International Federation of Pension Fund Administrators

Progress of the Pension Systems
February - March 2021
No. 2

This document compiles the major changes that occurred in the pension systems in the February-March 2021 period, with emphasis on the development of the individually funded systems. Because of the relevance of events, this edition includes information regarding changes and bills of law to the first week of April, 2021.

Document prepared by FIAP based on press releases. We thank FIAP member associations for the information and comments submitted.

Executive Summary by area of interest

New Pension Programs and Social Security Reforms (approved)

- ***Chile:*** *The Pension Commission awarded AFP Modelo the tender for new members for the 2021-2023 period, after it offered a commission of 0.58% on the taxable income for managing accounts.*
- ***El Salvador:*** *The Central Bank authorized a regulation that allows members to withdraw funds without having to return the withdrawn amounts (as of 2017 contributors have been able to withdraw up to 25% of their savings) as long as they are unemployed, disabled or suffering from a disease that prevents them from working.*
- ***The Philippines:*** On January 1, *2021, the government introduced a new mandatory individually funded pension fund with automatic enrollment, known as the Workers' Investment and Savings Program (WISP), to complement the public PAYGO pension program.*
- ***Japan:*** *New law gives companies options for retaining older workers, one of which is to increase the retirement age from the current 65 years to 70. Companies and workers must agree on the chosen option.*
- ***Peru:*** *The Constitutional Court declared the withdrawal of funds from the Pension Standardization Office (ONP, PAYGO system) to be unconstitutional, because it is not viable and technically impossible.*
- ***Dominican Republic:*** *At the request of the ADAFP, the National Social Security Council (CNSS) issued a resolution that makes the process of accessing a survival pension and the reimbursement of the balance as an inheritance for family members, more efficient, eliminating the inheritance tax.*
- ***Singapore:*** *In January, 2021, the Board of the country's Central Pension Fund (CPF) introduced the ""Matched Retirement Savings Scheme," a program that provides a dollar by dollar state contribution of up to $ 600 (USD 451) per year, in additional contributions for qualified CPF members, from 2021 to 2025.*

Crisis in public PAYGO systems

- ***Argentina***: *In 2020, due to the pandemic, almost 23,000 companies stopped contributing to the social security system and 1.13 million jobs were lost.*
- ***Costa Rica***: *The Office of the Comptroller General of the Republic estimated that social security contributions could fall by USD 29 million, compared to 2020, due to the unemployment and economic crisis the country is facing.*
- ***Ecuador***: *According to the Ecuadorian Social Security Institute, there were almost 256 thousand fewer contributors between February 2020 and February 2021, an 8.6% drop.*
- ***Spain***: *The Covid-19 crisis complicated the delicate Social Security situation, to the extent that in 2020 it recorded figures close to bankruptcy: its deficit was almost EUR 30 billion, and could have been worse if the State had not injected an additional EUR 20 billion.*

Reforms proposed or to be discussed

- ***Chile:***
  - *President Piñera announced the amendments to be included in the pension reform, one of which is the extension of coverage of the Solidarity Pillar to the middle-class, covering 80% of the population instead of the current 60%; and an increase in the current solidarity basic pension, so that no pensioner will receive a pension below the poverty line.*
  - *The Chair of the Association of APs, Alejandra Cox, proposes advancing towards a basic and universal pension (USD 243, that covers the poverty line, approx. USD 243, financed with general tax), also allowing an optional withdrawal of the entire pension fund by contributors who have not saved an amount that will guarantee them a good pension.*
- ***Spain:*** *Experts point out that the future of public pensions depends on encouraging collective and individual private plans.*
- ***Mexico:***
  - *Amafore demands transparency from Consar and asks it to review the methodology used for setting a maximum management commission (arithmetic average of commissions on balances in Chile, Colombia and the US) charged by the Afores as of 2022.*
- *The country's president announced that the old age pension (non-contributory) will be paid at age 65 (instead of 68, as is currently the case) and will double by 2024 (to USD 291 bimonthly). Deputies propose that workers who have made withdrawals from their Afore accounts because of unemployment due to the Covid-19 pandemic, should not have weeks of contributions discounted, in order to reduce the impact on their pensions. Amafore had put forward this proposal in 2020, but it was turned down*
- ***Uruguay:*** *Commission of Social Security (CESS) Experts presented the diagnostic report on the pension system, in which they point out that several under-integrated and poorly regulated and supervised social security programs coexist in the country, and that these institutional weaknesses contribute to failures or slowness in detecting program issues and vulnerabilities. The Commission has 90 days, as of today, to submit its recommendations for reforming the pension system to the executive and legislative branches.*

Relevant studies

- *According to a new OECD report, governments must address the gender gap in their pension systems. To do so, it recommends, among other things, encouraging the participation of women in the pension systems through automatic enrollments and making the retirement age and maternity allowances equal between genders.*
- *The Word Pension Alliance (WPA) published a report highlighting the fact that pension savings are long-term, and should not be considered an alternative for obtaining short-term funds.*
- *A UniónCapital AFAP report reveals the projects in which the private pension funds (AFAPs) invested the retirement savings of workers in Uruguay.*
- *According to a Bank of Mexico report, the reform of the country's pension system will increase the number of workers entitled to a life annuity and the amounts they receive each month during retirement, representing a tax cost to the country of only 0.3% of GDP*

