International Federation of Pension Fund Administrators

Progress of the Pension Systems
April - May 2020
No. 3.

This document compiles the main changes that occurred in the pension systems in the April - May 2020 period, with emphasis on the development of the individually funded systems.

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Executive Summary by area of interest

Reforms proposed or to be discussed

- ***Chile:*** *The Pensions Commission proposes a new fund for people close to retirement.*
- ***Colombia****: The bill of law that sought to authorize the transfer of pensioners from the private pension funds to Colpensiones was finally discarded.*

Crisis in public PAYGO systems

- ***Argentina:*** *The Government again finances itself from the ANSES Guarantee Fund, this time for USD 389 million.*
- ***Ecuador:*** *According to the Ecuadorian Social Security Institute Bank (BIESS), the funds of social security members are four months from zero liquidity.*

Relevant studies

- *The Organization for Economic Cooperation and Development (OECD) published a document that shows indicators based on preliminary 2019 data and provides an early forecast of pension fund assets at the end of the first quarter of 2020.*
- *CIEDESS published its Technical Note 45, which simulates the pension amounts of Chilean women compared to standard career paths in different OECD countries.*
- *The United States Social Security Administration released the fourth volume of its publication Social Security Programs Throughout The World: The Americas, 2019, which provides a comparison between social security programs in 38 countries in North and South America.*
- *According to the National Academy of Insurance report, the US PAYGO system will be in deficit as of 2036 if there are no adjustments to the benefits it provides or parametric changes to balance the deficit. The report does not consider the effects of the Covid-19 pandemic, so the deficit will be more pronounced and will occur before the stipulated date.*

Responses to the Covid-19 crisis

- ***Canada:*** *Tax-free lump sum payments of C$ 300 (US $ 216.41) to individuals eligible for the Old Age Security (OAS) pension were announced, plus an additional C$ 200 (US $ 144.27) for those who are also eligible for the Guaranteed Income Supplement (GIS).*
- ***Chile:*** *Government announces second part of the economic emergency plan, which will include two pillars: (i) A family-oriented pillar, through the creation of a US$ 2 billion fund; and (ii) Entrepreneur and SME support pillar, in the form of State guaranteed financing loans.*
- ***Colombia:***
  - Decree 558, which freezes pension contributions in the months of May, June and July, was issued, Thus, neither employers nor employees will pay contributions, equivalent to 16% of salary, in those months.
  - President announces contribution by civil servants to face the crisis.
- ***Dominican Republic:*** *The Pensions Commission (Sipen) opposes the bill of law that seeks to allow the withdrawal of 30% of savings from individually funded accounts, alleging that putting the brunt of the crisis on the workers would create an "unfortunate precedent."*
- ***Spain:*** *The government limits pension fund withdrawals to a maximum of 1,613 euros per month. Pension plan participants may access part of their savings if they are affected by a Temporary Employment Regulation Plan (TERP), derived from the Covid-19 health crisis, if the state of emergency is maintained for another month.*

Investment Options

- ***Chile:***
  - *The Central Bank extends the investment limit in alternative assets for the pension funds. The agency modified the investment limits from the riskiest Fund A to Fund D, while leaving Fund E, the most conservative fund, unchanged.*
  - *The Pensions Commission published a general rule authorizing investment in domestic securities by small and medium-sized companies.*
- ***Mexico****: AMAFORE proposes a system to the Ministry of Finance and Public Credit whereby the Afores can invest in stabilized government securities.*

Relevant reports or presentations

According to a recent report by the *National Academy of Insurance,* which analyzes the fiscal sustainability of the US public PAYGO pension system, the federal Old Age, Survivors and Disability Insurance program (OASDI) will be in deficit as of 2036. According to the report, the aforementioned program would be fully financed until 2035, but will face a deficit thereafter if Congress does not act sooner, by introducing parametric changes or reducing benefits, which would enable balancing the program in the long term, thus avoiding the projected deficit. This report does not take into account the effects of the COVID-19 pandemic on the projected income and expenses of the OASDI, so that future projections that do consider these effects could account for the deficit being more pronounced and effective prior to the aforementioned date.

