International Federation of Pension Fund Administrators

Progress of the Pension Systems
August - September 2020
No. 5

This document compiles the major changes that occurred in the pension systems in the August-September 2020 period, with emphasis on the development of the individually funded systems. Because of the relevance of events, information corresponding to the first week of October is included in some cases.

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

Reforms proposed or to be discussed

- ***Bolivia**: Bill of law seeks to enable reimbursing contributions to AFP members. It will propose two options for providing workers with the resources to face the crisis: a 10% refund and conversion of savings into a guarantee fund.*
- ***Chile**: According to the Pensions Commission, if the second withdrawal of 10% of the pension funds is approved, 4.2 million members would be left with zero balance in their accounts. The Superintendent of Pensions, Osvaldo Macías, explained the impacts of this measure to the Chamber of Deputies Committee.*
- ***Colombia**: Banco de la República proposes raising the retirement age and eliminating the subsidies of the Average Premium Plan, due to Colpensiones' sustainability issues.*
- ***Mexico**:*
  - Chairman of Amafore says that pensions can be improved without harming the industry. He also said that international standards regarding commissions can be achieved in the short term.
  - According to the Secretary of the Treasury, the proposed pension reform will allow savings in the pension system to double the available funds. He also claimed that investment, development and economic growth will be enhanced as a result,
- ***Spain**: The Executive has announced that it will encourage delaying retirement to reduce 'early retirement' and thus increase the real retirement age. To this end, it has recommended a bonus for those who work beyond the official retirement age.*
- ***Ireland:** The government will postpone all planned increases in the state pensions retirement age until the Pension Commission publishes its sustainability report, which is expected to occur in June 2021.*

Relevant studies

- *The most recent ECLAC document: "Pension systems in Latin America: institutional framework, public expenditure and financial sustainability in times of COVID-19", provides background information to create a database of public spending on pension systems in the region, as well as projections of the financial commitments of pension schemes..*
- *Emil Vollset et al. have published a study that develops statistical models for different cohorts and time frames, in an attempt to provide population forecasts on fertility, mortality, migration and population for 195 countries from 2017 to 2100..*

New pension programs and Social Security reforms (approved)

- ***Colombia:** A system for people earning less than the minimum wage to access social security, was established by decree. The measures seek to guarantee subsidized health care, an old-age pension and work insurance.*
- ***El Salvador:** Reforms were approved that will allow terminally ill citizens and Salvadorans living abroad to request the prompt return of their pension savings. To date, Salvadorans living abroad had to renounce their nationality to apply for the return of their pension savings.*
- ***Ecuador:** The IESS Board of Directors resolved to change the distribution of contributions by employers to Unemployment Insurance to cover retirees' pensions, namely gasoline and diesel prices. The idea is that this revenue will serve to finance the thirteenth and fourteenth salaries that pensioners receive each year.*

Crisis in public PAYGO systems

- ***Argentina:***
  - According to the report of the congressional budget office, most people over 45 will not be able to retire when they reach retirement age, due to insufficient pension contributions.
  - A report by the Argentine Institute for Social Development (IDESA) states that the Sustainability Guarantee Fund (FGS) only has sufficient funds to finance two months of deficit.
- ***Costa Rica:** Investigative Commission states that the pension fund reserves of the Disability, Old Age and Death Regime (IVM) will be insufficient to pay pensions by 2030.*
- ***Ecuador:** The IESS was unsustainable prior to the pandemic, declared the Chairman of its Board of Directors.*
- ***Spain:** Pensions are at risk of falling from 80% to 49% of the last salary by 2050. This is according to forecasts (before the pandemic) of several organizations, such as the European Commission.*
- ***France:** The social security expenditure deficit will be nine times more this year, reaching EUR 44.4 billion. This comes after a 2019 deficit of EUR 5 billion.*

Relevant reports or presentations

The most recent ECLAC document: “Pension systems in Latin America: institutional framework, public expenditure and financial sustainability in times of COVID-19,” provides background information for creating a database of public spending on pension systems in the region, as well as projections of the financial commitments of pension systems.

