



PENSION NOTES

No. 55 - July 2021

PERFORMANCE OF THE LATIN AMERICAN PENSION FUNDS IN 2020

Executive Summary

This document analyzes relevant statistics regarding contributors, coverage, pension funds and investment portfolios in pension systems, within the context of the 2020 global health crisis.

- **Contributors:** The first reduction in the number of contributors in at least 10 years was observed between 2019 and 2020, amounting to 3.6%. The only countries that recorded increases were Costa Rica and Panama, with 3.5% and 7%, respectively. Contributors per 100 members also dropped from 41.3 to 38.3 between 2019 and 2020.
- **Coverage:** Coverage measured as the ratio of enrolled members to the Economically Active Population (EAP) increased by 5.5 percentage points between 2019 and 2020, rising from 81.5% to 87%. In turn, it was found that coverage measured as the ratio of contributors to the EAP, dropped by 0.3 percentage points between 2019 and 2020, interrupting the continuous gradual increase since 2010. It was also observed that only three countries increased their coverage of contributors between 2019 and 2020: Costa Rica (2.6 pp), Panama (0.8 pp) and Mexico (0.3 pp). Among the remaining countries, the four that recorded the highest drops in this coverage were: El Salvador (1.3 pp), Peru (1.3 pp), the Dominican Republic (0.8 pp) and Chile (0.5 pp).
- **Pension funds:** The funds increased by USD 21,675 million in the 2019-2020 period, from 26% of GDP to 27%, less than the growth observed in the previous period. This stagnation in the growth of the funds is mainly due to lower returns and the drop in the number of contributors due to the health crisis, as well as the pension fund withdrawals that occurred in Chile and Peru. Due to these withdrawals, they are the only two countries in the study that saw their funds diminish between 2019 and 2020.
- **Investment portfolio:** On studying the weighted average participation of pension funds by economic sector for the years 2020 and 2019, it was observed that there have been increases in the government and foreign sectors, with reductions in the corporate and financial sectors. The government and foreign sectors continue to be the most preferred sectors in the countries under study in 2020, with 37% and 33% of the total portfolio, respectively.

Introduction

The economic and social effects of the 2020 health crisis have no similar historical precedent, so the study of statistics related to pension systems this year will be crucial.

An important advantage of the individually funded systems is that the negative effect of economic crises is mainly translated into lower returns, which can be offset in subsequent years of recovery.

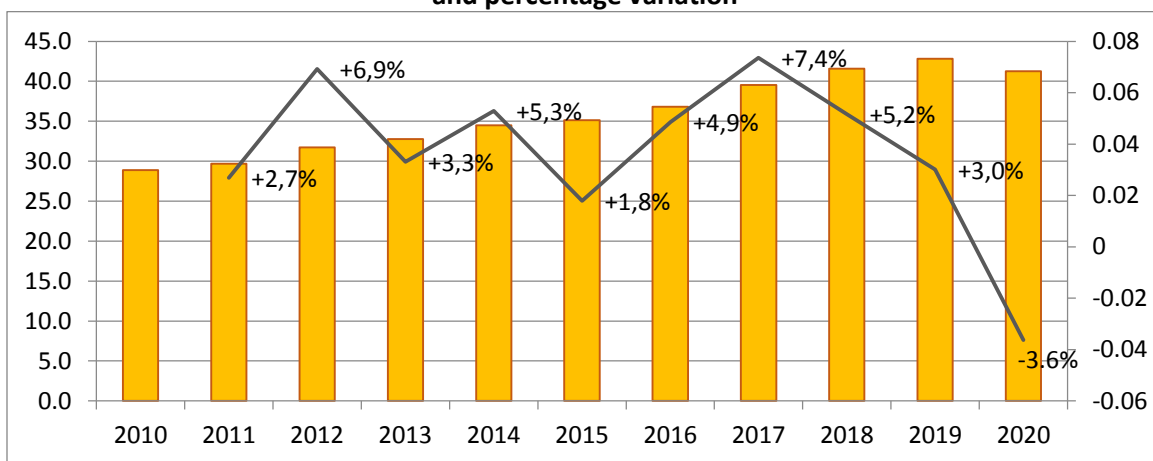
On the other hand, the need for incoming funds is immediate in most PAYGO systems, since social security contributions and the expenditure of these funds are simultaneous, implying that crises will have immediate harmful impacts on the pension system and, therefore, on pensioners.

This pension note briefly studies and comments on the statistics related to the individually funded systems of the Latin American countries that are FIAP members. In particular, contributors, coverage, pension funds and investment portfolios will be analyzed. Further details on these statistics can be found in our [annual statistical report](#) and in our [statistics section](#).

I. CONTRIBUTORS

In the last year, the number of contributors dropped by 3.6%, from 42.8 million in December 2019 to 41.3 million in December 2020 (see Graph 1). As can be seen, this drop is the first to occur in the trend analysis of the previous 10 years. There was always positive annual growth in the number of contributors between 2010 and 2019. This clearly shows the negative effect of the pandemic on the loss of formal jobs, highlighting the pro-cyclical characteristic that contributors have with respect to the prevailing economic and unemployment conditions (see Table 1, which shows that the unemployment rate increased between 2019 and 2020, in all the countries analyzed). However, it is important to note that this drop in contributors is significantly less than the loss of informal jobs.