(Source: https://www.nasi.org. Date: May 2020)

The Organization for Economic Cooperation and Development (OECD) published a document that shows indicators based on preliminary 2019 data and provides an early forecast of pension fund assets at the end of the first quarter of 2020. According to the study, the preliminary 2019 data show that pension funds totaled USD 32.3 billion in the OECD area and USD 0.7 billion in 29 other jurisdictions covered by the report.

The document also states that the United States held the highest amount of pension fund assets at the end of 2019 (USD 18.8 trillion), followed by the United Kingdom (USD 3.6 trillion), Australia (USD 1.8 trillion), the Netherlands (USD 1.7 trillion), Canada (USD 1.5 trillion), Japan (USD 1.4 trillion) and Switzerland (USD 1.0 trillion). These seven countries hold more than 90% of all pension fund assets in the OECD area.

This was due to solid real rates of return on investment in 2019, exceeding 5% in 29 of the 46 jurisdictions this year, and even exceeding 10% in 13 of them, including the United States. Nonetheless, the worldwide COVID-19 pandemic and its adverse effects on financial markets have probably reversed these gains. Early estimates suggest that the pension fund assets at the end of the first quarter of 2020 may have dropped to USD 29.8 trillion, 8% lower than their value at the end of 2019.

(***Source:*** http://www.oecd.org/***. Date: June 2020)***

CIEDESS published its Technical Note 45, which simulates the pension amounts of Chilean women compared to standard career paths in different OECD countries. In order to standardize and ratify the results of the different systems studied, the existing parameters and rules and regulations of 13 different pension systems in OECD member countries (Australia, Canada, Chile, Denmark, Spain, Finland, Greece, Ireland, Japan, Norway, the Netherlands, Switzerland and the United Kingdom) were applied to a similar professional career of a Chilean woman, aimed at making their results comparable.

On considering the basic parameters of each country, the estimated pension in all countries, except Australia, is higher than the Chilean pension. However, when adjusting the Chilean individually funded pension to the pension parameters of each one of those countries (contribution and retirement rates) the results change significantly, increasing the possible pension in Chile by between 97% (Irish parameters) and 397% (Norwegian parameters).

On the other hand, on analyzing the estimated individually funded pensions, applying the parameters of each country, versus those produced in these countries with their existing pension systems, the former is higher, except in the cases of Denmark and Ireland,

(***Source:*** http://www.ciedess.cl/***. Date: May 2019)***

The United States Social Security Administration released the fourth volume of its publication Social **Security Programs Throughout The World: The Americas, 2019.** It provides a comparison between social security programs in 38 countries in North and South America.

The study summarizes the five main social security programs in those countries: (i) old age, disability and survival; (ii) illness and maternity; (iii) work injuries; (iv) unemployment and (v) family allowances. This is the latest regional volume in a series of four publications, with the other three volumes concentrating on the social security systems of European, Asian and the Pacific, and African countries.

(***Source:*** https://www.ssa.gov/***. Date: April 2020)***

Relevant news of the period

Latin America, the Caribbean and North America

Argentina

The government withdraws USD 389 million from the ANSES Guarantee Fund. This Thursday, the Ministry of Finance and the Treasury ordered the issuing of Treasury Bills in dollars to be increased. Thus, more than two months after the quarantine was decreed, and after withdrawing public debt more than seven times, the government has once again financed itself through the ANSES Guarantee Fund.

(Source: https://elintransigente.com/ ***.Date: 05.29.2020)***

Canada

Lump sum payments to seniors announced. On May 12, the federal government of Canada announced a new tax-free, lump-sum payment of C$ 300 (US $ 216.41) to individuals eligible for the Old Age Security (OAS) pension, plus an additional C$ 200 (US $ 144.27) for those who are also eligible for the Guaranteed Income Supplement (GIS). The measure is estimated to cost around C$ 2.5 billion (US $ 1.5 billion) and aims to help vulnerable senior citizens cover the cost of living increases caused by the COVID-19 pandemic.

This is the latest in a series of measures adopted under the country's COVID-19 economic response plan; other measures affecting senior citizens include a 25% reduction in the minimum withdrawal amount from Registered Retirement Income Funds (a retirement vehicle similar to an annuity) in 2020, temporary extensions of the GIS and the payment of subsidies for pensioners whose 2019 tax returns have not yet been assessed.

