

# International Federation of Pension Fund Administrators



## **Progress of the Pension Systems December 2020 – January 2021 No. 1**

*This document compiles the major changes that occurred in the pension systems in the December 2020 – January 2021 period, with emphasis on the development of the individually funded systems.*

*Document prepared by FIAP based on press releases. 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

### Crisis in the public PAYGO systems

- **Ecuador:** Between December 2019 and December 2020, the Ecuadorian Institute of Social Security (IESS) lost 269,478 contributors, while the number of retirees increased by 24,412. To finance only the pension payment deficit, the IESS will use USD 697.9 million of the savings it has invested through the IESS Bank.
- **Panama:** Specialists warn that the country is facing a serious problem, pointing out that the existing pension model is bankrupt and it is impossible to pay all pensions.
- **Paraguay:** The Pensions and Retirement Fund ended 2020 with a 30% deficit. The institution's deficit is financed by taxes and part of the surplus of some of the sectors comprising this agency. On the other hand, the Minister of Labor announced that only 10% of pensioners who contribute to the pension system actually retire, because the rest of them do not qualify for retirement.
- **Spain:** According to BBVA Research figures, the deficit of the pension system would be 3.2% of GDP in 2020, equivalent to more than 35 billion euros.

### Relevant studies

- **Transamerica Center for Retirement Studies published the study [The New Social Contract: Young Adults Reinventing Life, Work and Retirement](#).** The study explores the attitudes and behavior of workers in their 20s, a cohort that includes both Millennials and Generation Z.
- **The Mercer CFA 2020 Global Pension Index shows that Latin America has significant pension challenges.** According to the [report](#), Chile ranks 13th overall with 67 out of 100 possible points, and is included in the category B countries. Further behind, in category C, are Colombia ranked 21st, with 58.5 points; Peru 24th, with 57.2 points and Brazil 26th, with 54.5 points. Mexico ranks 35th, with 44.7 points and Argentina ranks second-last with only 42.5 points, in category D.
- **Mitchell et. al published the study [Financial education and decision-making by the elderly](#).** This study discusses the financial decision-making of older people in Singapore, and how it relates to their level of financial education. The multivariate analysis showed that older people with financial knowledge were more likely to make better financial decisions, controlling for other factors.

### Reforms proposed or to be discussed

- **Chile:** The Pension Fund Managers (AFPs) are drawing up a document with a number of proposals for improving the pension system. Among other things, they propose: making it mandatory for all self-employed people to contribute, raising the retirement age, raising the contribution rate to levels similar to those of the OECD countries (about 20%) and strengthening the Solidarity Pillar.
- **Costa Rica:** The Costa Rican Social Security Fund (CCSS) will define the reform to the Disability, Old Age and Death (IVM, PAYGO) regime in the first quarter of 2021. The proposed changes range from raising contributions to the fund from the current 10.66% to 15.16%, reducing pension amounts and eliminating early pensions.
- **Mexico:** The government is preparing the pension reform to the Mexican Civil Service Social Security and Services Institute (ISSSTE).
- **Uruguay:** The Chairman of the Committee of Experts on Social Security Reform announced that public spending implies that the retirement system will be a central topic in the social security discussion.
- **Panama:** The Actuarial Technical Board has submitted its proposals for the Social Security Fund (CSS) to cushion imbalances in the defined benefit system. This consists in raising the retirement age of men and women to 67 and 62 respectively, reducing pension payments by up to 20%, and increasing employer / worker contributions by up to 18.5%.

### Inefficient State Administration

- **Argentina:** Due to operational problems caused by the Covid-19 crisis, there was a sharp drop in the number of retirees in 2020. A total of 115,196 people retired in the retirement system managed by the National Social Security Administration (ANSES) in this period, which is less than half the average number of new retirees in the previous three years.
- **Peru:** The Ipsos Survey reveals that 82% of AFP members are against the Peruvian State being the sole administrator of the pension system. 80% said they preferred to choose a private manager for their funds, and 66% of members also believe that their pension will be reduced if the State manages the pension system again.

