



PENSION NOTES

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Saving via consumption as a complementary source for financing pensions: proposals and experiences to date

Executive Summary

Pension systems face a tremendous challenge, namely to expand their coverage and increase contribution amounts and frequencies, to provide adequate protection to the population in old age. Considering the high labor informality of the countries in the region (which leads to low pension coverage) and the difficulty that the necessary increase in mandatory contributions to individually funded pension systems often poses, a novel and complementary alternative that arises for increasing pension savings is contribution via daily consumption.

This policy will lead to universal coverage, in which all workers, regardless of their employment status, can contribute to their pension funds (long-term savings for future consumption) via their present day consumption.

However, saving via consumption cannot finance pensions exclusively, and must be considered another source of financing. Furthermore, considering that consumption, as a proportion of GDP, is approximately 60% in developing countries, this mechanism contributes to making pension systems more inclusive with informal workers, enhancing the possibility of saving in these sectors.

There are two main mechanisms for implementing savings via consumption. One consists in each purchase being associated to

a tax identification number, and part of the value-added tax paid by buyers being assigned to their individual pension savings accounts. The second option is to use the mobile app technologies already existing in the private sector, that exploit the lessons of behavioral economics for increasing savings.

The Horizontal study center in Chile proposed a mechanism whereby part of the value added tax is allocated to individual pension savings, through the creation of a Value-Added Pension Amount (VPA), equivalent to 1 percentage point of the Value Added Tax (VAT). The idea is for businesses to transfer these amounts to the General Treasury of the Republic (TGR) at the end of each month, from where they will be assigned to the individually funded accounts of members in their Pension Fund Managers (AFPs). In order to avoid the fiscal regression implied in this measure (greater benefits for those who consume relatively more), the State will increase contribution via consumption subsidies for workers in the four lowest income quintiles. It is estimated that saving via consumption would increase self-financed pensions by up to 30% for people with larger contributions gaps, with an associated fiscal cost of between 0.18% and 0.45 % of GDP. There is a bill of law in process in Peru, similar to Horizontal's proposal in Chile, which proposes that 2 percentage points of the General Sales Tax (IGV) should be used for pension savings.

The common denominator of all the applications that exploit the lessons of behavioral economics, is that they automatically transform spending behavior into savings habits. Thus, a platform called “Retirement Miles” has been implemented in Mexico to encourage pension savings in low-income sectors and independent workers. In Chile, the U-Zave platform enables savings through purchases in associated stores, directly assigned to a personal mutual fund. Similarly, a Spanish start-up developed a mobile app called “Pensumo” (the pioneer in this type of app), which enables members to increase their savings through purchases in associated businesses, and by participating in socially responsible activities (for example, recycling and road safety initiatives). Another example is China, where the pension via consumption has been institutionalized since 2019¹.

For a successful implementation of savings by diverting part of the value-added tax to individual savings accounts, it is necessary an adequate coordination between the different institutions involved, since sufficient information must be available to ensure that the consumption of the highest income quintiles benefits the savings of lower income groups. Also, it is important to establish policies that encourage the use of electronic means of payment and the greater use of vouchers in formal commerce (to achieve higher collection, reduce transaction costs in the population and reduce tax evasion). It would also appear to be convenient to include credit card purchases, since credit card issuers have the same information on cardholders as debit card issuers. Likewise, from an operational standpoint, it would be ideal if businesses did not incur any additional cost in handling information.

¹ A new example not addressed herein is the “SuperSuper” platform in Australia, whose main

Finally, there is great potential for technological apps that encourage savings, as shown by Pensumo’s projections in Spain: more than 4.4 million savers could be created through “Pensions via Consumption,” with total pension savings of more than USD 1.6 billion in three years. However, to realize this potential, one of the essential factors is widespread use in the population, linked to convincing large commercial chains to operate with these apps. One possible solution is to make efforts to have at least one large distributor in each mass consumption category, so that consumers can count on systematic pension savings associated with their consumption.

At the [FIAP 2021 Seminar](#) that will take place on October 28, we will have important speakers who will talk to us about this topic. On the one hand, Michal Rutkowski, Global Director of Social Protection and Employment at the World Bank, will explain the new sources of financing pensions (for example, through consumption) in economies with high informality. On the other hand, José Luis Orós, CEO and Founder of Pensumo in Spain, will explain the operation of the mobile application that he created, the pioneer of this type, which allows its members to increase their pension savings through purchases in stores associates.