Relevant reports or presentations

According to a Bank of Mexico report, the reform of the country's pension system will increase the number of workers entitled to a life annuity and increase the amount they receive each month during retirement, representing a tax cost to the country of only 0.3% of GDP. According to the report, the tax impact will be offset in other areas, for example, in a larger number of Mexicans with pensions, which will be better than estimated without the reform. Before the changes, a worker who started working at age 22 had to work in the formal sector more than 56% of the time to retire at age 65, a requirement that only one in four met (i.e. 75% were left without a pension). With the reform, the transition time (the number of weeks of contributions required for a pension) will increase annually from 700 to 1000, formal working time will be 45%, which will mean that 55% of workers will not be able to access a pension. According to the Bank of Mexico, the benefits will not only be for workers, because as a result of the increase in their mandatory savings (which will be absorbed by employers), the funds administered by the AFORES will increase, which will increase investment in infrastructure projects. Workers' savings currently managed by the AFOREs are 20% of GDP. According to central bank estimates, the savings managed by AFORES will amount to the equivalent of 56% of GDP by 2040, with the reform, (without the reform they would only be 35% of GDP). ***(Source: www.banxico.org.mx; Date: 03.03.2021).***

According to a new OECD report, governments must address the gender gap in pension systems. According to the report "Towards Improved Retirement Savings Outcomes for Women," combining public and private sources, women of 65 or more receive 26% less income than men from the pension system, on average, in the OECD area. Part of this gap originates in the retirement savings systems, as women participate less in retirement savings plans and accumulate fewer assets and pension rights, particularly between the ages of 25 and 44, which can be explained by the impact of the first break in their working careers for parenting. Country case studies show that while labor market inequalities are important drivers of the gender gap in pensions, aspects related to the design of pension systems also explain much of the gap, showing that factors such as pension eligibility rules can lead to significant differences in pension plan coverage. Some policy guidelines that would help reduce the gender gap in pensions, include:

- Encourage women's participation in retirement savings systems through the obligation to save (or automatic enrollment), financial incentives and financial education initiatives tailored specifically to women.
- Improve the level and frequency of women's contributions to pension systems, with contributions from employers or spouses, financial incentives targeting groups highly representative of women (e.g. low-income groups), maternity and care allowances, and targeted communication to educate women about the importance of frequent contributions.
- Adapt the design of retirement savings plans to women's career patterns by allowing greater flexibility with respect to contributions, improving plan portability and adapting commission structures to low account balances.
- Increase the pensions of women by allowing spouses to share their pension rights with them, facilitating the division of retirement benefit rights in case of divorce and raising women's awareness of any option of sharing their former spouse's benefits.
- Increase the level of retirement income women receive by matching gender retirement ages, calculating retirement income based on unisex mortality where possible, providing a subsidy directly to women, promoting payment options with survivor benefits, and encouraging the availability of pension modalities that increase payments over time. ***(Source: www.oecd.org; Date: 10.03.2021).***

The Word Pension Alliance (WPA), of which FIAP is a member, recently published the document "Global Regulatory Responses 2020 and the Challenges of COVID- 19 pandemic-related Pension Funds." In this document, the WPA aims to provide an overview of the challenges faced by both pension funds and pension plan members in 2020 and promote policy-making with a long-term outlook for retirement security. Without overlooking the current difficult economic situation of many workers worldwide, this research highlights the harmful effects of specific policies, such as early withdrawals from pension funds. One of the public policy recommendations made by the report is that the planned savings are long-term, and should not be considered as an alternative for obtaining short-term funds, while pension plans must actively communicate to their members the potential negative consequences of short-term decisions, such as early withdrawal of funds, on the possibilities of receiving adequate pensions in future. ***(Source: https://worldpensionalliance.org; Date: 23.03.2021).***

A UniónCapital AFAP report[1] reveals the projects in which the private pension funds (AFAPs) invested the retirement savings of workers in Uruguay. According to the report, the AFAP's investment portfolio in securities and productive trusts grew from US$ 133 million in 2008 (0.4% of GDP) to US$ 3,015 million in 2020 (5.6% of GDP). Furthermore, between 2008 and 2020, the number of negotiable securities grew from 23 to 38 series and the amount in circulation increased from US$ 234 million to USD 803 million. Among the companies that managed to obtain financing in recent years are some State capital institutions such as UTE[2] UTE is the National Administration of Electric Power Plants and Transmission. Banco Hipotecario and Ducsa (of the Ancap group), agro-industrial companies such as Conaprole, Marfrig and Isusa and others related to infrastructure and logistics, such as Puerta del Sur (concessionaire of Carrasco and Laguna del Sauce airports), Corporación Vial (concession of roads) and Zonamérica. Debt securities (including financing investments in road, storm and sanitation works, rural walk, urban and suburban passenger collective transport), in turn, increased from USD 98 million in circulation to USD 1,103 million, between 2008 and 2020. Notably, eight funds were structured in the forestry sector and five in the agricultural sector, totaling USD 1,256 million, comprising a total area of 231,000 hectares. Five funds were also issued in the real estate sector, for USD 278 million, three for housing development and two for leasing investments. They include more than 2,300 homes, as well as five office buildings, three logistics centers and a shopping center, totaling more than 180,000 square meters. Finally, in terms of infrastructure and energy, two funds structured by UTE for wind farms and three infrastructure investment funds managed by CAF, for a total of USD 1.258 million, were issued. Road and educational works under the Private Public Participation (PPP) modality have being financed through these funds. (***Source: UniónCapital AFAP; Date: 17.03.2021).***

Relevant news of the period

Latin America, the Caribbean and North America

Argentina

More companies stopped contributing to the social security system in 2020 than between 2017 and 2019. According to the latest statistics of the Argentine Integrated Forecast System (SIPA), the number of companies dropped from 544,232 to 521,372 in 2020 (a reduction of almost 23 thousand companies), due to which you are closed with levels below 2008. The register, which records the number of employers who made contributions to the social security system in each month, shows the worst drop for a calendar year in Federal Public Revenue Administration (AFIP) records. The year-on-year decline in registered and unregistered workers is more than 1.13 million. (***Source: www.cronista.com; Date: 02.04.2021).***