## Relevant reports or presentations

Transamerica Center for Retirement Studies publishes the study [“The New Social Contract: Young Adults Reinventing Life, Work and Retirement.”](#) The study explores the attitudes and behavior of workers in their 20s, a cohort that includes both Millennials and Generation Z.

The report is based on a survey of young adults in 15 countries in the Americas, Europe, Asia and Australia. It was noted that these workers are juggling a wide variety of priorities in life, such as their careers, enjoying life and planning for their financial future. They are also addressing financial priorities, which include paying basic expenses, enjoying life, buying a property, dealing with important life events, supporting the family, and paying off debts.

While a relatively low number of young adults report retirement saving as a financial priority, many have already begun to think about retirement. According to the survey, 32% of them are "regular savers" who ensure that they are always saving for old age.

*(Source: <https://www.transamericacenter.org/> Date: January 2021).*

**The Mercer CFA 2020 Global Pension Index, which assesses 39 pension systems worldwide, shows that Latin America has significant pension challenges.**

According to the [report](#), Chile ranks 13th overall, with 67 out of 100 possible points, and is included in the category B countries. Further behind, in category C, are Colombia ranked 21st, with 58.5 points; Peru 24th, with 57.2 points and Brazil 26th, with 54.5 points. Mexico (position 35, with 44.7 points) and Argentina (penultimate place, with only 42.5 points) are in Category D.

The document also presents proposals for improvement in each Latin American country under study, including:

- Increase the minimum level of support for the poorest elderly in Chile and Colombia, and introduce it in Peru.

- Increase the retirement age of women in Chile and increase the official retirement age in Colombia.
- Introduce a requirement for a minimum number of mandatory contributions to a retirement savings fund in Argentina and Brazil.
- Increase the level of contributions to the individual accounts system in Mexico.

*(Source: <https://www.latam.mercer.com/> Date: October 2020).*

Mitchell et. al published the study [“Financial education and decision-making by the elderly.”](#) This study discusses the financial decision-making of older people in Singapore, and how it relates to their level of financial education.

It was found that 92% of the elderly with credit cards always paid their debt over a period of 24 months, and 42% were active in the stock exchange. Nonetheless, only 18% followed age-based planning for their risky investments. Altogether, about 60% of elderly Singaporeans followed at least two of the three recommended financial behaviors, whereas 13% adhered to all three, and 5% violated all three.

Multivariate analysis showed that older people with financial knowledge were more likely to make better financial decisions, controlling for other factors. One literacy point was associated with a 1.5 percentage point higher probability of constantly paying off credit card debts on time; a higher probability of 8.3 percentage points of participation in the stock market, and a 1.7 percentage point higher probability of adhering to age-related investment guidelines.

*(Source: <https://www.sciencedirect.com/> Date: February 2021)*

## Relevant news of the period

### Latin America, the Caribbean and North America

#### Argentina

**Due to operational problems caused by the Covid-19 crisis, there was a sharp drop in the number of retirees in 2020.** During this period, a total of 115,196 people were granted a pension in the pension system managed by the National Social Security Administration (ANSES), which is less than half the average number of pensions granted in the previous three years (237,125).

Throughout this period, there was a similar share of benefits achieved from admission to a moratorium plan for unpaid contributions. Specifically, in the last four years about six out of 10 new retirements needed such assistance, because the number of contributions required by the system to access the benefit was not met. Thus, based on previous trends, it is estimated that almost half of the people that were able to retire last year, were unable to access a pension.

With the pandemic and the quarantine imposed by the government - which led to the closure of the pension offices for a few months, and limited attention when they finally opened - much fewer pensions were granted than in any of the previous years since 2010.

*(Source: <https://www.lanacion.com.ar/> Date: 27.01.2021)*

#### Bolivia

**The Minister of Economy and Public Finance, Marcelo Montenegro, called on the public to protect their future pensions and only consider the withdrawal of contributions from the Pension Fund Managers (AFPs) in emergency situations.** The Minister said, "We believe that the best decision would be to allow these funds to continue generating returns for a good retirement."