Introduction

This Note describes and analyzes the different proposals and experiences currently in place to enable the collection of pension contributions via consumption, as a means for complementing the traditional sources of pension financing.

The first section addresses the conceptual arguments that make it necessary to collect pension contributions via consumption. The

purpose is to reduce the gender gap in pensions and increase pension savings among Australian women.

second section describes and analyzes the existing alternatives for making this collection effective, exemplifying each case with proposals and concrete experiences in Chile, Peru, Mexico, Spain and China.

1. How did the pension via consumption idea arise?

The problems of contributory systems based on formal employment

One of the problems of contributory pension systems (whether PAYGO, or collectively or individually-funded), is that they usually exclude informal workers, i.e., those who do not contribute to their old age savings accounts due to the lack of a formal contract. According to the ILO² the worldwide informality rate exceeds 61% of total employment. It is 53% in Latin America and the Caribbean, and has remained relatively stable over time, revealing a serious structural problem. Although solutions to this problem must be found in the labor markets, they can certainly not be achieved in the short term, so proposals must be put forward to avoid the ongoing growth of pension gaps.

Another serious problem with these systems, particularly the individually-funded systems, is that existing contribution rates have remained at low levels and practically unchanged over time, despite having observed significant increases in life expectancy at retirement. This results in the same level of savings having to finance an increasingly longer period of retirement, thus affecting the adequacy of the pensions provided by these systems. As of December 2020, the average contribution rate to individual accounts in Latin America was only

9.1%, so the savings base is very low. Proposals have been put forward to resolve this deficiency, as in Mexico, where contributions to individual accounts will gradually rise from the current 6.5% to 15% of workers' salaries (charged to the employer) as of 2023. However, this task is still pending in other countries. In addition to the above, one must bear in mind that any increase in the contribution rate will exclude a large sector of informal workers, because in countries where pension contributions are mandatory (Chile and Uruguay), there are still groups of independent workers who are excluded, due to the nature of their activities³.

A paradigm shift in the pension funding base

There is a tremendous challenge to expand the contributor base of the individually-funded pension systems, increasing the frequency and amounts of contributions made, in order to achieve adequate protection in old age. If the policies aimed at increasing the formalization of work have results in the medium and long term, and increasing mandatory contribution rates is often a pending task, what complementary alternative is there that would enable increasing old age savings for all in the short term? A novel idea that has been proposed is pension saving via daily consumption.

According to Levy (2014), there is an original flaw in the design of contributory pension systems, resulting in the problem of low pension coverage. This fault lies in the fact that contributory systems are associated with the world of formality. In this regard, it makes no sense that, despite the fact that all citizens face common risks such as illness, disability, old age and death, the State only makes it

to achieve greater inclusion of independent workers in recent years, the existing monotax regimes still exclude certain groups of independent workers.

² https://www.ilo.org/americas/publicaciones/WCMS_645159/lang-es/index.htm

³ In Chile, only the self-employed who issue fee tickets are obligated to make pension contributions to guarantee protection similar to the protection granted to salaried workers. In Uruguay, in turn, despite efforts

mandatory for a subset of people to contribute (formal employees). Hence, contributory systems have very low coverage, and it is very difficult to implement a solution within a reasonable time frame, while also helping to formalize the labor market.

Indeed, considering the fact that informality is the main factor limiting the proper functioning of contributory systems, there has been a rapid expansion of non-contributory systems. However, this involves very high productivity costs, because informality is increasingly being subsidized.

So, the idea entails a paradigm shift, in which social security coverage is unrelated to employment status or type of worker. We know that not all workers contribute to social security, due to high informality rates, but all of them consume. This, in turn, would enable dismantling a limiting system, whereby workers would reduce future consumption via present consumption: there would be a shift towards a universal contribution, whereby all workers, regardless of their employment status, would be able to contribute to their pension fund (long-term savings for future consumption) via present consumption.