(***Source:*** International Update SSA***. Date: May 2020)***

Chile

The Pension Commission's regulations allowing those who are about to retire to opt for freezing those funds, will come into effect as of May 1. Thus the money will be deposited in a current account in their AFP while their retirement is being processed, ensuring that their balance will not vary until they finally retire. This was implemented after the risk entailed in market volatility during the Covid-19 crisis was identified.

It is important to bear in mind that this measure only applies to those who are processing their pension. This is due to the administrative limitations of the Pensions Commission, since they would be "creating a new type of fund" by doing so, according to Osvaldo Macias, the Pensions Superintendent.

(***Source:*** https://www.cnnchile.com/***. Date: June 2020)***

Pensions Commission orders the activation of two additional unemployment insurance payments for those enrolled in the Solidarity Unemployment Fund (SUF). The two additional payments will benefit workers with indefinite and fixed-term contracts. The amount will be 30% of the average income in the last 12 months. A total of approximately 29,000 beneficiaries has been estimated. According to existing legislation, if the national unemployment rate exceeds the average of the last four years by one percentage point (1%) in the next INE report at the end of June, two additional payments will be authorized for those who received the last unemployment insurance payment charged to the SUF.

(Source: http://www.spensiones.cl. Date: 29.05.2020)

The Pensions Commission published a general rule authorizing investment in domestic securities by small and medium-sized companies. The new rule introduces improvements to the Pension Funds Investment Regime by expanding investment alternatives, making these transactions more flexible and standardizing criteria between domestic and foreign investments, while making everything more efficient. The purpose of these modifications is to provide greater possibilities for the funds to build more diversified investment portfolios for achieving adequate returns and safety in their investments, facilitating the option of indirect financing for small and medium-sized Chilean companies, among other aspects. Further details here.

(Source: http://www.spensiones.cl. Date: 26.05.2020).

Pensions Commission proposes a new fund for people close to retirement. Osvaldo Macías addressed the different proposals put forward to protect people against the loss of savings, adding that the Senate could discuss the idea of creating a new multi-fund. According to the specialist: "It may be a good idea to have a lower risk fund, only for term deposits or similar instruments for pensioners who are very close to retirement, less than a year, perhaps."

He pointed out that the only way for a fund to be completely safe is for it to hold instruments at less than 30 days. Macías also said that this measure could help extend the freezing of the recalculation of the pensions of those who retire in the programmed retirement mode.

(***Source:*** http://www.ciedess.cl/***. Date: 15.04.2020***)

The Minister of Labor said that it would be convenient to make the 0.5% annual increase in the 6% employer contribution, contained in the pension reform project, more gradual, due to the Covid-19 crisis. The Minister said that it would be "very complicated" (due to the current Covid-19 economic situation) to increase the pension contribution rate charged to the employer, as contemplated in the government reform currently being debated in Congress. She pointed out that: "this gradual increase may be postponed for some time, without ignoring this issue, because improving pensions is a priority."

(***Source:*** http://www.ciedess.cl/***. Date: 04.15.2020)***

Government announces second part of the economic emergency plan, focusing on the most vulnerable families, informal workers and SMEs. The measures consist in two pillars: (i) A family-oriented pillar through the creation of a US$ 2 billion fund for the transfer of benefits and the creation of emergency jobs, with special emphasis on the most vulnerable families and the 2.6 million informal workers without employment contracts who are currently unprotected by unemployment insurance; (ii) Support pillar for entrepreneurs, SMEs and "entrepreneurs who require it", in the form of State guaranteed loans, which will enable reducing the extraordinary credit risk generated by the state of emergency and make it easier for banks to lend working capital to companies for a term of up to 48 months, with a grace period of up to 6 months, for an amount equivalent to up to 3 months of sales.

(***Source:*** https://www.latercera.com/***. Date: 08.04.2020***

Chilean Central Bank extends the investment limit in alternative assets for the pension funds. "This decision aims to promote the diversification of the pension fund portfolios, allowing them to access better risk and return combinations," the bank explained.

