

International Federation of Pension Fund Administrators



Progress of the Pension Systems April – May 2021 No. 3.

This document compiles the main changes that occurred in the pension systems in the April - May 2021 period, with emphasis on the development of the individually funded programs.

Document prepared by FIAP, based on press information. We thank FIAP member associations for the information and comments provided. The content of this document may be reproduced in whole or in part, citing the source.

Executive Summary by area of interest

Investment Options

- **Peru:** The Banking, Insurance and AFPs Commission (SBS), approved a series of provisions regarding the pension fund investment regime. They include private debt strategies and co-investments within the alternative asset class, as new alternative investment options for pension funds, and enable greater investment in equity instruments in the local market, through Exchange Traded Funds (ETFs).

Crisis in public PAYGO systems

- **Argentina:**
 - According to a report by the Economic and Social Research Institute (IIES) of the Entre Ríos Business Council (CEER), the province's total expenditure on retirement and pensions in 2020 was 22% of total public funds.
 - According to Social Security Statistical Bulletin data, more than half of retirees had to resort to moratoriums in March 2021, because they did not meet the 30 years of contribution requirement.
- **Costa Rica:** National Statistics and Census Institute data show that the largest drop in births in 70 years occurred in 2020. It is estimated that there will be only 2 active workers for every pensioner by 2050.
- **Ecuador:** World Bank presents study showing that the Ecuadorian Social Security Institute (IESS) will be unable to pay retirees' pensions by 2022.
- **Panama:** Director of the Social Security Fund (CSS), Lau Cortés, warned that there will be a shortfall of USD 646.2 million by 2025.

Relevant studies

- The recently published OECD document [Pension Funds in Figures 2021](#), provides an advance of pension fund statistics in OECD countries and a selection of non-OECD countries.
- The MAPFRE Foundation published the document [Pension Systems from a Global Perspective](#). The report conducts an international comparative analysis of pension systems, following an approach based on pillars or levels of coverage, focusing on the different risks to which they are exposed.

New pension programs and social security reforms (approved)

- **International:** The Eurasian Economic Union (EAEU) implemented an agreement requiring all member states to extend mandatory pension coverage to workers who are citizens of other member states, applicable to PAYGO systems, notional or individual accounts.
- **Ireland:** Government introduces early retirement benefit. This is a benefit for 65-year-old residents of the country who have ceased regular or self-employment and meet certain contribution requirements.
- **Malaysia:** More individuals become eligible for early withdrawals. On March 8, the Malaysian Employee Provident Fund (EPF) began allowing all members under the age of 55 to withdraw part of their Account 1 balances.
- **South Africa:** New rules are implemented, requiring certain members of occupational provident funds to annuitize at least two-thirds of their account balances on retirement (i.e., they are required to purchase a life annuity with at least 2/3 of the funds); the entire balance could previously be withdrawn as a lump sum.
- **Ukraine:** On April 1, the minimum retirement age for women was raised from 59 years and 6 months to 60, and the minimum number of years of contributions required for an old-age pension before the age of 65 was increased from 27 to 28 (for retirement between 60 and 62) and from 17 to 18 (for retirement between 63 and 64).

Reforms proposed or to be discussed

- **Germany:** A government advisory panel of experts recommended that the country's retirement age be raised to 68. A report was released warning of "an abrupt spike in financial problems" for the pension system as of 2025.
- **Costa Rica:** The CCSS announced the main measures it intends to apply to the Disability Old Age and Death Pension Scheme (IVM, PAYGO). The following reforms were proposed: (i) Gradually eliminate early retirement by 2029, (ii) Changes in the additional amount to reduce the increase in the percentage of the pension, (iii) Modification in the calculation of the average reference salary.
- **Colombia:** A bill of law that seeks greater investment by private funds in the business sector was submitted for discussion. The initiative seeks a corporate investment of 3%.

Relevant reports or presentations

The document [Pension Funds in Figures, 2021](#), prepared by the **OECD**, was recently published, providing a preview of the statistics of pension funds in OECD countries and a selection of non-OECD countries. According to the report, pension fund assets increased in 2020, despite the coronavirus shock. It states that:

- **Pension fund assets exceeded USD 35 trillion at the end of 2020**, having increased despite the presence of COVID in almost all countries. These assets grew about 9% in OECD countries.
- **Profits in financial markets underlie asset growth.** Pension funds generally achieved positive returns on investment in most jurisdictions in 2020.
- **Stocks and bonds accounted for almost 75% of pension fund investments.** Although pension funds in general maintained an asset allocation similar to 2019, some jurisdictions switched to more liquid assets to prepare for possible withdrawals.
- **The outlook for pension funds in the first quarter of 2021 is relatively positive.** Major securities markets performed well when COVID-19 vaccines were rolled out in the first quarter of 2021 (for example, in the United States and the United Kingdom) and hope for a global economic recovery increased.