Contributing via consumption would also solve the problem of life cycle saving. Contributing via this model would enable individuals to start building a savings base from an early age, without having to have an employment contract. This would be highly beneficial to contributors, since returns on these contributions would be more effective.

2. Alternatives to implementing pension contribution via consumption

There are two main mechanisms for implementing savings via consumption. One consists in each purchase being associated to a tax identification number, and part of the value-added tax paid by buyers being assigned to their individual pension savings accounts. The second option is to use mobile application technologies already existing in the private sector, that exploit the lessons of behavioral economics for increasing savings, which could be very useful when designing this proposal.

Both alternatives are described and analyzed below, providing concrete proposals and experiences as examples.

2.1 Part of the value-added tax is assigned to individual pension savings

2.1.1 A proposal for Chile

In 2020, Horizontal announced its intention of implementing this model in Chile. According to Horizontal, saving via consumption would be performed by creating a new savings-collection category, equivalent to one percentage point of the Value Added Tax (VAT), called the “Value Added Pension Amount” (VPA). Thus, there will be at least two end product values that companies will have to pay to the State: VAT and VPA (1%).

Thus, whenever individuals make a purchase, they will not only pay the VAT, but also the VPA. Companies will pay the VPA monthly to the agency in charge of collecting, distributing and managing investments and accounting, i.e. the Treasury General of the Republic (TGR)⁴, indicating the consumer’s identity and the amount paid. The TGR must consolidate and transfer the VPA amounts collected to the Pension Fund Managers (AFPs), with the

⁴ Through Form F29.

respective Taxpayer Id. Number (RUT⁵) for them to deposit the total amount in members' old-age savings accounts. Thus, the equivalent of one percentage point of VAT will be saved in the consumer's pension savings account per month.

Measures for avoiding fiscal regression

One of the arguments of opponents to these types of proposals, is that they can be regressive, since those who consume more (higher income workers) could obtain more benefits via consumption than those who consume less (lower income workers). However, Horizontal's proposal establishes conditions and limitations that make the measure progressive. Thus, it stipulates that the State will assign relatively more contributions via consumption for those workers in the four lowest income quintiles. The contribution via consumption (VPA) of those in the lowest income quintile (first quintile), will be multiplied by 2.5; those in the second quintile will have their VPA multiplied by 2.0; those in the third by 1.75; and those in the fourth by 1.5. This multiplication will occur when the VPA is transferred from the TGR to the AFP. The State will not add anything for contributors in the fifth highest income quintile.

There will also be the following transfer ceilings, regardless of the income quintile: (i) The monthly amount of the VPA collected may not exceed \$ 20,000 (approx. USD 26⁶); and (ii) No VPA transfers will be made to people with savings of more than \$ 100 million (approx. USD 128,191) in their individual accounts. In the two foregoing cases, the State will collect the 1% associated with the VPA, as if it were another tax. Thus, this policy is expected to become a

progressive measure, tending to benefit those who have fewer resources in their pension savings accounts.

The case of minors

There must be an Individual Pension Savings Account for minors in Fund A (the riskiest fund). The minor's parents, or guardian, may request the deposit in a fund manager other than the one selected by default. When the individual starts working, said savings will be transferred directly to the individual savings account.

Effect on self-financed pensions

Table 1 shows the monthly pension savings amount estimated by the proposed policy. The measure would allow an approximate contribution of between USD 6 and USD 26 per month (the ceiling is \$ 20,000), depending on consumption, which is closely associated with the income quintile. Annually, with the subsidy included, this amounts to savings ranging from USD 67 to USD 308.

⁵ The RUT or Taxpayer Identification Number, is a number assigned for the identification of taxpayers in Chile. The Taxpayer Identification Number is the same as the National Identification Number for individuals, whereas bodies corporate, such as companies or

different types of organizations, are assigned new numbers.

⁶ At the average daily exchange rate of 1 USD = 780.08 on 11/08/2021.

Table 1
Proposal for Chile
Net salary VAT and monthly contribution amounts.
*** \$ 20,000 cap (USD 26)**

Category (approx.)	Q1	Q2	Q3	Q4	Q5	High salary
Average expenditure subject to VAT (USD)	223	466	719	1,123	2,922	11,659
Approximate amount allocated to VAT	42	89	137	213	555	2,215
VPA Amount	2	5	7	11	26	26
VPA amount with progressive tax contribution (monthly)	6	9	13	17	26	26
VPA amount with progressive tax contribution (annual)	67	112	151	202	308	308

Note: The progressive tax contribution will depend on the contributor's income quintile, where the amount saved in the VPA will be multiplied as follows, a = 2.5; b = 2.0; c = 1.75, d = 1.5.