The agency modified the investment limits from the riskiest Fund A to Fund D, while leaving Fund E, the most conservative fund, unchanged. Although the Bank is legally entitled to set limits between 5% and 15% of the value of the fund, "it was decided to keep the limits for Pension Funds at a level below the maximum level of said range." Fund A rose from 10% to 13%; Fund B from 8 to 11%; Fund C from 6 to 9% and Fund D from 5 to 6%.11%; el C del 6 al 9% y el D del 5 al 6%.

(***Source:*** https://www.americaeconomia.com/***. Date 04.15.2020***)

Chamber of Deputies declares the bill of law on the withdrawal of funds from the AFPs inadmissible. According to the Constitution, the President of the Republic has the exclusive authority to legislate on taxes and the financial or budgetary administration of the State.

The bill of law called for the partial withdrawal of funds from the AFPs, tax-free, and a State-funded Recognition Bond. The declaration of admissibility (the idea of discussing the project) was submitted to the consideration of the plenary and the court accepted inadmissibility by 52 votes in favor, 41 against and 4 abstentions.

(***Source:*** https://horadenoticias.cl/***. Date: 16.04.2020)***

Colombia

Decree 558 was issued, freezing pension contributions in the months of May, June and July. Thus, neither employers nor employees will pay contributions, equivalent to 16% of salary, in those months.

However, a 3% contribution has been established to cover a pension insurance premium for the risk of disability and death of the contributor (employers in the public and private sectors affected by the measure must contribute 2.25% and 0.5% will be deducted from the employee’s salary). Self-employed workers will contribute 100 percent of said contribution (i.e., the entire 3% pension insurance premium, on only 40 percent of their income, which is their pension contribution base).

(***Source:*** https://www.eltiempo.com/***. Date: 04.15.2020***)

The bill of law that sought to authorize the transfer of pensioners from the private pension funds to Colpensiones was finally discarded. This was confirmed by the Minister of Finance, Alberto Carrasquilla.

The government submitted the document to the consideration of the market for comment, which led the Trade Association of the private funds to send a letter to the Ministry of Finance.

The draft decree called for "measures to be implemented to procure the necessary resources for Colpensiones to be able to meet its pension obligations and allow the Nation to allocate more resources to address the pandemic caused by the spread of the new coronavirus, within the framework of the Economic, Social and Ecological State of Emergency,” as stated in the letter.

The overall reaction of Asofondos was disagreement, describing the measure as a "bad solution." According to the Association, a scenario of massive transfer of pension fund members to Colpensiones "will increase the pension liability by the considerable amount of 60 trillion pesos, which will seriously affect the sustainability of the system, since it would entail a greater fiscal effort requiring additional taxes/future debt that all future generations will have to pay." According to Asofondos, "it would be like the government acquiring a debt at a real rate of 10% per year, when we have seen much lower rates in current issues."

It adds that "**the most worrying thing is that those 60 trillion pesos are the result of poorly targeted subsidies,** which go to higher-income individuals, accentuating the enormous inequality issues in the public pension system."

(***Source:*** https://www.eltiempo.com/***. Date: 04.06.2020***)

President announces contribution by public employees to face the crisis. In his address on Thursday, April 9, the president specifically stated that civil servants will contribute a percentage of their salaries for the next four months to face the crisis. 10% of the salaries of civil servants with incomes of more than $ 10 million will be withheld. 15% of the salaries of those with incomes over $ 15 million will be withheld.

(***Source:*** https://tubarco.news/***. Date: 09.04.2020***)

Ecuador

According to the Ecuadorian Social Security Institute Bank (BIESS), the social security funds of members are four months from zero liquidity. The first warning was issued last March, in a quarterly BIESS management report stating that the agency’s assets totaled $ 20,463 million to the end of February, but that only $ 485 million of that amount was currently available.

However, these funds could soon be insufficient, since the bank's monthly income of approximately $ 360 million has started to drop. In the first month of the pandemic alone, collection on mortgage and unsecured loans fell by 22%.

The BIESS report calls for an agreement with the National Government to contribute, the funds required by law for the system, as far as possible.

(***Source:*** https://www.expreso.ec/***. Date: 16.05.2020***)

Peru

The Association of AFPs (AAFP) reported that the pension funds have already begun to recover, despite the current context of the COVID-19 pandemic. According to the AAFP: "After the initial impact of COVID-19 on the world economy and on the pension funds, there has been a consistent recovery in the returns of the funds of the Private Pension System (SPP)" in recent weeks.