According to the study, considering data from a group of countries (Argentina, Chile, Colombia, Costa Rica, El Salvador, Mexico, Peru and Uruguay), public spending on pension systems increased from 4.8% to 5.5% of GDP between 2000 and 2017. Furthermore, according to the report, the projections of financial commitments for 17 countries in the region indicate that public spending on pensions would grow from 4.2% to 5.7% of GDP between 2017 and 2030, considering accelerated aging in the region and potential advances in non-contributory schemes, such as coverage of 40% of the population aged 65 and over, and a level of benefits equivalent to the poverty line. ***(Source: https://www.cepal.org/es; Date August 2020)***

Emil Vollset et al. published the study Fertility, mortality, migration and population for 195 countries and territories from 2017 to 2100: a prognostic analysis for the study of the global burden of disease, which develops statistical models for different cohorts and time frames in an attempt to provide population forecasts.

According to the study's authors, the main provider of population forecasts since the 1950s has been the population division of the Department of Social and Economic Affairs of the Secretary General of the United Nations (UNPD). In the UNPD estimates methodology, a group of selected countries with low fertility and increases in fertility are used, excluding a group of countries with low fertility and no increases, such as Greece, South Korea and Canada. The aforementioned methodology has given rise to criticism regarding the validity of the assumptions about post-transition fertility. This study addresses some of the limitations mentioned. ***(Source: https://www.thelancet.com/; Date 07/14/2020)***

The Center for Retirement Research at Boston College published a study on retiree risk perceptions called: “How accurate are retirees’ assessments of their retirement risks?” The risks assessed are: longevity, market, family and policy risks.

The document shows that:

1. Under empirical analysis, the highest risks are longevity, followed by health.
2. Under subjective analysis, retirees mistakenly perceive that their greatest risk is market risk, due to their exaggeration of market volatility.
3. Longevity and health risks are valued less in the subjective than in the objective ranking, as retirees underestimate their life span and health costs.

(Source: https://crr.bc.edu/, Date July 2020)

Relevant news of the period

Latin America, the Caribbean and North America

Argentina

According to the report of the congressional budget office, most people over 45 will not be able to retire when they reach retirement age, due to insufficient pension contributions. This is due to the fact that after the age of 40, the number of contributors begins to decline, particularly in the private sector.

As of March 2020, the plans managed by ANSES had 9,797,011 active contributors and 5,726,827 passive beneficiaries (with 6,864,705 benefits). 40.6% of contributors are women and 59.4% are men, "with a large part of the women outside the formal labor market."
67.6% of benefits are received by women (62.2% of pensions and 85.1% of allowances) and 32.4% by men (37.8% of pensions and 14.9% of % of allowances). 78.9% of contributors work in the private sector and 21.1% in the public sector. According to the report: "Workers’ numbers start declining after the age of 40. This decline is abrupt in the private sector and more

tenuous in the public sector, evidencing an exit from the labor market after that age."

(Source: https://diariolaopinion.com.ar/; Date 02.09.2020)

An Argentine Institute for Social Development (IDESA) report states that the Sustainability Guarantee Fund (FGS) only has sufficient funds to finance two months of deficit. 90% of its assets consist in government securities and some loans at subsidized rates, so "it is exhausted and does not fulfill its purported role of supporting the pension system," according to IDESA.

In IDESA's opinion: "The exhaustion of the FGS is the consequence of a "state policy based on hypocrisy, laziness and opportunism. In 1992, the government and the provinces agreed to derive 15% of the co-participation to ANSES to finance the passing of a reform that sought pension sustainability based on the creation of a mixed system. In 2008 this reform was discarded, but the 15% co-participation was not returned to the provinces. On the contrary, it was decided to increase spending exponentially, indiscriminately granting pensions without contributions, through moratoriums."

"The incumbent government now reprograms the debt of the provinces with the FGS, once again manipulating mobility, generating the conditions for new lawsuits and continuing to avoid the changes required for pension sustainability. The only novelty is that it has introduced a law to defend the assets of the FGS. This is not very beneficial for retirees, but politically very attractive because it maintains the power to continue appointing directors in companies in which the FGS is a shareholder. As long as this broad and solid consensus in favor of not ordering the pension system continues, the degradation will continue to produce very negative consequences for current and future retirees," concludes IDESA.