* Cap; the surplus is collected by the State.

Source: Horizontal (2020). The average daily exchange rate of \$ 780.08 on 08/11/2021 was used to convert Chilean pesos to USD.

It is estimated that the measure will have a positive impact on the self-financed pension, depending on the individual's pension gaps (the greater the gaps, the greater the impact). In the case of a person with an income of \$ 500,000 (approx. USD 641) with 80% of pension gaps, the increase over and above the self-financed pension could amount to 30%. In the opposite case, the self-financed pension of a person with 40% of pension gaps would increase by 8.4%. These figures could be even higher if people could start contributing via consumption from an early age (from the age of 14, for example).

Fiscal cost

Since the measure involves allocating the equivalent of one percentage point of VAT to pension savings, there are two ways of calculating its cost:

- i) **Supposing that the VAT is reduced to 18% and a VPA of 1% is established.** In this case, the TGR would collect less, and the additional expense of the bonus assigned to the first four quintiles with the lowest income, equivalent to USD 1,358 million, amounts to approximately 0.45% of GDP.

- ii) **Supposing that the VAT is kept at 19%, and an equivalent VPA of 1% is added.** In this case, the fiscal cost would be USD 551 million, equivalent to 0.18% of GDP.

It is estimated that part of the fiscal expenditure could be offset by higher formal sales, since the proposal would entail additional incentives for consumers to demand a receipt, generating more collection and less evasion. Encouraging savings via consumption could also contribute to an economic upturn, while increasing long-term savings.

Challenges

The successful implementation of this measure and its implied progressivity is a challenge in terms of the coordination required between the different institutions involved, since information must be available to ensure that the consumption of the highest income quintiles benefits the pension savings of the lower income quintiles, through the collection of amounts that exceed the established limits.

A first major challenge is to associate the RUT of individuals to their consumption. Bearing in mind that it is easier to achieve this association by using debit cards and commercial agreements, the legislation should allow private institutions (banks, commercial stores, supermarkets, among others) to establish old age savings-consumption agreements in voluntary and mandatory savings accounts, with the consumer being able to choose the events that trigger savings. It would initially be possible to associate consumption with the consumer's RUT in businesses that accept electronic payment (thanks to the debit card), but adopting this mechanism with cash payments could be slower, given the transaction cost involved in associating the identity of the consumer with the purchase.

Increased electronic payment possibilities and a more extensive use of receipts in formal commerce could generate higher collection, reduce transaction costs for contributing via consumption, and reduce tax evasion. Hence, policies that seek to encourage the use of electronic payment would make this proposal even more attractive.

Enhancement options

First of all, contribution via consumption in Horizontal's proposal is applicable only to payments with debit cards. Thus, we believe that credit card purchases should also be incorporated, since their issuers have the same information on the cardholders as debit card issuers. We are aware that this does not imply increased coverage in the case of bank credit cards (the vast majority of people who have a credit card also have a debit card), but this is not necessarily the case with department store credit cards (Falabella, Cencosud, etc.).

Secondly, we believe that incentives for successfully implementing universal

contribution via consumption can be promoted as follows:

- i) Cash payments, not subject to VPA, must have the same cost for users as payments by electronic means (subject to VPA), so as not to encourage cash payments. As long as there is no efficient way of associating cash purchases to the individual buyer's account, such amounts will be tax revenue.
- ii) The socioeconomic quintile multiplier should decrease over time. The idea is to change habits, especially in lower income individuals, to convince them to use electronic means of payments to improve their pensions. It would therefore be advisable to be very aggressive at the outset, in order to generate that change of habit, and apply the permanent multipliers per quintile once that has been achieved.
- iii) The monthly ceiling of \$ 20,000 should be in UF (the Chilean inflation-indexed unit of account), in order to maintain the purchasing power of the savings. Moreover, we believe that the \$ 100 million (approx. USD 128,191) accumulated pension savings cap is inconvenient, since on the one hand, said limit should depend on the age of the buyer (an accumulated amount of \$ 100 million is not a lot of money for a person who is approaching 65 years of age, but it is a lot for a person aged 40); on the other hand, it complicates the operation of the system, since it forces the centralization of information and requires the AFPs to permanently inform their savers of their accumulated balances; and finally, it encourages the fictitious distribution of family purchases. Hence, we suggest that the \$ 100 million cap should be eliminated.