Graph 1
Number of contributors to mandatory individually funded systems in Latin America (*) (millions) and percentage variation



Source: FIAP.

(*) In order to make the figures comparable over the years, and due to lack of information, the total number of contributors does not consider the case of Bolivia.

Table 1
Unemployment rates in the FIAP countries analyzed

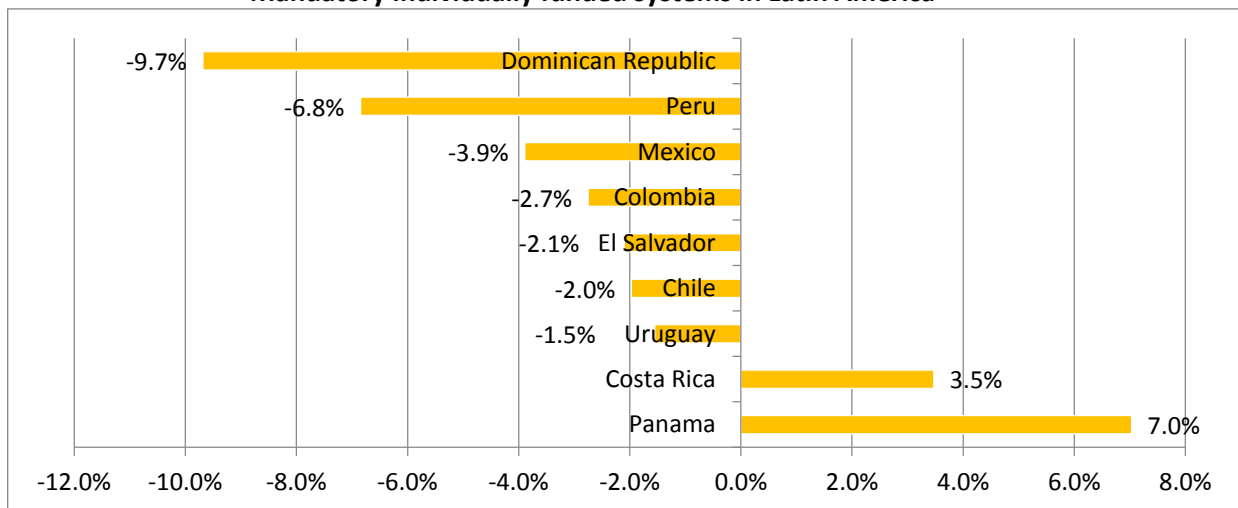
Country	Unemployment rate *		Variation (percentage points)
	Dec. 2020	Dec. 2019	
Bolivia	8.39%	4.83%	3.56
Chile	10.81%	7.00%	3.81
Colombia	13.37%	9.50%	3.87
Costa Rica (1)	17.08%	11.49%	5.59
El Salvador (1)	6.98%	3.96%	3.02
Mexico	3.80%	3.37%	0.43
Panama (1)	10.23%	4.74%	5.49
Peru	12.80%	6.60%	6.20
Dominican Republic	18.50%	14.30%	4.20
Uruguay	10.90%	9.20%	1.70
Simple average	11.29%	7.50%	3.79

(*) Drawn up by FIAP on the basis of information provided by each member country, the web pages of Central Banks, International Agencies and the Official Statistical Institutes of each country.

(1) The information presented here for Costa Rica, El Salvador and Panama is based on World Bank estimates (<https://datos.bancomundial.org>).

As can be seen in Graph 2, the number of contributors in the countries analyzed increased only in Panama and Costa Rica, by 7% and 3.5%, respectively. Among the remaining countries, the three with the highest reductions in the number of contributors were the Dominican Republic (9.7%), Peru (7%) and Mexico (3.9%). This is proof that the pandemic had significant negative effects on most of the countries under study; this will affect savings and eventually pension amounts.

Graph 2
2020/2019 % variations in the number of contributors per country
Mandatory individually funded systems in Latin America

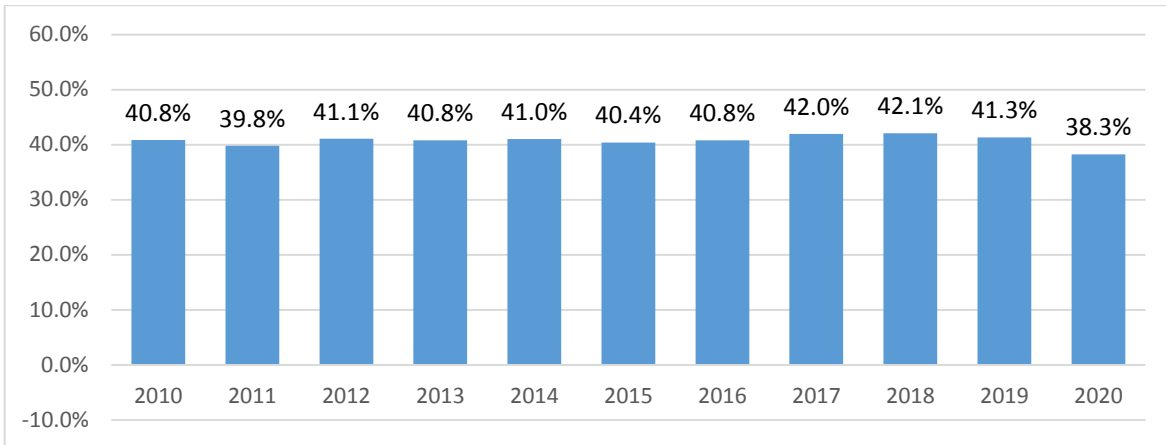


Source: FIAP.