Chile

President Piñera announced the modifications he will incorporate into the pension reform, on a national broadcasting network. The modifications include:

(i) **Strengthening and expanding the solidarity pillar by:**
  - An extension of solidarity pillar coverage to the middle class, from the current 60% to 80% of the country's population (this Entails providing social

[1] Report by the Risks Manager of UniónCapital AFAP, Agustín Sheppard.

protection to 480,000 middle-class pensioners, who are not state-supported and only dependent on their individual savings). Thus, the Solidarity Pillar will protect and benefit more than 2 million pensioners, belonging to 80% of the most vulnerable households.

- An increase in the current Basic Solidarity Pension, so that no pensioner will have a pension below the poverty line. This increase directly benefits the more than 580,000 pensioners who receive the Basic Solidarity Pension. It also improves the Solidarity Pension Contributions, benefiting more than 1 million pensioners. These increases will also benefit the 480,000 people in the Solidarity Pillar, due to their increased coverage.
- An advance in the adjustment to pensioners between 65 and 74 years of age who are beneficiaries of the Solidarity Pillar, on January 1, 2022.

(ii) **Strengthen the Contributory Pillar of the Pension System,** by gradually increasing the employer's contribution to workers' pension savings by 6 percentage points. These additional savings will be managed by a Public Agency denominated the Social Security Governing Body (CASS).

- Half of this additional contribution, i.e. 3%, will go to a Pension Savings Account belonging to each worker. When fully operational, this additional 3% savings will increase the pensions of future pensioners by 30%. These Additional Pension Savings will be added to the Individual Pension Savings of workers in their AFP accounts, at the time they retire. These savings belong to the worker, are inheritable and will allow them to finance a higher pension.
- The another half of this increased employer contribution, i.e. 3%, will go to a new Collective and Solidarity Savings Program (PACS) and will fund the following benefits:

  - ➢ An immediate increase of UF 2.7 in the pension, i.e. $79,135 per month, for current female pensioners over 65 who have contributors for at least 8 years.
  - ➢ An immediate increase of 2 UF in the pension, i.e. $58,618 per month, for current male pensioners over the age of 65 who have contributed for at least 12 years. These pension increases will also be extended to future pensioners over the age of 65.
  - ➢ The above benefits will also include an increase for each year of contribution in the Solidarity Collective Savings Program (PACS).

(iii) **Establish a Minimum Pension Guarantee:** all new pensioners are guaranteed a pension equal to or greater than the current minimum wage, i.e. UF11.1, equivalent to $325,330 today, after 30 years of contribution and at least 10 years of contribution in the Solidarity Collective Savings Program (PACS).

(iv) **Establish a Dependency Insurance and Subsidy.** The reform includes a new Severe Dependency Insurance and Subsidy, which will provide financial support to those over the age of 65 who require help from a third party to carry out their daily life activities. This insurance will fund an additional pension, increasing with the number of years of contributions and with a minimum of 3 UF per month, i.e. $87,927. Those who do not have access to this new Dependency Insurance, will be able to access a Dependency Subsidy, which will grant an additional benefit of between $60 and $80 thousand per month to severely dependent pensioners who belong to 80% of the most vulnerable households.

(v) **Reform of the Pension Fund Managers.** The reform includes new regulations for Pension Fund Managers:

- The creation of non-profit Pension Fund Managers.
- The possibility of fund managers being able to distribute profits to their members and offer differentiated commissions, depending on the permanence and size of the group incorporated.

- Greater participation of the Pension System Users Commission in the appointment of directors in the companies where the pension funds are invested.
- Strengthening of the bidding mechanism for new flows entering the pension system, in order to reduce the commission is charged.
- The requirement that fund managers who have negative returns lower than that of a reference portfolio, must return up to 20% of the commissions they charged their users. ***(Source: https://prensa.presidencia.cl; ; Date: 03.03.2021)***

New Chairwoman of the Association of AFPs, Alejandra Cox, says that progress must be made toward a basic, universal pension, and allowing the optional withdrawal of all pension funds by contributors who have not saved an amount that will guarantee them a good pension. The new Chairwoman of the Association of AFPs, the economist Alejandra Cox, said that the pension reform bill of law submitted by the government is not enough and that it is better to "not approve it as it is", but that a true "universal basic pension" (PBU) must be created. According to the proposal, the BUP does not depend on people's contributions, is the same for everyone and guaranteed by the State to any person who reaches a certain age (today 65) and who meets a requirement of residency in Chile. The idea is for the BUP to be accessible to everyone, without exception, regardless of whether they have worked in the labor market, at home, or if they have not been able to work for any reason. It must be guaranteed, so that when our pension is projected, we know that we will at least have that amount, and that our efforts (contributing to the pension system) will improve that amount. The BUP must be above the poverty line, which is now at $177,000 (approx. USD 243) per month. The BUP should ideally be financed from a broad national income base. The BUP is a transfer which, because it is the same amount for all, is very distributive. This is because its amount is proportionately more important to lower-income individuals. Thus, since its purpose is distributive, the BUP should ideally be financed with progressive taxes levied proportionately on higher-income groups (individuals and organizations). Regarding the proposal for the reimbursement of funds, the idea is to allow it in cases in which the accumulated amount enables financing pensions of less than $40,000 (approx. USD 55) per month, i.e. a total capital of about $7 million (approx. USD 9,600). Alejandra Cox finally asserted that the elements for achieving a satisfactory reform of the pension system are: a universal basic pension for those who reach the official retirement age, the official retirement age linked to life expectancy, ensuring that pension gaps are reduced to the minimum, and strongly incentivizing savings. (***Source: www.lun.com; Date: 24.03.2021).***

