Progress of the Pension Systems

JULY – AUGUST 2022
No.4

This document compiles the major changes that occurred in the pension systems in the July-August 2022 period, with emphasis on the development of the individually funded systems. Due to the importance of events, this edition includes information on changes in regulatory proposals up to the first week of September 2022.

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

Federación Internacional de Administradoras de Fondos de Pensiones

Executive Summary by area of interest

New Pension Programs and Social Security Reforms (approved)

- **Australia:** On July 1, the government passed a law that increases the contribution rate to the individually funded system from 10% to 12% as of July 2025, among other things.
- **Chile**
  - A new life annuity pension mode (called Staggered Life Annuity) was introduced in September. It enables pensioners to obtain a larger, constant pension in Unidades de Fomento (UF) in the first years of retirement, thereafter switching to the life annuity pension chosen by the pensioner.
  - A Law on parental responsibility and effective payment of alimony was published. Alimony can be charged to individually funded pension funds, as a last resort.
- **South Korea:** As of July 12, employer-sponsored defined contribution pension (CD) plans have 1 year to comply with new government-approved investment rules, according to which they must select one or more default investment options that workers can choose from.
- **Spain:** The occupational pensions reform law came into effect on July 2, 2022. It establishes publicly promoted pension funds, introduces simplified pension plans and modifies tax incentives, among other things.
- **Gibraltar:** As of July 1, the government expanded its automatic enrollment occupational pension program to cover private sector employers with 101 to 250 employees (previously it covered private sector employers with at least 251 employees). It will be gradually applied to smaller employers, affecting micro-entrepreneurs (14 employees or less) by July 2027.
- **Mexico:** The position of "social security advisor" became effective as of August 23. This position merges the functions of the current "promoting and service agents," for the greater benefit of workers.

Relevant Studies

- **A report by the Transamerica Institute highlights the fact that 23% of the sponsors of the 401-k (individual savings) plans in the United States have adopted automatic enrollment** as a mechanism for improving pensions, and that 75% of them have adopted "automatic escalation" (annual automatic increase in contribution rates).
- **A report by the US Government Accountability Office (GAO), compiles the recent efforts by different countries (Canada, Lithuania, the Netherlands, New Zealand and the UK) to expand pension coverage and facilitate savings**, through automatic enrollment.

Crisis in public PAYGO systems

- **Germany:** The Chairman of the Federation of German Employers' Associations in the Electrical and Metallurgical Engineering Industries, Stefan Wolf, called for increasing the retirement age to 70 to address population aging.
- **Argentina:** The Chamber of Deputies seeks to finalize a new moratorium project (which aims to complete the number of years of contributions missing for retirement), which would more than double the PAYGO system's current deficit.
- **Spain:** The European Court of Auditors has issued a warning to the government, on finding that elements relating to the sustainability of pensions (required by the EU) have not been addressed in the implementation of the recovery plan.
- **Panama:** Experts propose a reform of the Social Security Fund (CSS), which managers the public PAYGO pension system, to change the pension system to a savings system. Three desired characteristics are: (i) that it should be sustainable, as in Colombia, Chile, and Peru; (ii) that it has a principle of proportionality (if I contribute more, I receive more); and (iii) that it is supportive (supplementary contribution for people who really need it).

Reforms proposed or to be discussed

- **Colombia:** The new government's tax reform proposal seeks to have workers who voluntarily contribute to their pension funds make a lower tax deduction (the annual deduction cap would drop from USD 33,116 to USD 6,100), reducing the incentive to make voluntary contributions to pension funds. Asofondos proposes that parameters be established to tax voluntary contributions on entry or exit, to avoid double taxation.
- **Chile**
  - Experts anticipate adjustments in agreements and contents of the pension reform due to the rejection of a proposal for a new constitution (E.g.: centralized state management; need for collective savings versus state subsidies financed with general taxes; confirmation of the ownership/inheritance of the funds).
  - Regulators are studying a motion with new mortality tables for the calculation of programmed retirement pensions and technical life annuity reserves, which will be in effect between 2023 and 2029. The new tables will entail an increase of almost 6 months in the life expectancy of men, and a reduction of almost 5 months in the life expectancy of women, compared to the tables in force since 2016.
- **USA:** Proposals in the Senate have recommended that 401-k plans should be able to offer emergency savings accounts (with automatic enrollment, at 3% of salary), and/or that workers may withdraw up to $1,000 from their 401k accounts to cover emergency expenses.
- **Mexico:** CONSAR has proposed that the 10 pension fund managers (Afores) should jointly form an independent Academic Council, which establishes mechanisms to validate the knowledge of Afores officials in financial matters.
- **Peru:** President Castillo's government has created a Multisectoral Commission to reform the pension system, prepare a technical proposal to avoid affecting fiscal sustainability, and draw up another report with a real assessment of the pension system.
- **Uruguay:** President Luis Lacalle Pou submitted the preliminary bill of Law governing the Social Security Reform, which gradually increases the retirement age from 60 to 65 by 2035, among other things.

