary defined contribution retirement plan for a 2-year trial period. During the trial period, plan participants must make monthly contributions of at least NT$ 3000 (US$ 96) to individual accounts with investment policies that suit their risk profile - conservative, stable or aggressive. The Financial Supervisory Commission has assigned three fund managers to manage the new individual accounts. When the trial period is over, members can leave their savings in the managed accounts or withdraw them without paying service fees. **(Source: International Update SSA, August 2019; ate: August 2019)**

Europe

The European Union (EU) issued a regulation establishing the Pan-European Personal Pension Product (PEPP), a voluntary retirement savings program for individuals residing in the 28 EU member countries. Under this program, EU residents will for the first time be able to participate in individual accounts managed under the same basic rules, that will be portable across all member countries. PEPP accounts will complement public and occupational pensions that provide most of the income in the EU and vary by member country. PEPP will also allow individual account providers to operate and compete in a single market for personal pension products covering the entire EU.

The key provisions of the PEPP regulation include:

i. Investment options: PEPP providers may offer up to six investment options to each participant. The default option - which is referred to as a basic PEPP - must be a low-risk investment product that meets certain capital protection standards.
ii. Decumulation options: PPEP providers may offer different decumulation options including life annuities, lump sum payments, programmed withdrawals, or a combination of those options.
iii. Commissions: The maximum commissions that PEPP providers can charge participants for the basic PEPP are 1% of the accumulated assets.
iv. Account Portability: PEPP participants can change providers free of charge at least once every 5 years. This is also possible when moving between member countries.
v. Disclosure of information: PEPP providers must publish their costs and commissions and report returns on investment and other information in standardized account statements.
vi. Vendor registration: To become a PEPP provider, a financial institution must register with the appropriate regulatory authority in a member country.

In addition to improving safety in retirement, these new assets will improve the depth and efficiency of capital markets across the EU. **(Source: International Update SSA, August 2019; Date: August 2019)**

Spain

Social security deficit grows again after pegging pension increases to the CPI. Expenditure on contributory pensions is progressing at a rate of 5% year-on-year and the deficit has risen to 20.4 billion euros.

In 2018 and 2019, revaluation of pensions in Spain was linked to the CPI again. As a result, pension expenditure grew strongly again and, with it, the social security deficit, despite the record collection of social contributions.

The balance for non-financial transactions (total deficit) dropped to 1.35% of GDP in the first quarter of this year, equivalent to 16,402 million euros, but shot up to 1.49% in the second quarter, equivalent to 18,304 million euros. This deficit is the result of annual revenues of 139,766 million euros and expenses of 158,070 million, 740 and 2,642 million more per year than in the previous quarter.

Something similar occurs with the tax balance, since, after dropping to 1.56% of GDP in mid-2018, it grew to 1.67% in the second quarter of this year, amounting to 20,422 million euros. The annual tax revenue report has recorded an increase of 2,186 million euros, while tax expenses have increased by 2,388 million euros. ***(Source: www.libremercado.com ; Date 17.09.2019)***

Estonia

The Estonian Government reached an agreement to make the individual account pension program voluntary and increase the benefits of the social security program. If this proposal is approved by Congress, current participants in the individual accounts program may opt out of the program and transfer their balances to personal pension accounts. The employee contributions of those who decide to leave the individual accounts program will be redirected to the social security program. (Congress is expected to draft the legislation this fall, for the purpose of implementing the changes on January 1, 2020). According to the government, the reforms are motivated by the low return on investment of the individual accounts program and the high commissions since the introduction of the program in 2002. Recent OECD data show that the average annual real return (net of expenses) from 2002 to 2017 was a loss of 0.2%. **(Source: *International Update SSA*, August 2019; Date: August 2019)**

Romania

On September 1, Romania implemented the first in a series of gradual increases in the value of the pension points used for calculating social security pensions. Once implemented, the increases will lead to significantly higher public pensions. The increases are part of a new law signed by the president of the country on July 8. Other components of the new law will become effective in September 2021, including a new early retirement option for women with three or more children. The cost of the new law is estimated to be 8.4 trillion lei (USD 1.96 trillion) in 2019, 24.8 trillion lei (USD 5.79 trillion) in 2020, and 58.1 trillion lei (USD 13.56 billion) in 2021.

In Romania's social security program, old-age and disability pensions are calculated as the product of the average accumulated score of the insured by the value of the pension points at the time of retirement or disability. The new law increases the value of pension points from 1,100 lei (USD 256.74) to 1,265 lei (USD 295.25). This value will continue to increase to 1,775 lei (USD 414.28) in 2020 and 1,875 lei (USD 437.72) in 2021. Since 2022, it will be automatically adjusted according to inflation and real wage growth. **(Source: International Update SSA, September 2019; Date: September 2019)**