Percentage of contributing members

Graph 3 shows that in 2019, 41% of members enrolled in individually funded systems were active contributors, dropping by 3 percentage points, to 38%, at the end of 2020.

Graph 3
The ratio of contributors to enrolled members in the mandatory individually funded systems in Latin America

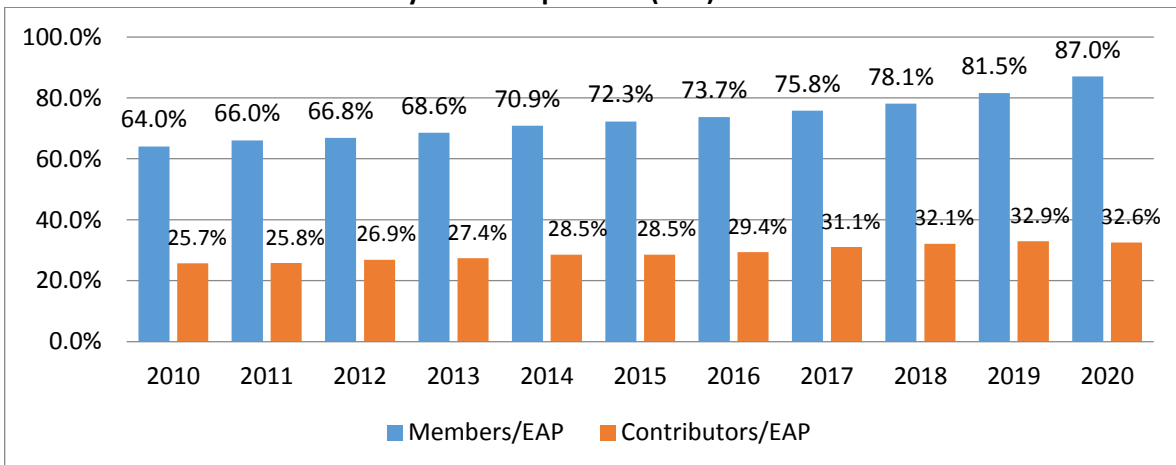


Source: FIAP.

II. COVERAGE

A simple way to see the coverage of individually funded systems is to calculate the ratio of members, or contributors, to the Economically Active Population (EAP). The calculations of this indicator are shown in Graph 4. It can be seen that the coverage measured as the ratio of members to the EAP, increased by 5.5 percentage points between 2019 and 2020, rising from 81.5% to 87%. In turn, it was found that coverage measured as the ratio of contributors to the EAP dropped by 0.3 percentage points between 2019 and 2020, interrupting the continuous gradual increase since 2010.

Graph 4
The ratio of members and contributors to the individually funded systems to the Economically Active Population (EAP) in Latin America

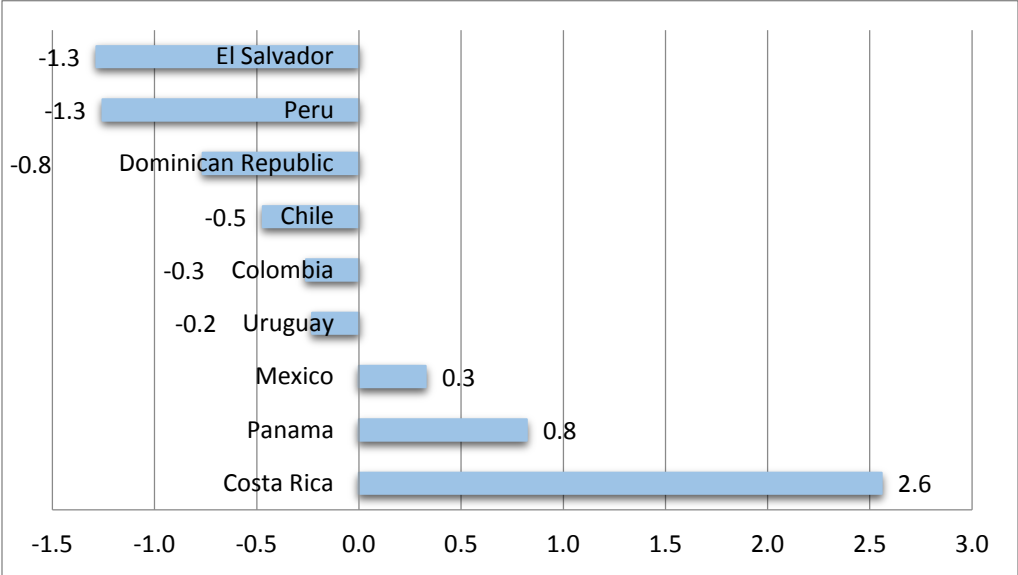


Source: FIAP.