(Source: <https://www.oecd.org/>. Date: June 2021).

The MAPFRE Foundation published the document [Pension Systems from a Global Perspective](#). The report conducts a comparative international analysis of retirement pension systems, based on pillars or levels of coverage, and the different risks they are exposed to.

It also analyses the reforms implemented in the selected systems in the last decades and reviews the main long-term demographic trends. From the analysis of these reforms and the models studied, a set of conclusions could be drawn that help to understand the parameters generally used to underpin the sustainability of pensions, as well as the public control

mechanisms introduced to redistribute the risks derived from the functioning of these systems, finally presenting some elements of public policy to provide sustainability and stability to pension systems in the mid and long term.

It also presents the “Retirement Pension Systems Pressure Indicator” (IPSPJ), a synthetic index developed for a group of 45 countries, which helps to assess the pressure that the different systems are subject to when undertaking their reforms.

(Source: documentacion.fundacionmapfre.org Date: April 2021).

Relevant news of the period

International

The Eurasian Economic Union (EAEU) implemented an agreement that extends pension coverage. This agreement requires all member states of the EAEU¹ to extend mandatory pension coverage (for old-age, disability and survival pensions) to workers who are citizens of other EAEU member states.

The new requirement applies to the contributory pension programs in member states, including PAYGO systems, notional accounts, and fully funded programs.

(Source: [International Update, SSA](#). Date: April 2021).

Africa

South Africa

New rules implemented for domestic provident funds². These rules require certain members of occupational provident funds to annuitize at least two-thirds of their account balances on retirement (i.e., they are obligated to purchase an annuity with at least 2/3 of the funds); the entire balance could previously be withdrawn as a lump sum.

¹ Its current members are Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia.

² Government managed retirement savings funds used in Singapore, Malaysia and other developing countries.

The new rules, which were promulgated as part of Law 23 of 2020, Tax Law Amendments, and only apply to new savings, align the payment options of provident funds with those of other types of occupational pension plans. The government hopes that this new annuity purchase requirement will improve the retirement security of future retirees by decreasing the chances that they will outlive their savings. Other key details of the new annuity purchase requirement include:

- Covered fund members and savings: The requirement applies to fund members who were under the age of 55 on March 1, 2021, and who have at least R247,500 (USD 17,197) in their accounts at retirement. The requirement applies only to contributions made on or after March 1, 2021, and the returns on investment of these contributions. The previous rules, which allow full withdrawal of savings on retirement, continue to apply in all other cases.
- Annuity Purchase Options: Fund members must use at least two-thirds of their covered account balances to purchase an annuity guaranteed by an insurance company, or establish an annuity with programmed withdrawals. The remaining portions of their account balances can be withdrawn as a lump sum.
- Early withdrawals: Fund members can still withdraw some or all of their account balances before retirement, if they resign from their jobs before reaching retirement age. It is worth mentioning that such action could result in significant tax obligations, and the government advises against early termination on those grounds.

(Source: [International Update, SSA](#). Date: April 2021).

Latin America, the Caribbean and North America

Argentina

According to a report from the Institute of Economic and Social Research (IIES) of the Entre Ríos Business

Council (CEER), total retirement and pension expenditure in the province was 22% of total public funds. Thus, a growing trend in the inclusion of this item in the Province's social expenditure has been observed.

Regarding the situation in the province, the report also states that:

- The total value of the funds obtained from provincial taxes has historically covered 95% of salary payments, on average, in the last 10 years.
- In the last two years, 2019 and 2020, pension expenditure as a percentage of total public funds was above average, rising from 14% in 2010 to 18% in 2020.
- Total expenditure on assets fell by 9.4% last year. But provincial tax collection also decreased by 14.5%.

The study concludes that, for the province of Entre Ríos, "the ordering of the provincial government's pension expenditure is an urgent and central task for the productive sector. This level of tax pressure is one of the main factors in the deterioration of provincial competitiveness. Exporting companies in the province state that the main obstacle they encounter when exporting is tax pressure."

(Source: <https://paralelo32.com.ar/>. Date: 08.06.2021).