Third, from an operational standpoint, we believe that this can be done efficiently and effectively as follows:

- i) Do not make shops incur in any additional cost in information management, only paying VAT and VPA to TGR, as they currently do.
- ii) The debit and credit card administrators must inform the Treasury of the total amount of monthly purchases (or the corresponding VPA) of their clients.
- iii) The TGR calculates the amounts of the subsidies, based on the amounts of the purchases reported by the card issuers and their classification according to the income quintile.
- iv) The TGR transfers the amounts and informs the AFPs (possibly through PreviRed⁷ to avoid problems with people not enrolled in an AFP, multi-affiliates and recent AFP switches) of the VPA + Multiplier amounts of each one of the buyers for that month.
- v) To encourage contribution via consumption, it would be convenient to state the VPA information and the amount of the subsidy separately on the AFP statement. Likewise, for control purposes, the amounts received from each means of payment could be reported separately on the AFP statement.

2.1.2 A proposal for Peru

There is a bill of law in this country⁸ (submitted in 2019, and currently still pending), which seeks to establish a Complementary Social Security System via Consumption. The initiative is similar to Horizontal's proposal in Chile, since it establishes that two percentage points of the General Sales Tax (IGV) generated by the consumption of end goods and services should be assigned for pension purposes to:

⁷ PreviRed is an online service for the declaration and payment of pension contributions; it belongs to the AFPs operating in the industry.

⁸ "[Law for the strengthening and formalization of the pension system, financed with a percentage of the General Sales Tax \(IGV\)](#)".

- (i) The Individually Funded Accounts of members in their AFPs, to increase their future pension amounts.
- (ii) An Individual Pension Savings Account (CIAP) for citizens who are not enrolled in any pension system, opened on request in any bank in the country.
- (iii) An Individual Pension Savings Account (CIAP) for minors, based on the National Identity Document (DNI), automatically opened by Banco de la Nación. The parents or guardians of minors can request the deposit in another entity of the banking system.

The bill of law, in turn, stipulates that the pension savings accumulated in the individual accounts established in sections (ii) and (iii) are intangible, and that when account holders enroll in an AFP, all savings are deposited in the CIC of their AFP.

2.2 Mobile Application Technologies that exploit Behavioral Economics lessons

According to Peksevim (2021), these types of applications can be classified as "digital nudging tools," since they encourage retirement saving by incorporating the lessons of behavioral economics. More recently introduced "digital nudges" include "round-off apps" gaming tools and savings via consumer platforms.

The main feature of round-up applications⁹ is to round off daily purchases and assign excess amounts to pension savings accounts. For example, if someone buys a Starbucks coffee for USD 3.6 and pays with USD 4, USD 0.4 is automatically transferred to the individual pension account.

⁹ Examples of these types of tools can be seen here: <https://www.forbes.com/advisor/personal-finance/the-5-best-round-up-apps-for-saving-money/>

Another way to encourage people to save in a digital environment is gaming tools, which incorporate gaming elements such as challenges, reward systems and penalties into real-world practices. By exploiting people's natural curiosity and achievement leanings, these apps can encourage people to save.

Beyond the aforementioned digital nudges, saving via consumer platforms seeks to increase pension savings, particularly among the low-income population, the self-employed and women. While they differ in specific details, these platforms typically work as follows: when people purchase an item such as food, clothing, or a movie ticket at select stores or retailers, a certain percentage of their payments are automatically transferred to their individual pension savings accounts. In other words, these tools automatically transform spending behavior into savings habits. Below is a description of how these platforms currently work in Mexico, Chile, Spain, and China.