Graph 5 shows the coverage of contributors per country. It was found that only three had increases in the indicator: Costa Rica (2.6 pp), Panama (0.8 pp) and Mexico (0.3 pp). In Costa Rica and Panama this was due to the increase in the number of contributors and the decrease in the EAP in the period, whereas in the case of Mexico, although there was a drop in the number of contributors, it was more than offset by the reduction in the EAP. Among the remaining countries, the four that recorded the highest drops in this coverage were: El Salvador (1.3 pp), Peru (1.3 pp), the Dominican Republic (0.8 pp) and Chile (0.5 pp). In El Salvador this is explained by the drop in the number of contributors and the increase in the EAP, while in the rest of the countries it is due to the fact that the drop in contributors more than compensates for the effect of the reduction in the EAP.

In conclusion, as a result of the pandemic, the EAP has tended to decrease in most countries, because many workers were forced to become part of the unemployed population, or unpaid family employment. As a result, the contributor coverage indicator has tended to decrease among countries (when considering the total contributor figures, the stable coverage of 33% in 2019 and 2020 is explained by the fact that this indicator increased in Mexico, and Mexican contributors account for 53% of the total number of contributors in Latin America).

Graph 5
2020/2019 annual variation in the coverage of contributors per country (percentage points)

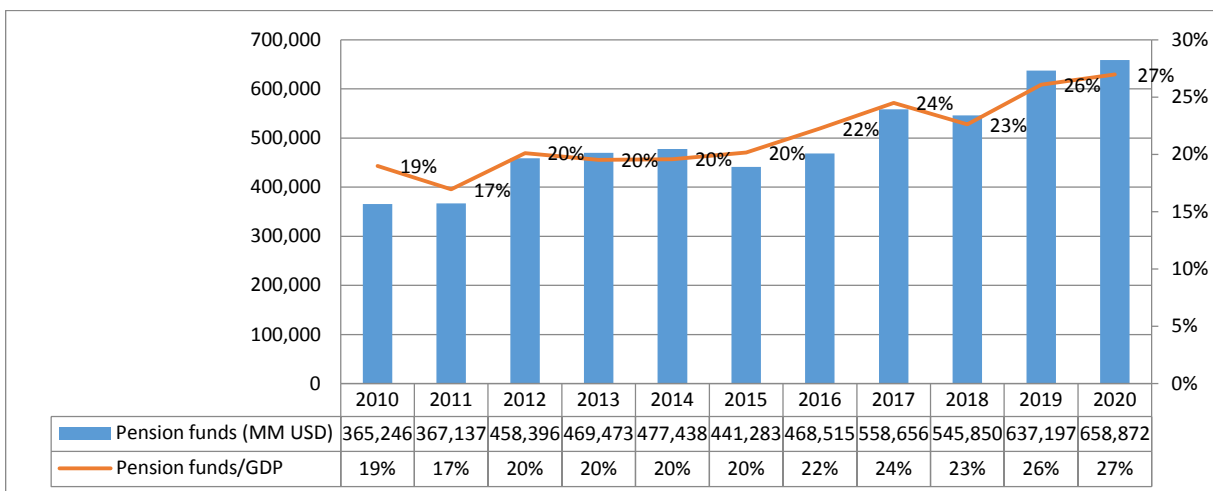


Source: FIAP.

III. PENSION FUNDS

Graph 6 shows that pension funds have been increasing progressively over time, from USD 365,246 million in 2010 to USD 658,872 million in 2020, i.e., an increase of 80% as of the beginning of the period under study. In the 2019-2020 period, the funds increased by USD 21,675 million, rising from 26% of GDP to 27% of GDP, less than the growth observed in the previous period. This stagnation in the growth of the funds is mainly due to lower returns and the drop in the number of contributors due to the health crisis, as well as the pension fund withdrawals that occurred in Chile and Peru.

Graph 6
Total managed funds in MM USD and as a percentage of GDP (*)