The country's Chamber of Deputies will discuss a bill of law that provides that those who have 100,000 Bolivian pesos (USD 14,472) or less in their individual AFP accounts, can withdraw up to 15% of their funds.

"Withdrawing these funds and using them today, thus probably deteriorating any future pension, is a totally personal decision involving a cost-benefit analysis," Montenegro warned.

*(Source: <https://www.lostiempos.com/> and <https://eldeber.com.bo/> Date: 23.01.2021)*

#### Chile

**The Chamber of Deputies rejected a bill of law to "withdraw" life annuities.** The reform sought to enable pensioners with life annuities to access an "advance payment" of up to 150 UF (CLP 4.3 million, USD 5,941), which would be deducted from the balance not yet paid by the insurance company.

The Insurers Association, the Financial Market Commission (CMF) and several lawyers warned that the terms of annuity contracts prevent withdrawals. Those who opt for this type of pension, transfer their pension savings to an insurance company in exchange for a monthly lifetime payment, thus losing ownership of their funds. Hence, withdrawal would, in practice, affect the solvency of insurers and entail an expropriation.

*(Source: <https://www.pauta.cl/> Date: 13.01.2021)*

**Pension Fund Managers (AFPs) draw up a document with a number of proposals for improving the pension system.** This occurred in the midst of the negotiations on the pension reform, which have been underway for more than two years in Congress.

The proposal seeks to improve future pensions, proposing, among other things:

- To make contribution mandatory for all self-employed workers.
- Gradually increase the official retirement age to 67, indexing the retirement age to life expectancy thereafter.
- Raise the contribution rate to levels similar to those in OECD countries (about 20%).
- Strengthen the solidarity pillar through the Solidarity Pension Contribution (APS), until it is equal to the Basic Solidarity Pension.

*(Source: <https://www.ciedess.cl/> Date: 11.01.2021)*

## Costa Rica

**The Costa Rican Social Security Fund (CCSS) will define the reform to the Disability, Old Age and Death (IVM, PAYGO) regime in the first quarter of 2021.** The Board will agree to changes in the retirement rules and regulations governing the calculation of pensions, contribution, and early retirement affecting 1.5 million workers.

Between September and December 2020, the Pension Commission presented to the different social sectors the proposed initiatives for strengthening the IVM and extending the life of the retirement fund reserve to a date between 2050 and 2053.

The proposed changes range from raising the tripartite contribution to the fund from the current 10.66% to 15.16%, to streamlining pension amounts to 45% of salary for all new pensioners. It is currently 52%.

It also proposes setting the retirement age at 65 for all workers, i.e. eliminate the early pension that allows women to retire at 59 years and 11 months, with 462 contributions; and men at 61 years and 11 months, with 462 contributions.

*(Source: <https://www.nacion.com/> Date: 06.01.2021)*

## Ecuador

**Between December 2019 and December 2020, the Ecuadorian Social Security Institute (IESS) lost 269,478 members, while the number of retirees increased by 24,412.** The IESS allocated USD 4,433 million to pay pensions in 2020, \$320 million more than in 2019.

IESS' pension expenditure this year will be financed by the contributions of members, government transfers and disinvestments by the Bank of the Ecuadorian Social Security Institute Bank (BIESS). To finance only the pension payment deficit, the IESS will use USD 697.9 million of the savings it has invested through the IESS Bank.

Pension expenditure has grown continually each year, and 2021 will be no exception, which is why the reduction in the number of contributors in a PAYGO systems is worrying.

*(Source: <https://www.primicias.ec/> Date: 06.01.2021)*

## Mexico

**The government is preparing the pension reform to the Mexican Civil Service Social Security and Services Institute (ISSSTE).** According to the country's President, the reform to the ISSSTE Act will likely occur in 2021 or 2022, but "within this three-year period."

The last reform to the ISSSTE pension system was in 2007, when it was changed from a PAYGO to an individually funded system.