(Source: https://fortuna.perfil.com/, Date 31.08.2020)

Bolivia

Bill of law submitted by a deputy seeks to allow contributions to be returned to members of the Pension Fund Managers (AFPs). The bill will propose two options for workers to access the funds for facing the crisis: a 10% refund and conversion of savings into a guarantee fund.

According to the Christian Democratic Party (PDC) deputy for Tarija, the purpose of the regulation is to provide the population with economic resources to face the crisis caused by the COVID-19 pandemic.

(Source: https://eju.tv/; Date 15.09.2020)

Chile

According to the Pensions Commission, if the second withdrawal of 10% of the pension funds is approved, 4.2 million members would be left with zero balance in their accounts. The Superintendent of Pensions, Osvaldo Macías, explained the impacts of this measure to the Chamber of Deputies Committee.

In his presentation, the regulator mentioned that "more than 1.9 million members withdrew their entire balance and 2.3 million more could do so if a second withdrawal is approved." The above would leave 4.2 million members with zero balance," representing 34% of the universe of people who could withdraw their funds. Other calculations by the Pensions Commission were that "it is estimated that the first withdrawal will imply a decrease in the pension of 13% on average for members of the system and a second withdrawal would imply a reduction of 23% of pensions on average."

The executive secretary of the Economic Commission for Latin America and the Caribbean (ECLAC), Alicia Bárcena, on the other hand, expressed her concerns regarding a possible second withdrawal of 10% of AFP funds, pointing out that: "we are slightly doubtful, because in reality the first withdrawal also had a lot to do with the fact that there were not sufficient measures in place, and therefore, it was seen as a possibility for propping up income, so it would be much better if the government's new economic measures could fulfill this role."

(Source: http://www.diarioelheraldo.cl/ and https://www.cnnchile.com/; Date: 07.10.2020)

Colombia

Government announces that it is against the possible withdrawal of pension funds. The government considers that this legislative initiative violates several constitutional mandates, such as allocating pension savings for purposes other than social security, due to which it refrained from issuing a favorable opinion and suggested that the proposal be filed.

The Ministry warned that failure to save any amount could entail a significant decrease in the amounts saved at the end of individuals' working lives, especially for young people. “For example, a 25-year-old man who withdraws 1,000,000 pesos, may see his individual Savings Account (CAI) decrease by about 12,000,000 pesos at the end of his working life, estimating a real rate of 4.04%,” explained the Ministry. The Government also argued that there are resources that could be used first, such as unemployment funds.

(Source: https://www.lafm.com.co/, Date: 23.09.2020)

Banco de la República proposes raising the retirement age and eliminating the subsidies of the Average Premium Plan, due to Colpensiones’ sustainability issues. On this occasion, the Issuer's team pointed out that the ideal system would be one in which people retire at the age of 63, i.e., increase the current average retirement age by three years.

Julián Parra, coordinator of the report, specified that the risk for the system persists due to the expected increased aging of the working population in the next 30 or 40 years. Today, half of the population is under 30 and 12% over 60. By 2060, the expert projected that 36% will be under 30 and about 30% over 60; and, today, a person of 60 is expected to live to 83, increasing to 86 by 2050. “It does not seem like much, but this implies that, while today we have 4.5 people of working age for every person at retirement age, that number will have been reduced to 2 by 2050 and 1.5 by 2080, if we maintain the retirement ages,” he said.

With the increase in the retirement age, the group of experts added that the number of pensions in the public system should decrease and be governed only by the contributions of members, without considering subsidies, because, 51.4% of pension amounts are currently subsidized. This would also open the option for the Government to reduce the taxes on the payment of allowances.

(Source: https://www.vanguardia.com/; Date: 08.09.2020)

A system for accessing social security is decreed for people who earn less than the minimum wage. The measures seek to guarantee subsidized health care, an old age pension income, and work insurance.

Decree 1174, issued on August 27, states that this scheme includes people who have one or more part-time employment relationships or those who enter into service provision contracts, provided that they do not exceed the minimum wage, in both cases.

Self-employed workers and producers in the agricultural sector are also eligible. Those who earn more than the minimum wage must join the contributory regime of the social security system.

