



Information Note

Covid-19's effect on the pension funds and their partial recovery

May 2020

The Covid-19 pandemic, currently wreaking havoc worldwide, is seriously affecting the value of the assets in which pension funds are invested. This note analyses the impact this pandemic has had on the pension funds in Latin American FIAP member countries with available information, as well as the partial recoveries that are already being observed.

As we have always asserted, and as has been demonstrated in previous crises, decreases in the value of funds do not necessarily entail losses, which will only be effective for those who must sell their pension assets, those who are in more conservative funds with lower volatility, and those who react hastily to the crisis by switching from funds with higher risk levels.

This is demonstrated, once again, by the recovery in the value of the pension funds after their sharp decline in March, as can be seen in the table below.

Value of Pension Funds in millions of USD (based on the US dollar value to April, 2020,)

	Fund Value	Fund Value	Fund Value	Delta %	Delta %
	Nov. 2019	Mar. 2020	Apr. 2020	Nov.2019/Mar.2020	Mar.2020/Apr. 2020
Chile	191,688	172,667	185,915	-9.9%	7.7%
Colombia	69,811	65,721	67,277	-5.9%	2.4%
Costa Rica	11,876	12,464	12,406	5.0%	-0.5%
El Salvador	11,721	11,780	11,949	0,5%	1.4%
Mexico	165,302	163,667	169,969	-1.0%	3.9%
Peru	50,478	45,158	45,331	-10.5%	0.4%
The Dominican Republic	10,080	10,558	10,706	4.7%	1.4%
Uruguay	13,263	13,996	14,054	5.5%	0.4%
Total	524,218	496,010	517,608	-5.4%	4.4%

Source: FIAP, based on local pension regulators' data and information provided by its members.

Note: The Appendix contains the details of the value of the funds in local legal tender, from November 2019 to April 2020, and the exchange rate used (local legal tender against the US dollar) at the end of April, 2020, in each country.

The value of the pension funds in November last year, before the effects of the pandemic on markets were felt, was USD 524,218 million. As of March, however, in the midst of the pandemic, the value of the funds was USD 496,010 million, a devaluation of 5.4% compared to November last year (equivalent to USD 28,208 million). The value of the funds in April rose to USD 517,608 million, an increase of 4.4% over the March value, and a loss in value of 1.3% compared to last November. I.e., the funds have recovered USD 21,598 million of the USD 28,208 million devaluation initially observed.

Observing the value of the funds in March, it can be seen that devaluations with respect to November 2019 occurred in four countries. The devaluations rank from the highest to the lowest in the following countries: Peru (-10.5%), Chile (-9.9%), Colombia (-5.9%) Mexico (-1%). In March,

in turn, the effects of the pandemic have not yet been felt in 4 countries, with the following countries showing fund growth increases: Uruguay (5.5%), Costa Rica (5%), Dominican Republic (4.7%) and El Salvador (0.5%). In Costa Rica, the effect was only beginning to be felt in April, when the funds devalued 0.5%.

Outside of El Salvador, Uruguay and the Dominican Republic, the situation in April shows that all the funds recovered some of their value (except in the aforementioned case of Costa Rica). There was full recovery in Mexico (the 3.9% increase in April more than compensates for the 1% decline in March). Recoveries were partial in the remaining countries and ranked as follows (from highest to lowest): Chile (7.7%), Colombia (2.4%), and Peru (0.4%).

It is worth mentioning that the drop in the value of the pension funds in Peru may also be due to the effect of the 95.5% Withdrawal Law (Law No. 30425), which has been in effect since May, 2016.

A final message. Global uncertainty is likely to continue in the coming months, so one must be cautious when observing the movement in the value of the funds in the short term, whether in terms of devaluation or recovery (like those observed in April). Without minimizing or denying the extent of this crisis and the uncertainty of its duration, we must be confident that through the pension funds, members will continue to own their safest assets, whose value should recover when the crisis is over, as occurred in previous crises.

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APPENDIX

Value of Pension Funds (in millions, legal tender of each country)

	Uruguay	Chile	Costa Rica	Mexico	Peru	The Dominican Republic	Colombia	El Salvador
Nov-19	560,434	160,369,797	6,702,992	3,955,385	170,721	549,918	278,077,244	102,562
Dec-19	564,178	160,371,375	6,830,898	3,986,480	173,328	556,201	281,711,262	103,072
Jan-20	570,879	164,231,143	6,937,744	4,075,633	174,618	563,669	284,454,367	103,784
Feb-20	584,199	159,313,758	6,910,997	4,049,822	171,131	571,032	280,430,681	104,063
Mar-20	591,420	144,456,632	7,034,885	3,916,264	152,728	576,022	261,786,703	103,072
Apr-20	593,875	155,540,228	7,002,403	4,067,067	153,315	584,093	267,983,993	104,556

Value of the Pension Funds (in millions of US dollars in April 2020)

	Uruguay	Chile	Costa Rica	Mexico	Peru	The Dominican Republic	Colombia	El Salvador
Nov-19	13,263	191,688	11,876	165,302	50,478	10,080	69,811	11,721
Dec-19	13,351	191,690	12,103	166,601	51,249	10,195	70,723	11,780
Jan-20	13,510	196,303	12,292	170,327	51,630	10,332	71,412	11,861
Feb-20	13,825	190,425	12,244	169,248	50,599	10,467	70,402	11,893
Mar-20	13,996	172,667	12,464	163,667	45,158	10,558	65,721	11,780
Apr-20	14,054	185,915	12,406	169,969	45,331	10,706	67,277	11,949

Value of the US dollar used to 30.04.2020, for each country: Uruguay: 42.26; Chile: 836.62; Costa Rica: 564.42; Mexico: 23.93; Peru: 3.38; Dominican Republic: 54.56; Colombia: 3,983.29; El Salvador: 8.75.