

## FIAP STATEMENT

### **THE EARLY WITHDRAWAL OF FUNDS AGGRAVATES THE PENSION PROBLEM AND AFFECTS THE NEEDIEST THROUGH HIGHER INFLATION AND INTEREST RATES**

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April 2022

In view of the legal initiatives in Chile and Peru to allow the early withdrawal of funds for purposes other than social security, FIAP declares:

1.- For decades, the individually funded systems have demonstrated their ability to increase workers' savings, through the returns obtained from investments, which have exceeded 6% per year, in real terms, in Latin America.

They have also demonstrated their contribution to the deepening of capital markets and the economic development of the countries in which they operate. Studies of several countries in the region show that between 6% and 22% of GDP growth can be attributed to the individually funded pension system.

2.- Despite the above, the increase in life expectancy and the high rates of informality prevailing in the region (exceeding 56%), have led experts to unanimously recommend an increase in savings, by increasing the contribution rate and promoting voluntary savings.

3.- Despite these recommendations, Chile and Peru have decided to do the opposite, i.e., allow the depletion of savings through successive early withdrawals of funds for purposes other than the financing of pensions.

The three withdrawals made in Chile entailed a depletion of 52 billion dollars of savings, whereas the five withdrawals in Peru have resulted in a depletion of 18 billion dollars of savings.

Fortunately, the Chilean Congress rejected the fourth and fifth early withdrawals of pension funds. If the fifth withdrawal had succeeded, there would have been a further depletion of \$17 billion, or \$3 billion, if the limited withdrawals proposed by the government had been approved.

This new withdrawal would entail a depletion in the savings of Peruvian workers, equivalent to 25 billion dollars, leaving about 5 million people (approximately 60% of the members of the system) without funds.

4.- It is worth mentioning that withdrawals in both cases were due to successive legal initiatives, despite the assurance that they were exceptional one-off procedures.

People are evidently attracted to the idea of accessing their savings for present consumption, without weighing the damage inflicted on their pension amounts. This is why all pension systems are mandatory worldwide, because if they were not, few people would save for old age.

It is contradictory that people who are legally obligated to contribute to financing their future pension should then be entitled to access those funds for purposes other than pensions.

5.- We call on legislators not to let themselves be carried away by the understandable popular support of these initiatives and to responsibly assess the damage they will inflict on the pension amounts of workers, financial stability, and the economic well-being of the population, which will be affected by a significant increase in interest rates and inflation.

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

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