The Pension Commission awarded AFP Modelo the tender for new members for the 2021-2023 period, after it offered a commission of 0.58% on the taxable income for managing accounts. This tender for the portfolio of new members of the mandatory individually funded system is the seventh tender conductor by the Pension Commission, since the implementation of this legislation within the framework of the 2008 pension reform. Thus, according to the calendar of bidding terms and conditions, as of October 1 this year, those entering the pension system for the first time between 2021 and 2023, must mandatorily enroll in AFP Modelo, since it offered to charge the lowest commission for managing their mandatory pension savings accounts. The law provides that workers, employees and self-employed individuals contributing for the first time, must remain in that AFP for two years. Individuals already enrolled in AFP Model will also benefit from the new commissions. (***Source: www.spensiones.cl; Date: 01.04.2021).***

Costa Rica

The Ministry of Finance has made it clear that the pensions of the Mandatory Pension System (ROP) and voluntary schemes will be exempted under the multiple pensions bill of law. The Legislative Assembly's Tax Affairs Commission is discussing a bill of law[3] which modifies the calculation of income tax to be paid by those who receive more than one pension (multiincome); the bill proposes that, if a person has more than one pension, they will be added up and considered a single amount for the application of that tax [according to the current "rules of the game", multiple pensions are not added up for the purpose of calculating whether a person should pay the tax, but each one is taken individually, applying the exempt minimum of about 840 thousand CRCs (approx. USD 1,349)]. According to Supen, CRC 5,780 million was collected in 2019 (approx. USD 9.3 million), although with the proposed reform CRC 16.423 million would have been collected (approx. USD 26 million). (a) Costa Rican Association of Pension Operators (ACOP), expressed its opposition to this rule of law, because eliminating the exemption from voluntary funds would have a negative impact on them, since 90% of the members of the voluntary funds contribute less than CRC 50 thousand (approx. USD 80) per month to their accounts. In reply to the criticism, the Ministry of Finance clarified that the corresponding amendments would be made to respect the exemption provided for by the Workers' Protection Act, so that the bill of law will not affect the pensions of the Mandatory Complimentary Pension System (ROP) or voluntary pension schemes. (***Source: https://semanariouniversidad.com; https://delfino.cr; Date: February 2021).***

Unemployment and economic crisis would cause a drop in CCSS revenue of CRC 18 billion (approx. USD 29 million). The Comptroller General of the Republic (CGR) estimated in a recent report that social security contributions could drop to CRC 18,265 million (approx. USD 29.3 million), compared to 2020, in the face of unemployment and the economic crisis the country is facing. The document issued by the Comptroller issues a series of warnings to the institution's authorities regarding this year's budget. The Comptroller states that by 2021, current income will be insufficient to cover current expenditures, affecting the funds associated with the Illness and Maternity Insurance (SEM), the Disability, Old Age and Death Regime (IVM), and the Non-Contributory Pension Scheme (RNCP). (***Source: www.monumental.co.cr; Date: 25.02.2021).***

Ecuador

The PAYGO system lost 8.6% of contributing members in one year. According to the Ecuadorian Social Security Institute (IESS), there were 255,999 fewer contributors between February 2020 and February 2021, an 8.6% drop. If this continues, Social Security foresees disinvestments in the pension and health fund's equity. Social Security revenue will drop by USD 689 million in 2021 due to the desertion of members, according the institution's budget. The last actuarial study of the IESS, to the end of 2018, established that the pension of one retiree was financed by the contributions of seven members. This ratio changed due to the impact of the coronavirus pandemic that led to the contraction of the labor market, and the increased life expectancy of Ecuadorians. Only five members currently finance a retiree's pension, according to the IESS' actuarial study. (***Source: www.primicias.ec; Date: 23.02.2021).***

El Salvador

The Central Bank approves a rule governing the non-reimbursement of the AFP advance. The Standards Committee of the Central Reserve Bank (BCR) approved the amendments to the Technical Standards for the Granting of Old Age Benefits in the Pension Savings System (SAP). The change will allow members of Pension Fund Managers (AFPs) to opt out without having to repay the withdrawals they made. As of 2017, contributors have been able to withdraw up to 25% of their savings, and more than 53,000 have requested the advance since that year. However, the reimbursement of the balance was mandatory until 2020, in cash or in time worked after the retirement age. Based on the Committee's decision, the AFPs have been authorized to provide agile procedures for individuals interested in retiring without reimbursing the advance on their balance. To apply for this benefit, contributors must meet the requirements set out in Legislative Decree 766: be unemployed, or suffering from disability or any disease that prevents them from carrying on working. René Novellino, Chairman of the Salvadoran Association of Pension Fund Managers (Asafondos) explained that 22,777 applications for withdrawals were registered in

2020 alone, amounting to US$154.9 million in disbursements. According to data provided by the Superintendency of the Financial System and Asafondos, as of December 2020 the two companies in the sector have received 53,389 applications, resulting in the disbursement are USD 337.9 million in advances. In addition to adjusting the requirements related to the repayment of the advance, the BCR approved amendments that will allow members to freely designate their beneficiaries, without them requiring any degree of kinship or financial dependence on them. (***Source: https://diario.elmundo.sv; Date: 03.02.2021).***