Relevant reports or presentations

The Transamerica Institute published a report that highlights the benefits of the automatic enrollment mechanism for improving pensions. The report "*Emerging From the COVID-19 Pandemic: The Employer's Perspective,*" shows that American workers are more likely to save for retirement when they can access a 401(k) or similar plan through their employers. Nearly nine out of 10 workers (89%) who have access to an employer-sponsored plan are saving for retirement through the plan and/or off the job. Only half (50%) of workers who have not been offered a plan by their employers, are saving for retirement.

Other highlights of the report:

- 23% of the plan's sponsors have adopted automatic enrollment.
- More than half (54%) of plan sponsors that do not offer automatic enrollment intend to do so in the future.
- 75% of plan sponsors have adopted "automatic escalation," a feature that automatically increases participants' contribution rates annually.

(Source: https://www.transamericainstitute.org; Date: Aug.2022)

The United States Government Accountability Office (GAO), published a report that compiles the recent efforts of different countries to expand pension coverage and facilitate savings, through automatic enrollment. The United States faces a variety of challenges for ensuring retirement income security for an aging workforce. As traditional pensions have become less common, more people are responsible for managing their own retirement savings. In doing so, they may face challenges in accessing retirement plans through an employer; accumulating sufficient retirement savings; and ensuring that their accumulated savings last through retirement. Other countries have begun to address similar challenges with several reforms to their retirement systems.

This report describes the views of international pension representatives, interviewed by GAO, on policy options and the advantages and disadvantages of retirement savings reforms based on individual accounts in other countries, aimed at improving retirement security. These include (1) automatic enrollment of employees in retirement savings plans; (2) financial incentives for employees to contribute; (3) default plan options; and (4) plan flexibility.

According to the representatives interviewed on selected international retirement savings schemes (Canada, Lithuania, the Netherlands, New Zealand and the United Kingdom), most pension schemes require eligible employers to automatically enroll part of their workforce, unless workers explicitly opt out. The purpose of this automatic enrollment is to help increase participation in the plan. However, it is still difficult to cover those who are not automatically enrolled, including some part-time and self-employed workers. Selected retirement savings plans use government and employer incentives to encourage workers to join or remain in a plan, according to representatives. Automatic enrollment plans encourage participation by providing some tax benefits to employees, either when contributing or when withdrawing funds on retirement. Each plan also requires or encourages employer contributions that can promote employee participation and reinforce retirement savings. However, low-income workers may not get some tax benefits and self-employed workers do not receive the incentives linked to employer contributions.

The selected plans set contribution rates and predetermined investments to facilitate employee engagement and eliminate potential barriers to savings. Almost all selected plans use default contribution rates of between 3% and 5% of a workers' salaries, thus simplifying a key investment decision regarding how much to contribute. Plans also offer predetermined investments that combine high and low-risk funds to balance risk and growth, such as target-dated funds that are adjusted in accordance with workers' expected retirement dates. Default investments may be particularly important for workers with lower levels of financial literacy.

The selected plans also provide flexibility for participants to adjust or access savings based on the circumstances of their lives, such as financial difficulties. For example, some schemes allow early withdrawal of retirement funds. However, representatives noted concerns that participants who withdraw too much of their money too soon may run the risk of running out of funds later on in retirement. ***(Source: https://www.gao.gov; Date: Aug. 2022).***

The IDB published a report "Small nudges for Latin America and the Caribbean: a decade of improving public policy with behavioral economy." The procedures described in this document cover more than 14 countries in the region, and are tangible examples of IDB's work in six different areas, including tax compliance, gender equality, social security and retirement savings, public administration, health, and the promotion of small and medium-sized enterprises. The projects are presented through a series of summaries that explain the problem, the context and the design of each procedure, together with behavioral analysis, evaluation processes, challenges encountered and lessons learned. In the social security and retirement savings spheres, present bias, cognitive overload, worrisome factors, and inertia emerged as major barriers to achieving desired behavior. Procedures were therefore designed in Brazil and Mexico, helping taxpayers to overcome these barriers through reminders and planning tools such as simplification, prominence, and others. In Brazil, taxpayers were sent a pamphlet that included a reminder, highlighting the benefits of savings, thereby increasing social security contributions by the self-employed. In Mexico, the combination of a national campaign with a simple explanation on how to use savings points, and a campaign for increasing the number of savings points, contributed to increasing voluntary private savings. ***(Source: https://publications.iadb.org; Date: Aug. 2022).***