*(Source: <https://elceo.com/> Date: 11.01.2021)*

## Panama

**The Actuarial Technical Board has submitted its proposals for the Social Security Fund (CSS) to cushion imbalances in the defined benefit system.** The proposal consists in raising the retirement age of men and women to 67 and 62, respectively, lowering the pension amounts of retirees by up to 20%, increasing the total contribution rate (financed by workers and employers) to 18.5% and setting a period for paying these contributions of up to 25 years.

In this regard, the specialist Jorge Nicolau warned that Panama is facing a serious problem, pointing out that the existing pension model is bankrupt and it is impossible to pay all pensions. He also pointed out that the parametric changes proposed so far would only postpone the problem for about 20 years.

*(Source: <https://www.laestrella.com.pa/> and <https://www.prensa.com/> Date: 27.01.2021)*

## Paraguay

**The Pensions and Retirement Fund ended 2020 with a 30% deficit.** The Ministry of Finance's report reveals that from January to December 2020, active civil servants contributed more than 2.4 trillion Guarani (USD 348.9 million) to retirement funds and pension payments to retirees exceeded 3.4 trillion Guarani (USD 496.4 million).



The institution's deficit is financed by taxes and part of the surplus of some of the sectors comprising this agency. According to portfolio statistics, the agency has recorded consecutive deficits since 2015, and the gap increases every year.

(Source: <https://www.abc.com.py/> Date: 07.01.2021)

**Only 10% of contributors to the Social Security Institute's Fund (IPS) can access a pension.** This data was presented by the Minister of Labor, Carla Bacigalupo, during the Social Security Seminar in Paraguay.

According to the Minister: "We cannot continue to have only 10% of pensioners being able to access IPS retirement. Many contributors do not meet the required number of years of contribution for several reasons; for example, high mobility rates, or because of job stability, which has now become a reason for dismissal, i.e., workers are dismissed after nine and a half years, and do not return to the contribution system thereafter," he said.

(Source: <https://www.ultimahora.com/> Date: 07.01.2021)

## Peru

**The Ipsos Survey reveals that 82% of AFP members are against the Peruvian State being the sole administrator of the pension system.** This survey was conducted among members of the Private Pension System (SPP).

This is despite the fact that the Pension Reform Commission of the Congress of the Republic, chaired by the legislator Carmen Omonte, proposed that the State should be responsible for managing a new Universal Integrated Pension System, through a public authority.

The survey also shows that 80% of respondents reject the initiative for a Shared Risk Fund, which means that those who accumulate savings are granted a pension from the funds of each contributor.

Likewise, 78% of respondents mentioned that they would prefer the private and public systems to coexist after the reform of the pension system. Only 18% responded that they preferred the entire system to be run by the State. 80% also said that they would prefer to choose a private manager to continue managing their fund. 66% of members believe that their pension will be reduced if the State manages the pension system again.

(Source: <https://eltiempo.pe/> Date: 07.01.2021)

## Uruguay

**Rodolfo Saldain, Chairman of the Committee of Experts on Social Security Reform, announced that public spending implies that the retirement system will be a central topic in the social security discussion.**

Saldain said that in 2000, Uruguay had 815 thousand children and young people. Today there are 700 thousand, and on the way to 600 thousand. He also said that Uruguay will face challenges in the labor market, which have to do with improving levels of expenditure, and there are also issues such as care for the elderly, in which "it is important to increase the rate of female activity, a central issue, which is also important for families." Care for the elderly is very important, and the elderly care system has a very important role to play," he said.

(Source: <https://www.m24.com.uy/> Date: 14.01.2021)

## Asia

### Malaysia

**Access to Providence Fund savings is made easier<sup>1</sup> during the pandemic.** On November 16, the Malaysian Employee Provident Fund (EPF)<sup>2</sup> introduced a new policy that allows about 8 million members of the Providente Fund, aged 55 and under, who have lost their jobs or experienced significant income declines, to withdraw a portion of their balances in Account 1.<sup>3</sup>

This new policy follows the introduction of another early withdrawal option that enables withdrawing, for any reason, from 50 Malaysian ringgits (USD 12.25) to 500 Malaysian ringgits (USD 122.54) per month from their balances in their No. 2 Accounts, from April 2020 to March 2021. These retirement options are expected to help EPF members who have suffered economic hardship during the pandemic.