Mexico

Amafore calls for transparency and a review all of the methodology employed in the agreement of the Governing Board of the Consar regarding the setting of a maximum managements commission to be charged by the Afores as of 2022. The Mexican Association of Pension Fund Managers (Amafore) submitted its opinion regarding the agreement of the Governing Board of the National Commission of the Retirement Savings System (Consar), in which it dictates commission policies and criteria, to the National Commission for Regulatory Improvement (Conamer). The association suggests reviewing the assumptions, as well as the variables and formulas presented in the agreement, in order to maintain consistency in the calculation. Thus, Amafore calls for transparency regarding the sources of information, as well as all assumptions and variables, so that replicating the methodology will achieve the same result. Furthermore, the increase in the balance of workers, based on changes to the Retirement Savings System Act, foresees a drop in the commissions ceiling, even if the commissions of the other countries (Chile, Colombia and the United States) remain unchanged. Hence, the Amafore states that, Chris went to law, the provision should mention that changes in commission levels are only subject to changes in the commissions of the countries referred to. (***Source: www.eleconomista.com.mx; Date: 12.03.2021).***

CONSAR and IMJUVE sign an agreement to promote pension education in young people. As part of their Financial and Pension Education activities, and following the signing of the inter-agency collaboration agreement between the National Retirement Savings System Commission (CONSAR) and the Mexican Youth Institute (Imjuve), a joint work plan has been put in place to strengthen the pension capabilities of young people in Mexico and actually involve them in the identification and resolution of major economic and financial issues, to ensure that these capabilities are replicated in their localities. Among the joint activities, informative and advisory briefings will be held on the operation and purpose of the Retirement Savings System (SAR), through videoconferences, webinars and other remote means; as well as pension education content and informative materials, seeking greater sensitivity and assertiveness among the different youth segments. (***Source: www.gob.mx; Date: 01.03.2021).***

AMAFORE announces the creation of the Subcommittee on Sustainable Investments. The inauguration was announced during the Digital Seminar "Responsible Investments: Strengthening the adoption of criteria that consider environmental, social and corporate governance (ASG) factors." This subcommittee will analyze best practices in this field, seeking to pioneer the responsible investment issue. According to Gabriela Luna Zambrano, the coordinator of this initiative, this Subcommittee aims to urgently address challenges on various fronts, as a result of the agreement of the Afores to help curb climate change and build fairer, more equitable and sustainable societies. She added that the Afores would define minimum standards in ASG criteria, approval of tools and the design of a work path that would allow them to adopt these investment standards. Regarding the design of the regulation of ASG criteria, Octavio Ballinas García, Financial Vice President of CONSAR, commented that its regulation aims to ensure that the Afores leverage rankings and indices and best practices that already exist in the market for their implementation, and that they should be reviewed by independent directors appointed by the SIEFORES, who will ensure that the decisions of the issuers respect ASG principles and constitute public information for workers and the public at large. (***Source:*** ***www.fundssociety.com***; ***Date: 23.02.2021).***

The country's President, Andrés Manuel López Obrador, announced that the senior citizens pension will be granted at age 65 and will double by 2024. Thus, the universal old age pension will be accessible at age 65 (instead of 68, as is currently the case) and will amount to MXN 6,000 (approx. USD 291) bimonthly in 2024. The President said that the amendments will be implemented as of July this year, with a 15% increase in old age pensions, whereas the increase will be 20% per annum, plus inflation, in January 2022, 2023 and 2024, amounting to MXN 6,000 bimonthly. He added that the funds for these changes will come from the public budget, without increasing debt or taxes, explaining that they will come from the savings achieved by the austerity measures. The Centre for Economic and Budgetary Research (CIEP) estimates that 5% of GDP will be spent in 2021 to finance the country's pension system and this figure will rise to 6.5% by 2024. In this context, specialists believe that the increase in coverage and the amount of the universal pension will put more pressure on public finances, reducing the fiscal leeway for financing other public policies, such as health and education. (***Source:*** ***www.eleconomista.com.mx***; ***www.informador.mx*** ***Date: March 2021).***

A proposal has been put forward not to discount the number of weeks of contributions from workers who made withdrawals from their Afores due to unemployment. The Deputy of the Encuentro Social Party (PES), Manuel de Jesús Baldenebro, proposed that workers who have withdrawn funds from their Afore account due to unemployment resulting from the Covid-19 pandemic, should not have their weeks of contribution discounted, in order to reduce the impact on their pensions. This is because the withdrawal of funds due to unemployment is a right of formal workers in Mexico, which they can perform once every five years, being unable to withdraw more than 11.5% of the amount saved; however, this has implications, as in addition to reducing the retirement amount, it also reduces the number of weeks of contribution. Last year, the Mexican Association of Afores (Amafore) proposed that withdrawals due to unemployment should not affect the number of weeks of contributions, but the proposal was turned down. National Commission for the Retirement Savings System (Consar) data show that partial withdrawals due to unemployment closed at all-time highs in 2020, amounting to MXN 20,060 million (approx. USD 973 million), 66% more than in 2019, due to the economic crisis caused by Covid-19. ***(Source:*** ***www.eluniversal.com.mx***; ***Date: 02.03.2021).***

Peru

The Constitutional Court (TC) declared the withdrawal of pension funds from the Pension Standardization Office (ONP) unconstitutional. José Luis Huerta, on behalf of the executive, as the plaintiff, said that this withdrawal violates the Constitution and that "it is unworkable and technically impossible," since the disbursement to the contributors would require an amount of PEN 15 billion (approx. USD 4 billion), which has not been considered in the public budget, and that all funds collected by the National Pension System (SNP) are currently earmarked for pension payments. (***Source:*** ***https://www.eleconomistaamerica.pe***; ***Date: 04.02.2021).***

The pensions of AFP members will drop with the changes proposed in the bill of law that creates the Universal Integrated Pension System (SIUP). In January this year, the special commission for the comprehensive reform of the pension system, chaired by Congresswoman Carmen Omonte, approved its final report, proposing the creation of the Universal Integrated Pension System (SIUP), which integrates and incorporates the National Pension System (SNP), the Private Pension System (SPP), the National Solidarity Assistance Program "Pension 65" and the Contigo Program. The initiative would therefore be a combination of the individually funded and PAYGO systems. Members of the existing AFPs and the Office for Planned Standardization (ONP) will be transferred to a new system governed by a new public agency denominated the Integrated Pension System Authority.