According to data from the Social Security Statistical Bulletin, more than half of retirees had to resort to moratoriums in March 2021, because they did not meet the 30 years of contribution requirement. Not counting the 1.4 million non-contributory disability, old age and other pensions (most of them for 70% of the minimum pension), of the total of 6,756,305 monthly payments for retirement and pensions, 54.1% were able to retire with a moratorium, or with the Universal Pension for the Elderly.³ (PUAM).

This x-ray is reflected in the benefits. The average balance of the system was ARS 31,618 (USD 332) in March. The vast majority of those who retired with

³ The Universal Pension for the Elderly is a pension granted by ANSES to people over 65 who do not have any retirement or pension.

moratoriums received the minimum pension, i.e. ARS 20,571 (USD 216) gross and those in PUAM, 80% of that value, i.e., ARS 16,457 (USD 173).

(Source: <https://www.clarin.com/>. Date: 07.05.2021).

Chile

Cadem survey reveals that half of the people believe that pensions will be seriously or considerably affected after the withdrawal of funds from the AFPs. The survey also shows that there has been a more favorable assessment of the withdrawal process: 56% rated the first withdrawal positively; 79% the second, and 87% the third.

A high percentage of people, 72.5%, still believe that individuals own their funds. 14.8% in turn, think that the AFPs own the funds, 7.9% that the government owns them, 2.2% answer "other," and 2.6% do not know or do not answer. This variable has had quite a few fluctuations, from 56% in June 2020 (prior to the withdrawals) who said that the funds are owned by contributors to the AFPs, to a maximum of 86% in July 2020, precisely in the month in which the first withdrawal was approved.

Regarding the nationalization of the funds, 63.5% disagree with the nationalization of the pension funds by the government, 31.7% agree, 1.3% disagree, and 3.5% do not know or do not respond.

This trend is still in line with opinions in March, when 63% also said that they disagreed with the nationalization of the funds, although it has risen compared to previous months. Thus, for example, in September of last year it was 60% and in August 2020 it was 59%.

(Source: <https://www.ciedess.cl/>. Date: 07.05.2021).

Costa Rica

National Statistics and Census Institute data show that the largest drop in births in 70 years occurred in 2020. This is 10% lower than in 2019, which was already 6% lower than in 2018.

The year-on-year decline has never been so high, outstripping demographic projections, and therefore

the pension regime sustainability projections, a matter being discussed in these months in the Costa Rican Social Security Fund (CCSS).

"All of our birth projections were off," said the Superintendent of Pensions, Rocío Aguilar, in an interview. That means that the ratio of only two active workers for each pensioner by 2050, is even worse in reality.

(Source: <https://semanariouniversidad.com/> Date: 02.06.2021).

The CCSS announced the main measures to be applied to keep the Disability, Old Age and Death Pension Scheme (IVM, PAYGO) stable. According to the Executive Chairman of the CCSS, Román Macaya, the main reason for reforming said regime is population aging, as well as the drastic reduction of the birth rate in Costa Rica, a situation that would require the use of the IVM's reserves by 2030, and exhaust them by 2037. Hence, the following reforms have been proposed:

- **Gradually phase out early pensions by 2029.**
- **Changes in the additional amount for reducing the percentage increase in the pension.** Today, after having worked for 20 years, or 240 contributions, 1% is added to the reference salary for each additional year of work, thus increasing the calculated pension. Therefore, 300 contributions, instead of 240, have been proposed for starting the calculation of the additional amount.
- **Amendment to the calculation of the average reference salary.** At present, the last 20 years of contributions to the IVM are taken into account, and that average is used to determine the reference salary to which the salary replacement rate is applied. However, the proposal calls for considering the 300 highest contributions that individuals have paid in during their working lives, equivalent to 25 years of contributions, instead of the current 20 years or 250 contributions.

(Source: <https://www.crhoy.com/> Date: 02.06.2021).

Colombia

A bill of law that seeks greater investment by private funds in the country's business sector is being discussed. The initiative must pass a fourth and final debate. It was submitted by the U Party, and seeks a 3% investment in corporations.

If approved, an additional investment of COP 5.1 trillion (USD 1,395 million) is expected in the country's corporate network, which, according to the bill of law, could create more than 100,000 new jobs. Pension fund investments in the country are currently COP 4.4 trillion (USD 1,204 million). The bill of law proposes increasing that amount to COP 9.5 trillion (USD 2,599 million).