Miles for Retirement in Mexico

In November 2017, the National Commission for the Retirement Savings System (CONSAR) in conjunction with the Ministry of Finance and Public Credit, launched this application to facilitate voluntary savings in the AFORES, via the monthly consumption of workers with their credit or debit cards, since a certain predetermined percentage will be discounted.

Users must access this tool on the AforeMóvil app, enter a password, email and personal Id. number. The bank card and necessary financial data must then be entered to apply the charges, for the monthly expenses and

savings calculation to be shown on Paybook; i.e., the application will show a graphic representation of the status of the predetermined savings goals and specify the percentage of the purchase with the card that will be saved, as well as the maximum limit. The minimum savings amount is MXN 50 (approx. USD 2.7) per week, and the specified amount will be directly assigned to the voluntary contributions of the Afore account when making a recurring purchase (supermarket, movies, clothing, shoes or cigarettes and beer).

By mid-August 2021, the application had registered 120,000 users, of which 76% were men and 24% women, with an average age of 38 and average savings per person of MXN 124 (approx. USD 6.2¹⁰). It has 9 associated businesses to date¹¹, as well as two associations¹². By the end of 2021, the application will also include Amazon (prepaid cards). It is worth mentioning that by July 2021, the application accounted for 46% of the voluntary contributions market, and historically, it has assigned nearly 780,000 contributions to the system and more than USD 3 million to its users.

U-Zave in Chile

U-Zave started its trial run at the beginning of October 2018 and since then, all members over 18, with a bank account, enrolled in the Los Andes Compensation Fund can register on the platform¹³ and start saving. At the outset, the app was only available in some strategic outlets of a chain of pharmacies¹⁴ in Santiago, but savings can currently be made in all branches of two pharmacy chains¹⁵ throughout the country.¹⁶ The idea is to increase the number of associated businesses

¹⁰ The exchange rate of 1 USD = MXN 19.89 was used for the conversion to USD.

¹¹ LOCKTON, BENECIF, MediClub, Contabilízate, IKIWI, TAxSat, Miio, Lana and Bullground.

¹² The Mexican Association of Pension Fund Managers (AMAFORE) and the Mexican Association of Human Resources Management (AMEDIRH).

¹³ <https://cajalosandes.u-zave.com>

¹⁴ Salcobrand Pharmacies.

¹⁵ Salcobrand and Ahumada Pharmacies.

¹⁶ A pilot plan is also in place with a liquid gas sales company (Abastible) in the city of Arica, and will soon be available throughout the country.

in future, and they are therefore working on other agreements with companies in the entertainment, tourism, restaurant, recreation, education, clothing, home and transportation lines of business.

The app is simple to operate: once they are digitally registered in the U-Zave program, users must inform the cashier that they are part of this program whenever they purchase anything at one of the associated stores. The cashier will ask for their RUT and the savings will be assigned to the account the next day. The percentage of savings in each purchase will depend on the agreement that each business has with U-Zave, and can be determined at the time of the purchase, or on the platform. For example, if one buys medicaments in an associated pharmacy for an amount of \$ 10,000, with a 10% benefit, one will still pay the \$ 10,000 and the business will contribute the saved amount of \$ 1,000, which will become part of the "To be invested" balance (if the buyer does not want to save the discount, the account's saving mode must be deactivated on the application's website). When \$ 2,000 or more is accumulated for the first time in the "To be invested" balance, an account will be created in the Principal Financial Group fund manager, regulated by the Financial Market Commission (CMF) and associated with U-Zave, and the savings will be invested in a low risk Mutual Fund. There is a 1,488% yearly management fee charged to the balance of each user (there are no fixed charges or charges of any kind if there is no money in the account).

All individuals will be able to withdraw their money when they see fit, and use it for whatever they want, although if they have not achieved their proposed goal, the system will ask them if they are sure that they wish to continue. If users wish to contribute more, or

accumulate interest depending on the returns, or withdraw their money from the mutual fund, they can also do so via their account on the platform, on which they will also be constantly reminded to meet their goal, and be provided with adequate savings advice and tips.

Pensumo in Spain

Saving via consumption was pioneered in Spain by Pensumo¹⁷, launched in 2013. It works as follows: through a free app, a percentage of all purchases in associated stores (physical and online) is accumulated in an insured savings product, which can be accessed by the user or complement the pension. Each associated business decides what percentage of each purchase made by a Pensumo user they wish to assign. Pensumo receives 1% of this assigned percentage and the rest is deposited in the user's savings plan.

