FIAP STATEMENT

THE WITHDRAWAL OF PENSION FUNDS TO MITIGATE THE EFFECTS OF COVID-19

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To compensate for increased life expectancy, the drop in interest rates and the return on investments, as well as the high levels of informality seen in some countries, pension savings must be increased and retirement ages adjusted as the principal means for improving pensions.

To this end, legislature has been enacted in some countries to raise contribution rates to the pension systems, which, as we know, have remained at levels close to half of the average prevailing rates in the OECD countries for many years, and new ways of contributing to the pension system have been proposed.

Nonetheless, while simultaneously seeking to increase savings, most of the countries of the Latin American region, with the sole exception of Uruguay, have proposed the early withdrawal of pension funds to mitigate the effects of the worldwide pandemic. This initiative has already been implemented in Chile and Peru, causing irreparable harm to workers' pensions, notwithstanding the fact that there are already new withdrawal initiatives in the pipeline.

In Chile, the 10% withdrawal left 17% of members without funds in their individual accounts, and if a second withdrawal materializes, it is estimated that about 38% of members will be in the same situation. The total withdrawn amount could be more than US$34 billion, equivalent to 17% of the total value of the pension funds.

In Peru, successive legal provisions increased the total amount of funds that could be withdrawn in a lump sum on meeting early or old age retirement requirements, by up to 95.5% of the funds. The law allows the withdrawal of 25% of the funds at any time. Due to all of the above, Peruvian workers have withdrawn about USD 6,800 million from their accounts, corresponding to 16% of the total amount of the pension funds. With the withdrawal of 25% of their funds, at least 33% of workers would no longer have funds to finance their retirement, which is the purpose of any pension system, and if a second withdrawal (currently under discussion[1]) is approved, the percentage of workers with zero balance would increase to 52%.

All of the above entails a significant reduction in worker coverage and a reduction in the pension amounts that the system would be able to provide, which is diametrically opposed to the intended purpose of the reforms that seek to increase pension savings.

On the other hand, the State will have to finance all or a significant part of the pensions of a growing number of workers who withdrew their savings early, putting the sustainability of the system and the integrity of the savings at risk.

No one can deny the urgency of attending to the needs of people who have lost their jobs or whose income has been reduced due to Covid-19. However, pension funds are not the appropriate tool for addressing this contingency. Furthermore, the early withdrawal of savings did not adequately focus on the neediest and most vulnerable, as evidenced by the fact that the vast majority of those who

[1] The new regulation in process establishes that affiliates under the age of 55 who have not made contributions to the Private Pension System for 12 months may withdraw up to 17,200 soles. The disbursement process would be in four parts of 4,300 soles each month.

withdrew their funds continued to contribute and used the resources for purposes other than covering their most basic needs.

To attend to the economic needs of those who have lost their source of employment, one must resort to the unemployment insurance that was been, or should have been created for this purpose, and that can adequately direct assistance to the most needy workers, as occurred in Colombia, Chile, Mexico and Uruguay.

Allowing the withdrawal of savings for purposes other than financing pensions, while seeking to increase pension savings, is an inexplicable contradiction. A bill of law that proposes increasing the contribution rate by 6%, is being discussed in Chile. In the words of the Minister of Finance, the early withdrawal of 10% is equivalent to 2% of contribution. In other words, the effect of the bill of law would be to increase contributions by only 4%, discounting the impact of the previous withdrawal of funds, and if the initiative for a second withdrawal is successful, the net increase would be only 2%.

On the other hand, these withdrawals are never exceptional or transitory, as evidenced by the fact that both Chile and Peru are already discussing initiatives for a new withdrawal.

The withdrawal of funds also entails a massive sale of financial instruments, which in many cases do not have the necessary market liquidity, thus running the risk of impacting the price of these assets and, consequently, the value of the funds of members making, or not making, withdrawals.

The purpose of the pension system is to finance the pensions of workers during retirement. The system is mandatory, because otherwise the vast majority would prefer present consumption rather than postponing it to finance their old age.

We therefore appeal to the sense of responsibility of those entrusted with ensuring the common good and legislating public policies that focus on obtaining the best pensions for workers, in order to restore the true purpose of a pension system, thus preventing workers from losing the savings for financing their old age, due to populist measures.

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