(Source: https://conexioncapital.co/; Date: 31.08.2020)

Costa Rica

According to an investigative committee, the reserves of the Disability, Old Age and Death Regime (IVM) will be insufficient to pay pensions by 2030. All of the fund’s resources are expected to have been consumed by 2037.

Increased installments, changes in the benefit formula and increased retirement ages are some of the measures suggested by the Actuarial Director of the Fund, Luis Guillermo López, to avoid the collapse of pension payments.

One of the most determining variables of the cost is the retirement age, since even though it is set at 65, early retirement is currently allowed, affecting the sustainability of the fund.

(Source: https://www.larepublica.net/; Date: 12.08.2020)

Ecuador

According to the Chairman of the Board of Directors of the IESS, it was unsustainable even before the pandemic. He pointed out that this was due to the elimination of 40% of the state contribution, ordered by the previous Government in 2015, while also stating that, with or without these contributions, the system was unsustainable over time.

The actuarial report of the IESS for the 2013-2015 period specifically states that family and individual Health Insurance is in a serious financial situation. The only insurance sustainable over a 40-year horizon is Work Insurance. The Old Age Insurance will not have sufficient funds to cover expenses by 2046, according to the report, and its revenue will be higher than its expenditure only until 2036.

The IESS also reported that it could stop receiving some USD 400 million between June 2020 and June 2021, due to the members that have opted out so far this year, aggravated by the pandemic and the lack of payment by employers, also due to the crisis.

(Source: https://www.vistazo.com/; Date 12.09.2020)

The IESS Board of Directors resolved to change the distribution of contributions by employers to Unemployment Insurance to cover retirees' pensions. Specifically, gasoline and diesel prices.

The idea is that this revenue will serve to finance the thirteenth and fourteenth salaries that pensioners receive each year. Employers contribute 1% (USD 240 million in total) of the salaries of workers in a dependency relationship to Unemployment Insurance. As of January 2021, employers will pay 0.5% for this benefit and the remaining 0.5% will be used to finance the benefits that are part of the Retirement Insurance.

(Fuente: https://www.primicias.ec/; Date: 16.09.2020)

El Salvador

Reforms were approved that will allow terminally ill citizens and Salvadorans living abroad to request the prompt return of their pension savings. To date, Salvadorans living abroad had to renounce their nationality to apply for the return of their pension savings.

One of the requirements that Salvadorans abroad must meet is to demonstrate that they have legal permanent resident status. On the other hand, Congress stipulated in a press release that those who suffer from terminal illnesses will have to legitimize the medical opinion within 15 working days for funds to be returned.

(Source: https://www.voanoticias.com/; Date 25.09.2020)

Mexico

The Chairman of Amafore said that pensions can be improved without harming the industry. He also said that international standards regarding commissions can be achieved in the short term.

Lowering the commissions of the Afores by 50% would only increase the average pension of workers by 4%, said Bernardo González. "We agree to work to continue lowering commissions, but we believe that there are better ways to so than those proposed in the bill of law submitted on September 25. We are convinced that it is possible to improve returns for workers without harming an industry that employs 32,000 people."

The Chairman of Amafore said that he is convinced that Mexico could achieve international standards regarding commissions in a very short time, because enormous efforts have been made over the last few years. "I think we can achieve this, as long as common sense prevails on all sides and there is willingness to debate on an issue that has to be technical, so that it really benefits workers."

(Source: https://www.eleconomista.com.mx/; Date: 29.09.2020)

According to the Secretary of the Treasury, the reform will allow savings in the pension system to double the available funds. He also said that as a result, investment, development and economic growth will be enhanced.

With the reform, employers' contributions will increase from the current 5.15 percent of salary, to 13.875 percent, whereby the total pension contribution will increase from 6.5 to 15 percent of salary in eight years, increasing the replacement rate by 40 percent on average, according to the details of the bill of law that was submitted in the National Palace.

"The bill of law to reform the pension system will achieve three very important things: first, savings will increase so that workers can retire with a decent pension; secondly, for workers in the transition process, who were going to retire in two years, the resources available at the time of retirement will increase by up to 70 percent," Herrera said. Thirdly, he added, there will be additional savings due to the reform of the pension system, which they expect to be approved in this legislative period.