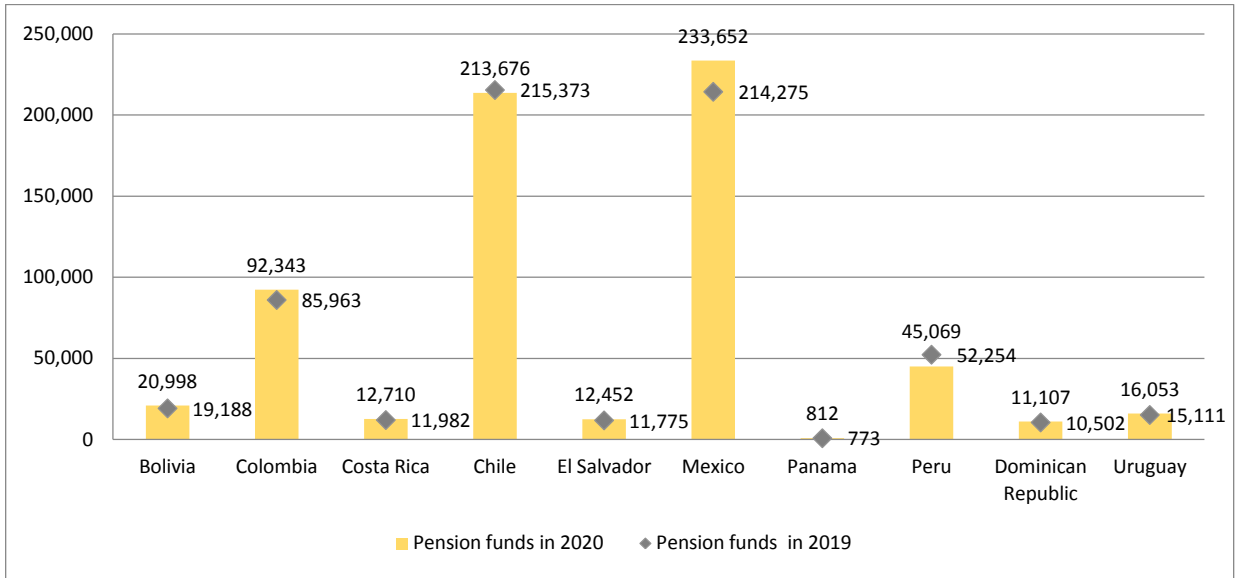
Source: FIAP.

The countries covered by the survey are: Bolivia, Colombia, Costa Rica, Chile, El Salvador, Mexico, Panama, Peru, the Dominican Republic and Uruguay.

To illustrate the changes in specific countries, Graph 7 shows the pension funds per country for the years 2019 and 2020. Despite the drop in the number of contributors, the total amount of contributions for the countries under study reflects a growth in pension funds over time. The only exceptions to this trend occur in Chile and Peru, countries that authorized early withdrawals of large amounts in 2020, due to the pandemic. In Chile, USD 32,626 million had been paid out in both withdrawals by the end of December 2020. In Peru, the emergency decrees promulgated to “address the pandemic” entailed withdrawals of USD 1,397 million, whereas USD 5,346 million had been withdrawn in accordance with Law 31,017 governing the withdrawal of 25% of the funds.

In Chile, the funds dropped from USD 215,373 million in 2019 to USD 213,676 million in 2020, whereas in Peru they decreased from USD 52,254 million to USD 45,069 million in the same period. These changes leave Mexico as the country with the highest level of funds among the countries under study, relegating Chile to second place, although one must bear in mind that Mexico has a substantially larger population. The growth of the funds between 2019 and 2020 ranged from USD 605 million in the Dominican Republic to USD 19,377 million in Mexico.

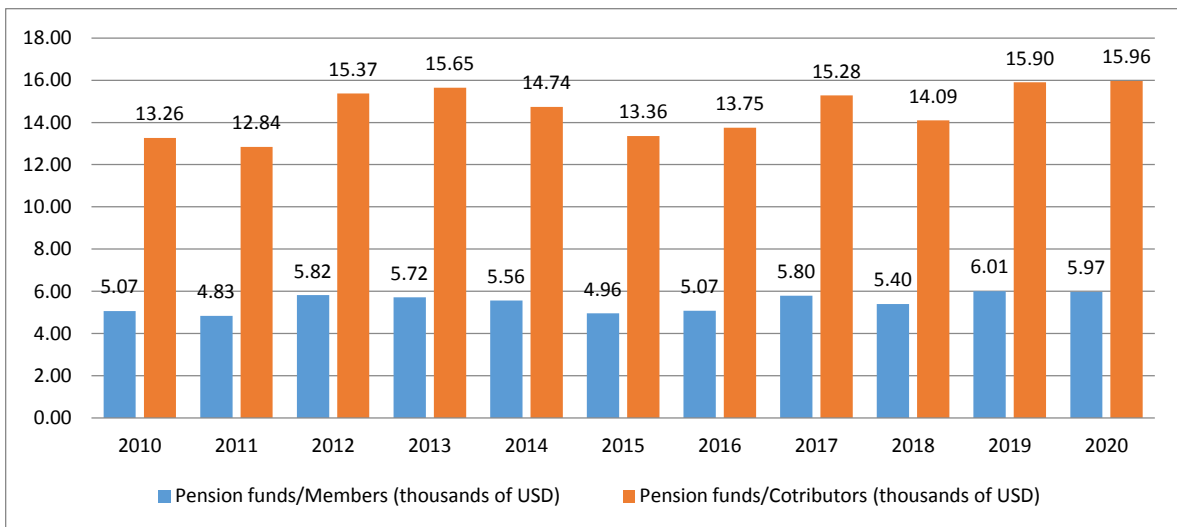
Graph 7
Total managed funds per country, in MM USD in 2019 and 2020 (*)



Source: FIAP.

Graph 8 shows the total funds by members and contributors. It can be seen that the funds per member were USD 5,000 in 2010, whereas they were almost USD 6,000 in 2020. Funds per contributor rose from USD 13,260 in 2010 to almost USD 16,000 in 2020.