In this integrated system, one part of members' contributions will go to an individual account and the other part to a collective fund. According to the Peruvian Association of AFP's, the pensions of SPP members could decrease as a result of this bill of law, because one part of the contributions of these members, approximately 70%, will go to an individually funded account, and the other part to a collective fund. However, there is a problem with the collective fund, since it grants pensions depending on the number of contributions, thus excluding lower-income members. What they contribute will be shared among those who met the aforementioned requirements (higher income individuals). I.e., there will be a perverse mechanism for redistributing lower-income to higher-income members. Another problem is that the individual fund will not be monetized as it is now because there is a great risk that managers selected by the state authority of the pension system would obey other criteria (e.g. political) and not just those of return, and therefore would not achieve the same return, so pensions paid by the individual fund will not be what they are currently in the SPP. (***Source: https://andina.pe; Date: 08.02.2021).***

The Association of AFPs warns that the accounts of 4 million members will be at 0 with the two new pension fund withdrawal bills of law. The Association of AFPs warned of the two new pension fund withdrawal bills of law approved in the Congressional Economics and Labor Committees on March 17. If these bills are finally approved, almost 50% of the pension funds will be withdrawn and 4 million members will be left with their accounts at 0. The first one has authorized a general withdrawal of 4 ITU (approx. USD 4,663) or up to 95.5% of the fund if the owner is 40 or older and has not contributed in 5 years, and the second one, an "early retirement" bill of law, which in practice lowers the retirement age to 50, without restrictions[4] The Early Retirement Regime (REJA) was amended, eliminating the condition of at least 12 months of unemployment (associated with non-payment of contributions) and the condition of having a fourth category income less than or equal to 7 ITU per year (USD 8,160) to access the withdrawal of 95.5% of the pension fund. The 4 UITS bill of law assumes that an additional PEN 45.000 million (approx. SD 11.921 million) will be withdrawn from the pension and early retirement systems, another PEN 25 billion (approx. USD 6.623 million initially). These withdrawals will be added to the PEN 33,000 million (approx. USD 8,742 million) that have already been withdrawn in the last year. These two new rules of law will jointly account for withdrawals of about 50% of the remaining funds in the system (as an immediate effect). Moreover, 2 million members would be added to the 2.1 million who have been left with 0 balance in their accounts, thus adding another 4.1 million workers without any balance. According to the Association of AFPs, the motives driving these initiatives are purely demagogic, for two reasons. First: Although the pandemic is used as an excuse, these withdrawals will benefit citizens who have kept their jobs and incomes, and those who, have mostly been able to withdraw slightly more than 30 minimum wages in less than a year, and have no formal employment today. Second: Because "help" is what a third party provides. This "help" is actually a loan that your future-self extends to each member, without anyone thinking about who will be responsible for repaying it when that future comes, and how. Thus, the Private Pension System is being shut down through the false pretext of withdrawals, leaving ever more Peruvians unprotected for the future and the national economy devoid of its main source of domestic savings. It is worth mentioning that the Congressional Economics Commission has already assessed 9 new rules of law that will enable withdrawing funds from the AFPs, of between 2 UIT (approx. USD 5,831 million) and 10 UIT (approx. USD 18,247 million). (***Source: Asociación de AFP, https://ojo.pe; Date: 17.03.2021).***

According to the IMF, pension withdrawals benefited non-vulnerable households. An International Monetary Fund (IMF) report warned that withdrawals from the pension funds of the AFPs in Peru did not benefit the most vulnerable households, but mainly more affluent households. Although it's stated that withdrawals could help support consumption, this effect was not as strong as expected. Although it's stated that withdrawals could help support consumption, this effect was not as strong as expected. The withdrawals benefited only the employees of the formal sector, who have higher incomes, whereas informal workers (more than 70% of the population) had no pension savings they could resort to. ***(Source:*** ***https://rpp.pe; Date: 26.03.2021).***

A plenary meeting of Congress approved the withdrawal of PEN 17,600 (approx. USD 4,663) of AFP funds. This was approved on March 30. Furthermore, a complementary provision was added during the debate that gives the option of withdrawing up to 100% of the funds (compensation for Years of Service, CTS) to members over 40 with no recorded contributions in the last 5 years. With the approval of these new mechanisms, the withdrawals could result in the reduction of up to 50% of the funds in the system, ending any possibility of having a viable pension system. The Executive now has 15 days to enact the law or send its observations to Congress. Violeta Bermúdez, who chairs the Council of Ministers, said that they will object to the bill of law, since, as she pointed out, it would defeat the purpose of the pension funds (the AFP fund is an old age pension fund and the purpose of the CTS is to save money for workers when they are unemployed. (***Source: Peruvian Association of AFPs; https://elcomercio.pe; Date: April 2021).***