Key program details include:

- **Conditions to qualify:** Fund members must fall into one of two categories. Category 1 includes self-employed workers, housewives, workers who lost their jobs, and those who were dismissed without pay. Category 2 includes fund members whose incomes have dropped by at least 30%.
- **Withdrawal amounts:** Fund members with Account 1 balances of 100,000 Malaysian

<sup>1</sup> A government-run retirement savings fund used in Singapore, Malaysia and other developing countries.

<sup>2</sup> The EPF is the main source of old-age, disability and survivors' pensions in Malaysia. Coverage is mandatory for all private and public sector employees who are not covered by the exclusive public sector pension system, and voluntary for some other types of workers. In addition to the EPF, Malaysia's pension system includes a social security (PAYGO) program for those who are mandatorily covered by the EPF (there is no voluntary coverage under the Social Security program) and a social assistance program for the elderly in need. The PAYGO Social Insurance program only provides disability and survival pensions.

<sup>3</sup> The EPF provides two types of individual accounts for members under 55 years of age: account 1 for retirement funding and account 2, accessible prior to retirement, which can also be used to fund education, critical illnesses, and other approved expenses.

ringgits (USD 24,507) or less, can withdraw up to 10,000 Malaysian ringgits (USD 2,450), whereas members with balances greater than 100,000 Malaysian ringgits can withdraw up to 10% of their balance, or 60,000 Malaysian ringgits (USD 14,704), whichever is lower.

(Source: [Social Security Administration](#) Date: **December 2020**).

## Europe

### Denmark

**Parliament passed a law that will allow citizens and other individuals with at least 42 years of employment at the age of 61 to receive an early pension subject to fund conditions.** This new pension is intended to help unskilled workers, who tend to enter the labor market earlier, and have more physically demanding occupations. The program is estimated to cost around 2.2 trillion Danish kroner (USD 363 million) in its first year and 3.1 trillion Danish kroner (USD 511 million) per year by 2025. Other details of this new early pension include:

- **Pension amount:** The full advance pension is equal to the full official pension paid to a person at the normal retirement age (13,853 Danish kroner, USD 2,285 per month in 2021). The pension amount is not affected by other pension income, but is reduced if a pensioner has gross annual earnings of more than 24,000 Danish kroner (USD 3,958) or pension assets over 2 million Danish kroner (USD 330,000). Advance pension payment is terminated when the pensioner reaches the official retirement age.
- **Future adjustments:** The conditions for qualifying for an early pension will be adjusted in the following years, while previously scheduled retirement age increases are implemented.

(Source: [Social Security Administration](#) Date: **January 2021**).

## Spain

**According to BBVA Research figures, the deficit of the pension system would be 3.2% of GDP in 2020, equivalent to more than 35 billion euros.** The deficit of the Social Security system has soared with the pandemic, although it was already high previously.

The deficit was 1.4% of GDP in 2018, 1.3% of GDP in 2019, and according to available estimates, could rise to 3.2% of GDP in 2020, setting off all the alarms regarding the future sustainability of the pension system.

In this regard, José Luis Escrivá, the Minister of Inclusion, Social Security and Migration, said that he is committed to moderating future pension expenditure by 3% of GDP, to shield pensions with the CPI.

*(Source: <https://noticiasbancarias.com/andhttps://okdiario.com/> Date: 02.02.2021)*

## Kosovo

**As part of the efforts to provide relief to individuals and businesses affected by the COVID-19 pandemic, a law was enacted that allows participants of the mandatory individual account program to withdraw up to 10% of the balance in their accounts.** These withdrawals are tax-free and may be requested by members within 4 months of the enactment of the law. As of December 30, 2020, 394,978 participants had withdrawn around 184 million euros (USD 225.8 million) of the 2 billion euros (USD 2.5 billion) in total assets under management by the system.

*(Source: [Social Security Administration](#) Date: January 2021).*