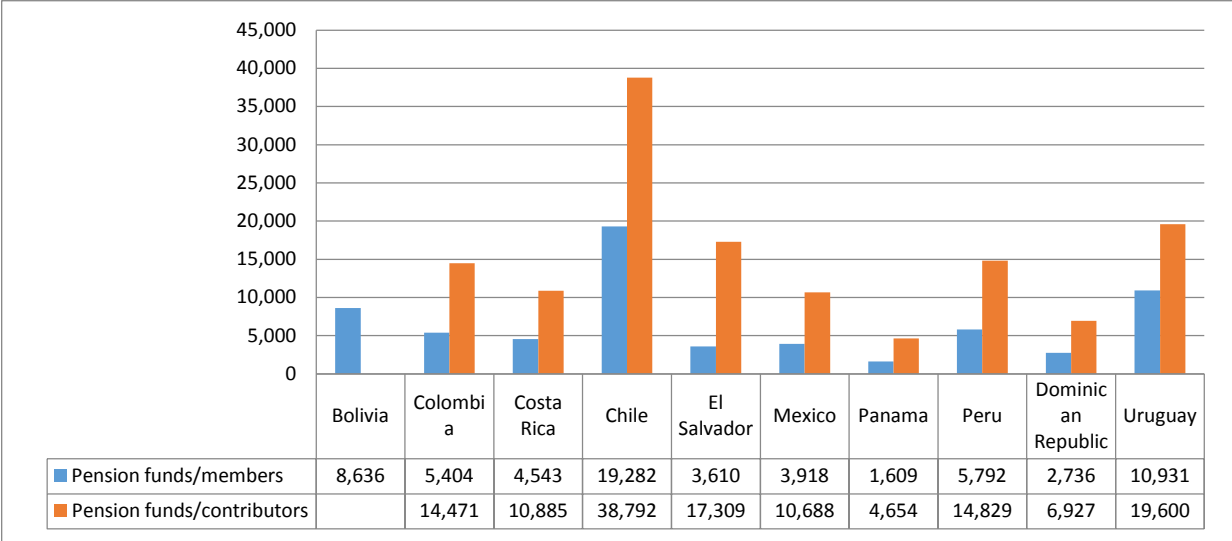
Graph 8.
Total managed funds per member and contributor in thousands of USD - Respective years.



Source: FIAP.

The funds per member and contributor for each country can be seen in Graph 9. Panama shows the lowest amount of pension savings per contributor, with an amount of USD 4,654 million, whereas Chile ranks first with USD 38,792 million. These figures are influenced by the age of the system, the contribution rate, the number of contributors, returns, demographics and fund withdrawals, among others.

Graph 9
Funds managed by members and contributors per country in millions of USD - Respective years.



Source: FIAP.

IV. INVESTMENT PORTFOLIO

Regarding the percentage of investments in government instruments, Graph 10 shows that this varies considerably between countries, since it ranges from 16.94% in Peru, to 79.73% in El Salvador, in 2020. In this regard, 4 countries saw increases in these types of investments between 2019 and 2020: El Salvador with an increase of 0.53 pp, Chile with 0.96 pp, Dominican Republic with 1.65 pp and Uruguay with 4.82% pp. In turn, reductions in these figures occurred in Peru (-6.19 pp), Costa Rica (-4.06 pp), Mexico (-2.74 pp) and Colombia (-1.13 pp).

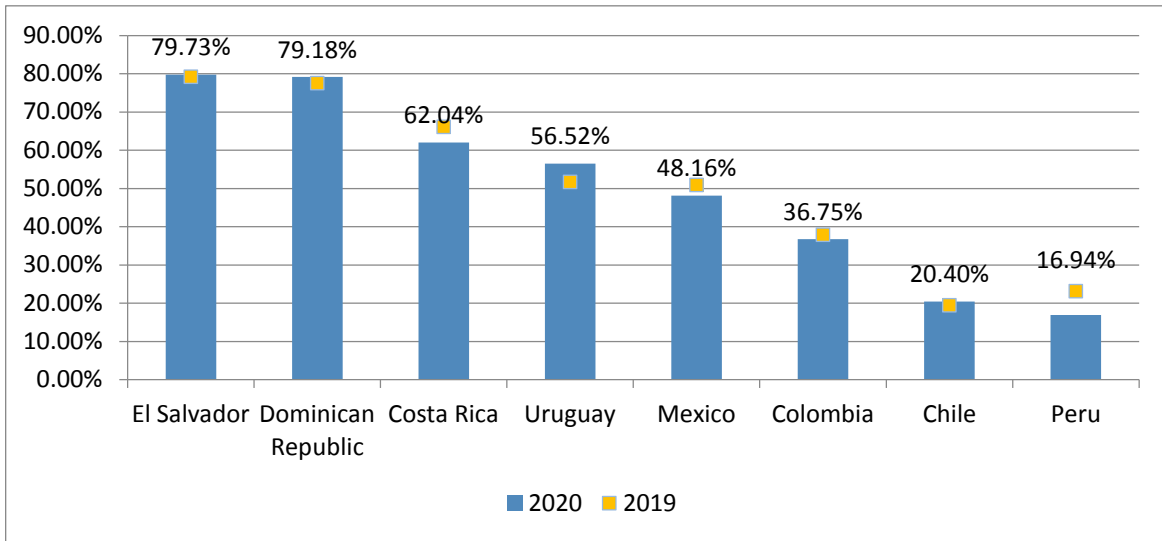
Likewise, the percentage of investments in the corporate sector varies considerably between countries (Graph 11). Total investments range from 1.2% in Costa Rica to 21.45% in Peru, with variable income being higher than fixed income in Peru, Mexico, Uruguay and Colombia; fixed income is higher than variable income in Chile, the Dominican Republic, El Salvador and Costa Rica, with variable income close to zero in the last three countries.