(Source: <https://www.asuntoslegales.com.co/> Date: 29.05.2021)

Ecuador

The World Bank has published a study that shows that the Ecuadorian Social Security Institute (IESS, the PAYGO system) will not be able to pay retiree pensions by 2022.

According to the report: "the contributions are insufficient; the number of years of contribution are insufficient; the maximum pension is too high, and the replacement rate is also too high." All these conclusions suggest that the country's social security system does not work.

To March 2021, the IESS required the Ministry of Finance to pay USD 15,901 million as part of the negotiated and non-negotiated debt between the parties, although the Central Government's debt would amount to USD 16,444 million, if interests were included, according to the IESS.

(Source: <https://www.vistazo.com/> Date: 04.05.2021).

Mexico

A survey of 200 thousand workers reported that 90.6% of them oppose the nationalization of their savings. The National Regeneration Movement party (Morena) had proposed the nationalization.

When asked if they wanted their funds to be managed by the Government, instead of the bank or institution currently managing them, 85 percent of the workers said no. Among the main reasons, they commented: "The money is ours and we are the only ones who can decide on that; we prefer our funds to be managed by a bank; we do not trust Morena."

87% of workers strongly oppose the proposal that legislators of that party and their political allies have repeatedly made, to allocate their savings to financing government projects, such as the Mayan Train, the new Airport or the Dos Bocas Refinery, according to the survey conducted between last May 16 and 18.

Furthermore, 75 percent of participants agreed to the creation of the Broad Front for the Defense of Workers' Savings (FADAT), and most of them are willing to join.

(Source: <https://www.razon.com.mx/> Date: 24.05.2021).

Panama

Director of the Social Security Fund (CSS), Lau Cortés, said that a deficit of USD 646.2 million is projected by 2025. CSS officials presented the diagnosis of the Fund's situation to the Plenary Session of the National Dialogue on the Social Security Fund.

According to Lau Cortés, the deficit in this PAYGO subsystem is evident, warning that if action is not taken soon, the financial deficit could increase. He explained that there was a deficit of USD 48 million in 2018, whereas the deficit was USD 249.8 million in 2019, "and now we are halfway through 2020 and it is already more than 300 million plus, in other words, the deficit is enormous" he said.

(Source: <https://www.laestrella.com.pa/> Date: 19.05.2021).

Peru

The Banking, Insurance and AFPs Commission (SBS) approved a series of provisions regarding the investment regime of the pension funds. The provisions are related to new investment alternatives,

the strengthening of risk management and corporate governance in the investment process.

The regulations, published in the Official Gazette, include private debt strategies and joint ventures within the alternative asset class, as new investment alternatives available to the pension funds. They also allow for greater investment in variable income instruments in the local stock exchange, through Exchange Traded Funds (ETFs).

The purpose of these improvements to the investment regime is to benefit members through better management of the pension funds and, consequently, achieve higher returns and pensions.

(Source: <https://andina.pe/> Date: 04.06.2021).

The SBS warns that if the pension funds are withdrawn, members will have little or no protection on retirement. According to the head of the agency, Socorro Heysen, approximately two million Peruvians already have zero balance in their Private Pension System accounts.

“In Peru, to date, there are two million members who have zero balance in their pension savings accounts, and so far in 2020, 5.2 million members accessed their funds at least once, having withdrawn S / 33,685 million (USD 8,612 million), i.e., 21% of the pension fund, by the end of March 2021. In both cases there will be little or no protection on retirement,” he commented.

The Superintendent pointed out that in addition to the lack of protection in old age, this withdrawal will also affect the principles of sustainability and adjustment of the pension systems in the mid and long term.

(Source <https://rpp.pe/> Date: 04.06.2021).

Asia and the Pacific

Malaysia

More people are eligible for early withdrawals under the provident funds program.⁴ On March 8, the Malaysian Employee Provident Fund (EPF)⁵ began

⁵ The EPF provides two types of individual accounts for members under 55 years of age: Account 1, intended for

allowing all members under the age of 55 to withdraw part of their Account 1 balances.