The savings generated via consumption are managed by an insurer (Allianz), with no maintenance costs and no checking account requirement until the funds are withdrawn. A minimum return of 0.5% is guaranteed on each account, although the average for the last 7 years has been 4.9%.

Pensumo users are not bound by any permanence clauses, but those who wish to withdraw their funds within less than five years are penalized with fees of up to 20% of the accumulated amount.

In commercial establishments, Pensumo functions by taking a photo of the purchase receipt, using an application. In online commerce, all purchases must be made through <https://compraspensumo.com/>. Once the purchase has been completed, the information is sent to the company's email.

In addition to saving by shopping, Pensumo encourages savings through campaigns that

¹⁷ <https://pensumo.com>

motivate responsible, solidarity or collaborative actions (Recycling, Road Safety, On my bike, and others) the conditions of which are stipulated in each campaign. Contributions to the savings plan are variable and are limited by time and numbers of actions. Contributions to pension savings are made by businesses, companies or institutions that voluntarily join this system, and they benefit from their participation by a larger number of customers (sales) or by the value that increasing their Corporate Social Responsibility (CSR) would entail.

According to José Luis Orós, CEO and Founder of Pensumo, the company had 15,000 registered users on its platform by July 2021, engaging in more than one million transactions (i.e.: purchases, recycling, fares and other items). Pensumo is currently forging an alliance with Ibercaja Banco to launch its model on the domestic and international markets, which, according to its projections, could generate more than 4.4 million "Pension via Consumption" savers and total pension savings of EUR 1,410 million (approx. USD 1,663 million¹⁸) in three years, in Spain alone.

Orós emphasizes that it has not been at all easy to implement Pensumo's plan, since he has had a hard time convincing the large commercial chains to operate with this app. The reason is that it is difficult to convince them to divert a percentage of sales to a customer loyalty plan that they can obtain in some other way. Furthermore, it is a benefit that cannot be spent immediately, like others that these chains can offer, which generates lots of resistance. Smaller businesses, on the other hand, can be more easily convinced.

In order to generalize fluid, easy, long-term savings associated with consumption, the idea is that this type of operation should be

regulated. To that end, Pensumo and Ibercaja presented the "Consumer Pension" Project to the Financial Sandbox of the Spanish Ministry of Economy in April this year. It was selected and the Protocol is in the process of being signed by the General Insurance Commission. The corporate unions option is also being explored for launching pensions via consumption in society. In this regard, the agreement signed between Pensumo and the electrical appliances multinational BSH (Balay-Siemens-Boch), which provides the employees of the multinational in Spain the possibility of pension savings with their purchases, is noteworthy.

Pension via Consumption in China

China is the only country that has made contributions via consumption a public policy, in response to the accelerated aging of its population, since, according to National Statistics Office data, the 60 and older segment will be 25% of its population by 2030.

The consumer pension concept was launched in 2012, and shortly thereafter, in 2015, via the "sesame credit", whereby a series of variables are analyzed for granting loans, such as all types of consumption habits and their frequency.

Then, on the basis of experiences in other countries (such as Pensumo in Spain), the first pilot project was launched in the Inner Mongolia region in January 2019, through the "Panchumo" FinTech, the first company authorized to operate consumption pensions by the regulator. In order to regulate consumption pensions and open them up to the rest of the country, the company published the regulations and management plan for this type of product in November that year. The state banks were designated as

¹⁸ The exchange rate of 1 USD = EUR 0.847 on 08/16/2021 was used.

depositories of the contribution via consumption accounts that were created, and financial entities were created to pay pensions, with the authorization of the People's Bank of China.

Panchumo already had 10 million registered businesses as of March 2021, including Taobao (the Chinese equivalent of Amazon). Thus, it has established itself as the main

application in the industry, with almost 30 million downloads, which means that more than 600 thousand pension plans have been created with contributions via consumption since 2020, which retirees can continue to improve as they continue to shop at associated businesses. Of course, the company has two competitors: Dejin, with 13.4 million downloads, and Consumer Pension App, with 2.6 million.

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