In the financial sector (Graph 12), the investment percentage ranges from 2.66% in Mexico to 16.49% in Chile. In this sector, the Dominican Republic, Uruguay, El Salvador and Mexico do not have investments in variable income, whereas in Chile, Peru and Costa Rica, fixed income is much higher than variable income. Colombia is the only country under study with variable income higher than fixed income.

According to Graph 13, total foreign investment in the Dominican Republic is zero, whereas in the remaining countries it ranges from 8.57% in El Salvador to 49.66% in Peru, closely followed by Chile with 45.76%. Equities are much higher than fixed income for this sector in all countries, except the Dominican Republic.

Graph 10

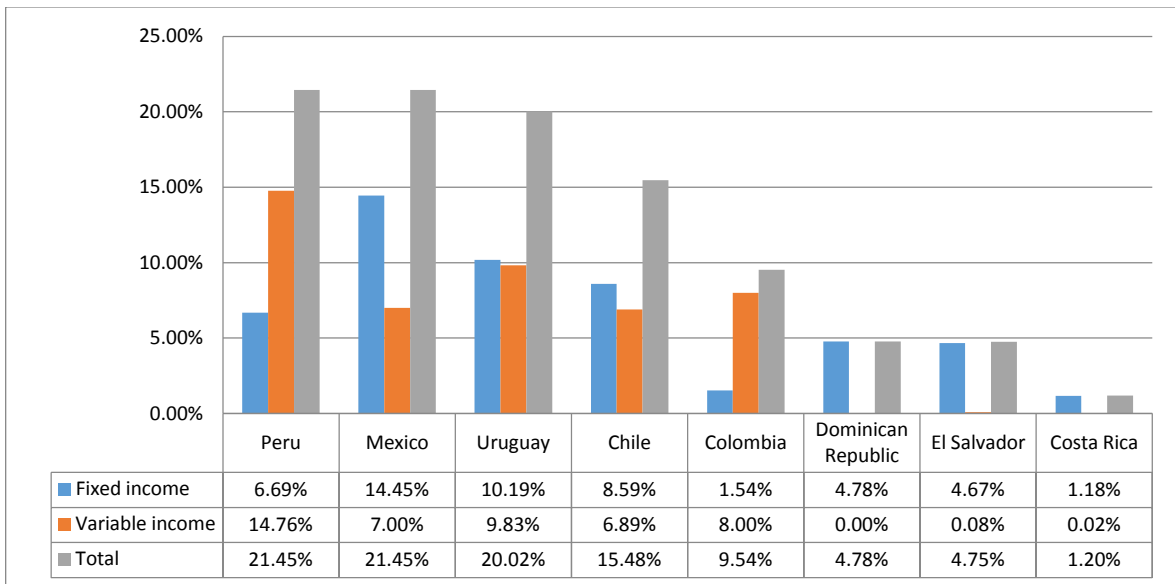
Percentage of investment in government instruments - 2020



Source: FIAP.

Graph 11

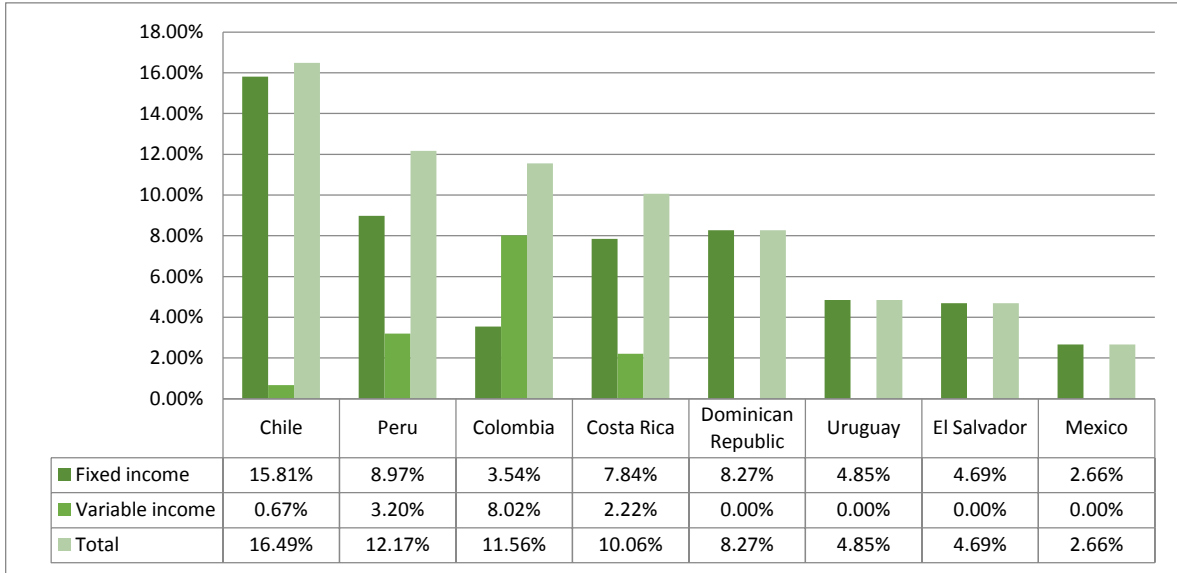
Percentage of investment in Corporate Sector instruments - 2020