The AAFP expects this positive trend to continue in the short and medium term as the local and international economic reopening continues.

(***Source:*** https://gestion.pe/***. Date: 20.05.2020***)

Mexico

The Mexican Association of Afores (AMAFORE) proposed a system to the Ministry of Finance and Public Credit whereby the Afores can invest in stabilized government securities. Schemes like this have been suggested by agencies like the OECD and have been successfully implemented in several member countries.

This investment in stabilized government assets would be made through the stock market, i.e., assets that are known and already generate fixed income (For example: concessions, roads, bridges, among others). According to AMAFORE, under this scheme long-term flows generated by infrastructure projects could be made liquid today, while guaranteeing a defined and safe return for workers.

(***Source:*** http://www.amafore.org/***. Date: 13.04.2020***)

Dominican Republic

The Pensions Commission (Sipen) opposes the bill of law that seeks to authorize the withdrawal of 30% of savings in individually funded accounts, alleging that putting the brunt of the crisis on the workers would create an "unfortunate precedent."

If the bill of law is approved in the National Congress, "it would leave open the possibility of the pension funds being used again for other eventualities," said the regulatory body of the Dominican Social Security System. It also warns that "this bill of law would defeat the primary purpose of the pension funds, which is to replace the loss or reduction of income due to the risks of old age, disability, unemployment at an advanced age and survival."

(***Source:*** https://www.elcaribe.com.do/***. Date: 22.05.2020***)

Europe

PensionsEurope pointed out in a statement that pension funds can contribute to a rapid recovery from the crisis, with the appropriate measures. The agency indicated that, with the appropriate political measures, the pension funds will be able to recover from the COVID-19 crisis and contribute to a rapid recovery in the financial markets and the real economy.

He also pointed out that the PAYGO pension systems, on which many EU countries depend, will also be affected, especially if the crisis gives rise to lower levels of employment. Thus, he pointed out that the EU policy of achieving adequate and sustainable pensions in the future has been based on complementing the pensions of the PAYGO systems with personal and occupational individually funded pension systems, which will be even more important after the crisis.

In this context, PensionsEurope and its member associations asked the EU's national pension regulators and supervisors for close collaboration and support to ensure that the individually funded pension funds can overcome the challenges posed by the current financial markets situation, preserving their operational capacities and their purpose of suitably complementing the pensions of the PAYGO systems.

(***Source:*** https://www.pensionseurope.eu/***. Date: 09.04.2020***)

Spain

The government limits withdrawals from the pension funds to a maximum of 1,613 euros per month. Pension plan participants may access part of their savings if they are affected by a Temporary Employment Regulation Plan (TERP), derived from the Covid-19 health crisis, if the state of emergency is maintained for another month.

The maximum withdrawal amount will be the result of proportionally distributing the annual Public Multiple Effect Revenue Indicator (IPREM) for 12 payments in force for the year 2020 (6,454 euros), multiplied by three, for the TERP period or the suspension of activity, i.e., 19,362 euros per year. Thus, the maximum monthly withdrawal amount would be about 1,613 euros.

(***Source:*** https://www.diariodesevilla.es/***. Date: 22.04.2020***)

Estonia

On April 15, the government approved a measure that will allow employees and employers to temporarily suspend their contributions to the country's mandatory individual accounts program. Thus, employers' contributions to the program will be automatically suspended from July 1, 2020 to August 31, 2021. Employee contributions may also be suspended from December 1, 2020, through August 31, 2021, on request.

This measure was included in a supplemental budget adopted by the government to reduce the socio-economic effects of the COVID-19 pandemic. The total cost of this supplemental budget is expected to be around € 2 billion (US $ 2.2 billion), or about 7% of gross domestic product.

The move comes after two attempts by the Estonian parliament to make participation in the program completely voluntary. The president rejected this legislation based on concerns regarding its constitutionality and sent it to the supreme court for review.

To justify its reform efforts, the government has targeted the program's high commissions and low real rates of return (-0.2% from 2002 to 2017), the worst among OECD member countries.

(***Source:*** International Update SSA***. Date: May 2020***)