



FIAP DECLARATION

NOTIONAL ACCOUNTS ARE PAYGO SYSTEMS IN DISGUISE

September 2021

In response to the proposals put forward in some countries for incorporating a "notional accounts" mechanism into the individually-funded pension systems, the International Federation of Pension Fund Administrators (FIAP) declares:

1. Notional account systems are PAYGO systems in which the pensions of current retirees are financed with the contributions of active workers. The only difference between a pure PAYGO and a notional accounts system is that the latter includes adjustments in the way pensions are calculated, giving them certain advantages over the former, by partially narrowing the relationship between paid-in contributions and the pension amounts received.
2. As in any PAYGO system, the notional accounts mechanism does not solve the demographic pressures issue (greater life expectancy and lower birth rates), which is exacerbated in Latin America by high rates of informality. Furthermore, it is clear that compromising future pensions, given the existing population and labor dynamics, will be at the cost of indebting countries beyond their capabilities. There will be ever fewer active workers per retiree.
3. In notional account systems, there are no real accumulated funds belonging to workers, and they consequently do not benefit from returns on investments, as in individually-funded pension systems. The enormous advantages of obtaining returns on investments and promoting greater economic development, due to the availability of funds for long-term investment, are also eliminated.
4. Financing pensions in the individually funded systems depends to a significant extent on the return on investments, rather than members' contribution.

Thus, for example, the long-term projections of the Swedish pensions regulator concluded that, due to the absence of returns, the notional accounts system will pay pensions 43% lower in the long term than those granted by the complementary individually-funded pension program, with the same contribution rate.

5. Notional accounts do not provide property or inheritance rights, or drive investments that contribute to the economic growth of countries. Likewise, the possibility of workers being able to access unemployment or other types of benefits, is lost in the countries that implement them.
6. Notional accounts systems have only been operational for a short time in the countries that have implemented them (Italy and Latvia since 1996 and Poland, Sweden and Brazil since 1999), and there are serious doubts as to whether they will be able to maintain the automatic adjustments of the parameters used for granting future benefits, under extreme demographic changes and enormous political pressure. Studies of the Swedish system reveal

that notional funds will suffer permanent reductions in future, due to population aging, which will force the country to reduce promised pensions or increase contributions to maintain fiscal sustainability, both of them unpopular measures.

In summary, if the PAYGO systems could not deliver on the promise of granting a "defined benefit," which defines them as such (between 1995 and 2020, 62 countries increased the retirement age, 62 frozen or lowered pensions, and 79 raised the contribution rate), we see no reason why notional account mechanisms, which simulate non-existent accumulated savings, would be able to fulfill that promise.

Finally, we would like to point out the disadvantages of a mechanism in which the ownership of accumulated funds by workers is replaced by an accounting mechanism that creates the illusion of non-existent funds, because they have been used to pay the pensions of current retirees, or for other purposes.

We insist on the need to remove this debate from the ideological trenches, and objectively seek ways to correct the defects of the individually-funded pension systems, without resorting to models that have failed all over the world.

Signed: Board of Directors of the International Federation of Pension Fund Administrators, FIAP.

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