Source: FIAP

Graph 12

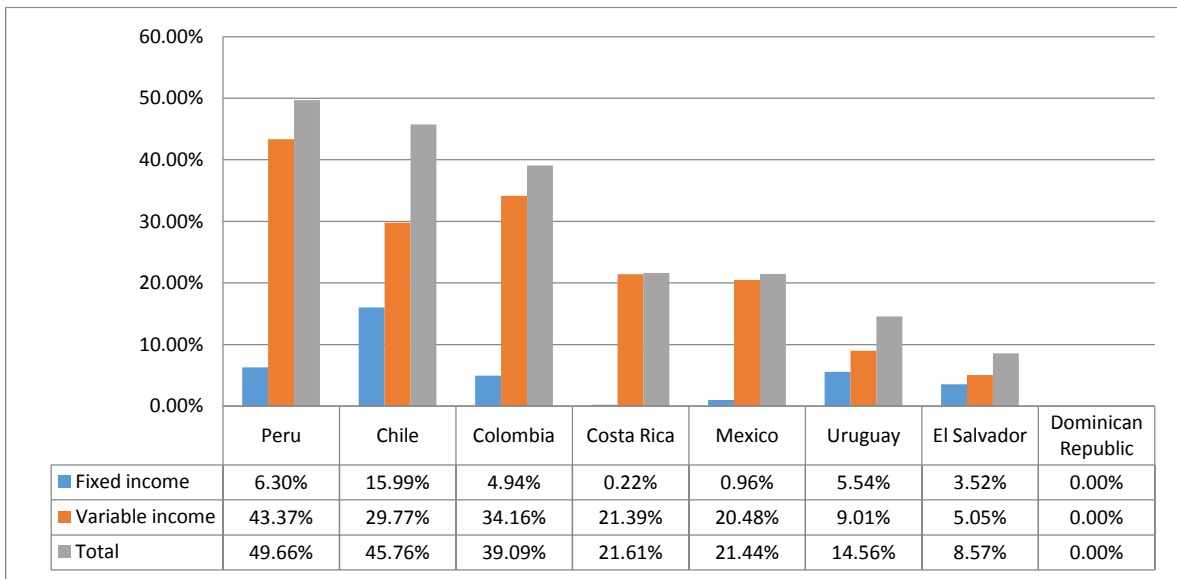
Percentage of investment in Financial Sector instruments - 2020



Source: FIAP.

Graph 13

Percentage of foreign investment - 2020

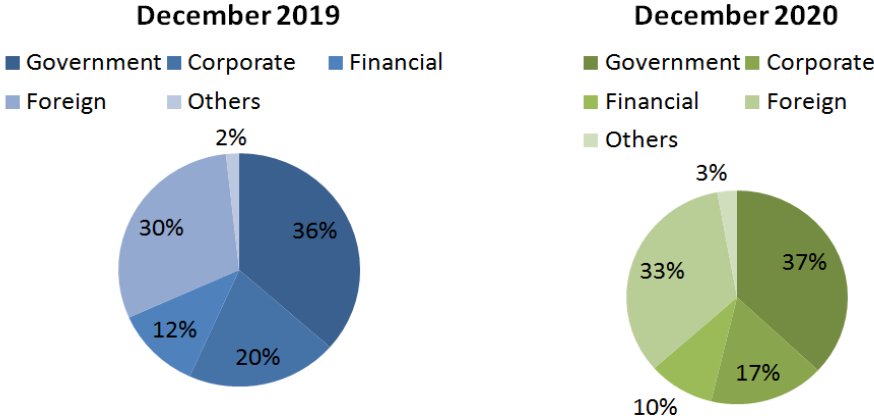


Source: FIAP.

Finally, Graph 14 shows the weighted average investment of pension funds per economic sector for the years 2020 and 2019. We see that there have been increases in the government and foreign sectors, with decreases in the corporate and financial sectors. The government and foreign sectors continue to be the most preferred in the countries under study in 2020, with 37% and 33% of the total portfolio respectively.

Graph 14

Weighted average investment of pension funds by economic sector (*)



(*) Weighted average calculated from the investment percentages of the respective sector by the total pension funds managed in each country, analyzed as of December 2020 and December 2019.

Source: FIAP.

Source:

- <https://www.fiapinternacional.org/en/estadisticas/>
- **Annual Statistical Report to December 2020, FIAP.**