This is an extension of the early withdrawal option (i-Sinar) introduced in November 2020 in response to COVID-19. Previously, i-Sinar was only available to certain fund members who had lost their jobs or experienced significant reductions in income due to the pandemic. According to the government, the change is intended to provide financial relief to more fund members who have been affected by the pandemic. As of February 18, almost 3.3 million members of the provident fund had withdrawn approximately 18.5 billion Malaysian ringgits (USD 4.46 billion) through i-Sinar. Other key i-Sinar details include:

- Withdrawal amounts: EPF members with Account 1 balances of RM 100,000 (US \$ 24,122) or less, can withdraw up to RM 10,000 (US\$ 2,412), whereas EPF members with Account 1 balances greater than RM 100,000 can withdraw up to 10 percent of their account balances, or 60,000 ringgits (\$ 14,473), whichever is less.
- Payment schedule: payments will be made over a period of 6 months. EPF members with Account 1 balances of RM 100,000 or less can withdraw up to RM 5,000 (US \$ 1,206) in the first month, whereas those with Account 1 balances greater than RM 100,000 can withdraw up to RM 10,000 in the first month. The remaining payments, of at least 1,000 ringgits (US \$ 241) per month, will be made for an additional 5 months.

(Source: [International Update, SSA](#). Date: April 2021).

Europe

Germany

A government advisory panel of experts recommended that the country's retirement age be raised to 68. The panel released a report warning of

financing pensions, and Account 2 accessible prior to retirement, and can be used to fund education, critical illness, and other approved expenses.

"abruptly increasing financial problems" for the pension insurance system beginning in 2025.

The government decided to raise the retirement age from 65 to 67 in 2007. The increase was applied gradually and will be applicable to all retirees starting in 2029. Since then, there have been periodic calls for people in Europe's largest economy to work even longer.

(Source: <https://www.primerahora.com/> Date: April 2021).

Ireland

Government introduces early retirement benefit. This is a benefit for 65-year-old residents of the country who have stopped working as regular employees or self-employed individuals, and meet certain contribution requirements. This new benefit is intended to replace the "Job Search Benefit (JB)" as the main source of support for residents who retire at age 65, either voluntarily or involuntarily. Other key details regarding the payment of benefits to people of 65 and older include:

- **Contribution Requirements:** In order to qualify for the benefit, 65-year-old residents must meet the same contribution requirements as in the JB. Previously employed residents must have at least 104 weeks of contributions, paid in since they started working, and at least 39 weeks of contributions paid or accredited (of which at least 13 must be paid) in the current year of contribution (GCY).
- **Subsidiary Employment:** Although residents must cease to be regularly employed, or self-employed, to qualify for the benefit, they can continue in subsidiary employment that began prior to claiming the benefit. (Subsidiary employment is part-time work at a job that coincided with full-time work at another job for at least 6 months.) A person cannot start a new regular job or self-employment while receiving the benefit.
- **Amount of the benefit:** The weekly benefit is € 203 (USD 238.44), which is the same amount as in the JB. If a beneficiary has eligible

dependents, the weekly amount is increased by up to € 38 (USD 44.63) for each child under the age of 12, € 45 (USD 52.86) for each child aged 12 to 18 (up to 22, if full-time students), and € 134.70 (USD 158.22) for each adult.

(Source: [International Update, SSA](#). Date: April 2021).

Italy

The contribution and early retirement relief measure are amended. As of January 1, the provisions of Italy's Budget Law 2021 amended and extended the key provisions of the new budget law that affect social security and early retirement contributions. These measures include:

- Exemption from employer contributions for certain people in certain vulnerable groups.
- Reduce employer contributions in economically depressed regions.
- Easier access to early retirement through expansion contracts.
- Greater early retirement options for women.
- Expansion of the Early Retirement Subsidy program.
- Extension of an early retirement option for the restructuring of certain companies.

These measures are intended to provide a short-term stimulus to Italy's economy during the COVID-19 pandemic, while addressing certain long-term gender, age and regional employment disparities. According to the OECD, Italy's gross domestic product fell by almost 9 percent in 2020, and its unemployment rate was almost 10 percent at the end of the year.

(Source: [International Update, SSA](#). Date: April 2021).

Ukraine

The retirement age of women, and some contribution requirements, are increased. On April 1, the minimum retirement age for women was increased from 59 years and 6 months to 60, and the minimum number of years of contribution required for an old-age pension before age 65 were increased, from 27 to 28 (for retirement at ages 60 to 62) and 17 to 18 (for retirement at the age of 63 to 64). It should be noted that at least 15 years of contributions are required to claim an old-age pension at age 65; this minimum does not change according to current law.

The retirement age increase is the latest in a series of 6-month-per-year increases, started in 2012, to gradually eliminate gender-specific retirement ages in the country's social security pension program (PAYGO system). Before these increases, the minimum retirement ages for men and women were 60 and 55, respectively.

(Source: [International Update, SSA](#). Date: April 2021).