Dominican Republic

Resolution will facilitate access to the funds of deceased members. The Dominican Association of Pension Fund Managers (ADAFP) welcomed Resolution 516-05 of the National Social Security Council (CNSS) on March 11, 2021, which proposes simplifying the process that the relatives of deceased members must undertake to access the benefits corresponding to them. The proposal seeks to make the process for accessing survival pensions and reimbursement of balances, as inheritance to the relatives of the deceased member, more efficient, eliminating the payment of the inheritance tax. These regulations were issued after ADAFP requested the CNSS to review the resolution governing disability and survival coverage, in order to update the requirements. ADAFP’s Executive President, Kirsis Jáquez, said that the AFPs are aware of the situation of relatives of many deceased members and will continue to work for them to be able to receive the protection and benefits afforded to them by the Social Security Act as soon as possible. (***Source: https://adafp.org.do; Date: 12.03.2021).***

Uruguay

The Commission of Social Security Experts (CESS) Submitted its diagnostic report on the pension system to the Office of the President and the General Assembly. The Chairman of the CESS, Rodolfo Saldain, submitted the report to the Assistant Secretary of the presidency, Rodrigo Ferrés, and the Office of the Vice President of the Republic, Beatriz Argimón. The Commission has 90 days, as of today, to submit its recommendations for reforming the pension system to the executive and legislative branches. The report, approved on March 19 by 10 votes out of 15, is a comprehensive analysis of Uruguay's pension system, i.e. of all the pension regimes (the general regime, comprising the BPS and the individual savings pillar; the Banking, Notarial and Professional associations, and the police and military retirement services), including their financial projections for the coming years. It also reports on the achievements in matters regarding coverage and sufficiency of the Uruguayan Social Security system, also setting out the challenges it faces with regard to its sustainability and impact on intergenerational solidarity and justice. The document emphasizes the effects that demographic developments will have on the system, due to the acceleration of the aging process of the Uruguayan population, and expected changes in the labor market, following the increasing incorporation of technology in different areas. In this regard, it states that “even though Uruguay has good levels of old age social protection in comparison to other countries of the region, there are some deficiencies, especially with regard to some risks derived from changes occurring in the population, technology and the working environment. The report adds that "through the sum of different programs, reasonable protection has now been provided for the most vulnerable sectors, although the country still lacks a universal and comprehensive social protection program that can flexibly adapt to the increasingly changing conditions of society and the working environment." It also states that "several under-integrated and some poorly regulated and supervised social security programs coexist in the country" and that these "institutional weaknesses contribute to inequities, rigidities and failures or slowness in detecting program issues and vulnerabilities." Uruguay has more than sufficient political capabilities to undertake a reform that resolutely strengthens the country's social security framework, in order to strengthen its social protection system," says the CESS report. The document also highlights the fact that the incidence of poverty is ten times higher among children than among the elderly and argues that the new realities "challenge the inter-generational agreement implicit in the pension programs." Along these lines, it suggests that Uruguay is facing the challenge of effectively using resources that are "inevitably limited, to articulate balanced proposals, that will enable the country to continue to progress in a sustainable and inclusive development process. (***Source:*** ***https://cess.gub.uy/***; ***www.diarioelpueblo.com.uy***; ***Date: 25.03.2021).***

Asia and the Pacific

The Philippines

The country introduces a complementary individually funded pension fund with automatic enrollment. As of January 1, 2021, the country's Social Security System (SSS) introduced a new mandatory pension fund known as the Workers' Investment and Savings Program, WISP[2] to complement the PAYGO public pension program. All workers enrolled in the SSS Social Security program earning salaries of $20,250 (USD 417) or more, are automatically enrolled in the WISP 6 SSS coverage is mandatory for private sector, domestic and autonomous workers, and voluntary for Philippine citizens working abroad, individuals who formerly had mandatory coverage and the spices of insured members who do not work. WISP Was introduced as part of a greater government effort to improve the adequacy and sustainability of public pensions, starting with the promulgation of the Social Security Law of 2018. Key details of the new WISP program include:

- **Contributions**: In the SSS, workers contribute 4.5% of gross monthly salary and employers contribute 8.5%, based on 45 income classes (worker and employer contribution rates are gradually increasing and will reach 5% and 10%, respectively, by 2025). A portion of the contributions of workers in the top 10 income classes (those with incomes of $20,250 pesos or more), will be transferred to the new WISP program. By 2021, the employer's contribution to the WISP will range from $42.50 (USD 0.88) to $425 (USD 8.75) per month and workers' contributions will range from $22.50 (USD 0.46) to $225 (USD 4.63) per month, depending on the worker's salary.
- **Investments**: The SSS plans to invest at least 75% of the fund members' assets in low-risk government securities, and the remaining portion in frontline corporations. Returns on investments are tax-free and capital is protected by the government. The government has projected an annual average return rate of 4.5% for the WISP program savings.
- **Benefits**: On retirement, the total assets accumulated by a fund member are converted into a life annuity paid for at least 15 years. If a fund member dies during his term of employment, the total balance of his/her account will be paid in a lump sum to the appointed beneficiaries. Early withdrawals from WISP accounts are not allowed. ***(Source: International Update SSA; Date: March 2021).***

Japan

The law encourages companies to retain workers up to age 70. The measure in effect as of April 1, is part of an effort to address the drop in the birth rate and population ageing in the country, and the resulting labor shortage and the increase in the cost of pensions. Companies are currently obligated to retain their employees who want to work until they turn 65. The new Company Law gives companies five options for retaining older workers: (i) Increase the retirement age from the current 65 to 70; (ii) Eliminate the retirement age; (iii) Allow employees to work beyond the age limit; (iv) Subcontract retirees as self-employed workers; and (v) Support workers who switch to working for nonprofit organizations and other entities that provide a public benefit. The law states that companies and workers must agree on the chosen option. Companies with a majority of unionized workers must have the union's consent to exercise the last two options. The Ministry of Labor's guidelines urge companies to ensure that the review does not result in unstable employment for workers. ***(Source: https://www3.nhk.or.jp; Date: 31.03.2021).***