(Source: https://elfinanciero.com.mx/ ; Date 10.09.2020)

Peru

Pension reform bill of law will be submitted at the end of October. Omonte, Chairman of the Commission in charge of said reform, pointed out that the commission must ensure that the proposed model is sustainable over time.

Three months into the work of this commission, the legislator said that they are already at the technical analysis stage. "This has been a difficult task, because we have to achieve this political consensus on a technical basis, which is essential for a reform of this magnitude," he said.

He also commented that in this endeavor they are listening to all the stakeholders involved in the proposed changes, also including the education sector, so that young people are informed on this matter.

(Source: https://rpp.pe/; Date 11.09.2020)

Dominican Republic

Minister of Industry, Commerce and SMEs pointed out that the AFP law must be amended and strengthened.

The authority declared that the amendment should include the possibility that a first home could be used to guarantee the funds of citizens. He also recommended that AFP funds should be invested in infrastructure instruments instead of being merely reflected on paper.

(Source: https://listindiario.com/; Date 21.09.2020)

Europe

Spain

Pensions are at risk of falling from 80% to 49% of the last salary by 2050. This is according to forecasts (before the pandemic) of several organizations, such as the European Commission.

Spanish demographic characteristics will cause the percentage to drop from the current 80% to 58% by 2030, to 54% by 2040 and to 49% by 2050, according to Inverco's calculations. Furthermore, the report on present and future public expenditure, prepared by Funcas, concludes that future pensions will be around 35% lower than current pensions, and the International Monetary Fund has also stated that workers who retire in 2050 will lose 30% of purchasing power, compared to their current standard of living.

A recent report by the Court of Audits also warns that Social Security suffers from a "structural" problem of financial sustainability, with insufficient contributory resources to meet the level of benefits, especially pensions, so that if the necessary reforms are not urgently undertaken, the viability and financial sustainability of the system would be at risk.

(Source: https://www.65ymas.com/; Date: 31.08.2020)

The Executive has announced that it will encourage delaying retirement to reduce 'early retirement' and thus increase the real retirement age. In order to achieve this extension, he recommended granting bonuses to those who work beyond retirement age.

The Minister of Social Security invited parliamentary groups to "urgently" reach a broad consensus so as not to further increase the "uncertainty" which he claims affects thousands of pensioners and people close to retirement.

(Source: https://www.65ymas.com/; Date: 10.09.2020)

France

The social security expenditure deficit will be nine times more this year, reaching EUR 44.4 billion. This comes after a 2019 deficit of EUR 5 billion.

The Ministers of Health and Finance explained in a press conference that health expenditure, in the current context, had skyrocketed (EUR 10,000 million more in 2020).

At the same time, social contributions plunged by EUR 27,000 million due to the increase in unemployment and partial activity mechanisms (similar to the ERTEs[1]).

The Social Security deficit should be around EUR 27.1 billion next year.

(Source: https://www.forbes.com.mx/; Date: 29.09.2020)

Ireland

It has been proposed to postpone raising the retirement age for state pensions, as part of a corrected reform strategy. The government will postpone all scheduled increases in the retirement age of state pensions until the Pensions Commission publishes its sustainability report, which is expected to occur in June 2021.

The new governing coalition has issued its document "government program - our shared future", which outlines the government's priorities in different areas in the next 5 years. The document includes a series of proposed pensions-related measures, including the postponement of the idea of increasing the retirement age in the public system. Other pension changes proposed in the government program include:

- Create an early retirement pension: This measure would provide people who have turned 65 and must (or choose to) retire early, a benefit equivalent to the job search benefit for the unemployed, but without having to actively look for a job.
- Encourage State Pension Deferrals: This change would reward individuals who delay claiming their contributory state pensions until after the official retirement age, with actuarially increased benefits.
- Allow contributions beyond the official retirement age: This reform would allow people without full social security records to continue paying contributions beyond retirement age, in order to increase their pensions.

(Source: Social Security Administration; Date: August 2020)

[1] Temporary employment regulations that allow workers to keep their jobs while their employers our enduring economic difficulties due to the coronavirus crisis.