Singapore

The government introduces a savings plan with a counterpart state contribution. In January 2021, the Board of the Central Provident Fund (CPF[2]) of Singapore introduced the Matched Retirement Savings Scheme, a program that provides a state dollar-per-dollar contribution of up to $600 (USD 451) per year in additional contributions to qualified CPF members, from 2021 to 2025. To be eligible, a CPF member must be between 55 and 70 years old, have a retirement account (RA) balance less than Basic Retirement (currently $93,000 [USD 69,837]), have an average monthly income not exceeding $4,000 (USD 3,004), and meet certain asset limits. Anyone can apply to these additional contributions for eligible members of the CPF, including members, their families and employers (additional contributions without state as a counterpart or a large for all members of the CPF with account balances up to a certain limit, which varies according to age; government offers tax incentives of up to $7.000 [USD5.257] of additional contributions per year). According to the government, about 440,000 CPF members, representing 53% of all members between the age of 55 and 70, are eligible for the program. (***Source: International Update SSA; Date: February 2021).***

Europe

Spain

Experts point out that the future of public pensions depends on encouraging collective and individual private plans. The reform of the public pension system cannot be postponed, because the model, as it is now structured, is approaching an abyss: by 2019, its structural deficit was already equivalent to 1.5% of GDP, and forecasts suggest that this deficit will rise to 6% of GDP. Changes must be made to the public PAYGO system, and at the same time, the saving capacity of Spaniards must be boosted, incentivizing private collective and individual plans, to complement the pensions provided by the public PAYGO system. An example to follow, according to the experts, would be Sweden, as three decades ago it ensured the sustainability of the first public PAYGO pillar by developing the second and third pillars (companies and individuals, respectively), with a notional accounts and automatic enrollment model. It is worth mentioning that the Spanish Government has decided to improve the tax benefits allowed by company pension schemes and that a privately managed public pension fund is also being developed. Angel Martínez Aldama, the Chairman of Inverco, considers the measure to be positive, but regrets that the tax benefits that business plans have earned, have been lost by the individual pension plans. (***Source: www.elespanol.com; Date: 25.03.2021***).

Social security is approaching figures close to bankruptcy. The coronavirus crisis has complicated the delicate Social Security situation, to the extent that in 2020 it recorded figures close to bankruptcy: its deficit was almost EUR 30 billion, and could have been worse if the State had not injected an additional EUR 20 billion. This deficit is undoubtedly the result of the tension caused by the coronavirus crisis in all Government areas. But the social security situation itself, where revenue has long since been insufficient for covering expenditure, is also very relevant. And even more so if the Government intends to peg pensions to the CPI indefinitely, as it did in 2020 and 2021, even despite large deficits. (***Source: https://www.elmundo.es; Date: 29.03.2021).***

Poland

Government passes a bill of law that would remove individual accounts from the second pillar[8] On March 2, 2021, the Polish cabinet passed a bill that would eliminate the second pillar of privately managed individual accounts and transfer the balances of the accounts of participating workers, currently held by open pension funds (*Otwartych Funduszy Emerytalnych*, or OFEs), to the first notional accounts pillar (NDC) or the third pillar of voluntary individual savings accounts (*Indywidualne Konta Emerytalne*, or IKEs). The lower chamber of parliament (the Sejm) passed an almost identical law in February, 2020, which was rejected by the upper chamber of parliament (the Senate) and not reintroduced by the Sejm (according to the Polish Constitution, the Sejm can annul any rejection by the Senate with a simple majority vote. However, due to the outbreak of the COVID-19 pandemic, the Sejm decided to postpone the reform and did not annul the Senate's rejection. If approved by Parliament and signed by the prison, the new bill of law could come into effect in June, 2021. According to the Polish Financial Supervisory Authority, there were about 15.4 million participants in the second pillar program in January 2021, with assets under management of around 150 billion zloty (USD 39.9 billion). The key provisions of the bill of law include:

- **Default option**: By default, all OFE account balances will be transferred to the IKEs. Workers who would prefer to transfer the balances of their OFE accounts to the NDC program, must apply between June 1 and August 2, 2021.
- **Conversion fees and income tax**: The balances of OFE accounts transferred to the IKEs will be subject to a 15% conversion commission, divided into two instalments in 2022. Withdrawals from the IKEs on retirement are tax exempt. On the contrary, workers who transfer balances from their OFE accounts to the NDC program are not charged a conversion fee, but their pensions will be subject to personal income tax (the personal income tax rate is currently 17% of annual income up to 85,528 zloty [USD 22,775] plus 32 percent of annual income above that amount).
- **Retirement options and pension benefits**: As is the case for current IKE participants, workers who transfer balances from their OFE accounts to IKEs may withdraw their IKE balances as lump sums or regular payments. Unlike the IKE's current assets, which can be withdrawn before retirement (with penalties), assets transferred from the OFEs can only be withdrawn upon reaching the official retirement age of 65 (men) or 60 (women). Workers who transfer balances from their OFE accounts to the NDC program will receive higher NDC old-age pensions.
- **Asset inheritability**: Assets transferred to the IKEs will be private and inheritable, whereas assets transferred to the NDC program will not. ***(Source: International Update SSA; Date: March 2021).***