Relevant news of the period

Latin America, the Caribbean and North America

Argentina

The Chamber of Deputies plans to introduce a new moratorium bill of law that would more than double the PAYGO system's current deficit. An official initiative to add a third moratorium (which makes it possible to complete the number of years of contributions that are missing for retirement) to the two already in force, severely undermines the pension system. The Senate is about to pass a government bill of law denominated the "Social Security Debt Payment Plan," which proposes the acquisition of a "Payment Unit" and a "Contribution Payment Unit" for active workers, followed by 120 months of installments. 800,000 individuals could benefit from these measures, according to the bill's proponents. The new moratorium will entail an investment of $12.26 billion this year and $184.844 billion in 2023 for ANSES (the agency that manages the PAYGO system), which is more than its 2021 deficit ($144.016 million). ***(Source: https://www.iprofesional.com; Date: 09.08.2022)***

Bolivia

After 7 years, the Public Social Security Administrator will start managing the pension system. The President, Luis Arce, and the Minister of Economy, Marcelo Montenegro, launched the official start of the partial activities of the Public Social Security Administrator in the Contributory and Semi-Contributory Regimes of the Comprehensive Pension System. Almost 12 years after Pensions Law 065 was passed on December 10, 2010, and more than 7 years after the creation of the Public Social Security Administrator, the Comprehensive Pension System is now partially managed by the State. New contributors will have to register in the new system, which eliminates the Pension Fund Managers (AFPs). "Contribution payments by the Insured who currently have the Sole Insured Code - CUA, and are contributing to the Pension Fund Managers (FUTURO DE BOLIVIA S.A. AFP or BBVA PREVISION AFP S.A.) must continue in said agencies on a regular basis, until May 2023, when their data will be migrated to the Social Security Administrator[1], in coordination with both Fund Managers, under an orderly, systematic and automatic process," the Social Security Administrator reported in a press release. ***(Source: https://www.noticiasfides.com; Date: 09.09.2022).***

Colombia

Voluntary pension contributions: consequences that could give rise to changes in the tax reform. President Gustavo Petro's tax reform includes several reductions in benefits and deductions for individuals in Colombia when filing their income tax returns. One of the most important proposals involves the voluntary pension contributions deductions cap in the income tax return. The government's intention is for people who voluntarily join a pension fund to be able to make much lower deductions, so they have a more effective tax rate. In this case, the deductions cap for the next year would drop from 3,800 Tax Value Units (UVT) [approx. USD 33,116] per year to 700 UVT [approx. USD 6,100]. Several analysts, including Asofondos (a trade association comprising private pension and unemployment funds in Colombia), have called for this proposal to be reviewed, due to its possible effects on savings initiatives. According to Asofondos, pensioners with a complementary income will have to pay higher taxes for their pensions above a monthly amount of $5.6 million, which is the income exempt from the reform. On the other hand, eliminating this tax benefit from voluntary pension contributions would discourage pension savings. The Association proposes establishing parameters for taxing these contributions on payment or withdrawal, to avoid double taxation. ***(Source: https://www.valoraanalitik.com/; Date: 30.08.2022).***

Chile

Staggered Life Annuity, a new pension mode, became available. The Financial Market Commission (CMF) announced that the incorporation of an additional clause of temporary life annuity pension (RRVV) increase, also called Staggered Life Annuity, came into effect on September 5. (This provision, dated March 28, was open to public consultation between July 26 and August 17). This new alternative makes it possible to obtain a larger, constant pension in the first years of retirement, in Unidades de Fomento (UF), and then return to

[1] This agency has been criticized for its ineffectiveness since its creation, due to the absence of software for processing retirees' contributions. The multi-million dollar purchase of this computer program was also in question due to accusations of overpricing and corruption. Furthermore, the existence of a mass of public servants in the Social Security Administrator, which had been inoperative for all these years, was called into question. In July 2022, it was announced that the country must pay a fine of 105 million dollars to Banco Bilbao Vizcaya Argentaria (BBVA) as compensation for the nationalization of its shares in the pension system.

the life annuity chosen by the pensioner. The new clause may be contracted voluntarily for old age or disability pensions, and will operate as additional coverage within the Immediate Life Annuity (in which pensioners receive a fixed monthly income in UF from a life insurance company, which in the event of death, is inherited by their pension beneficiaries) and Immediate Life Annuity with Programmed Withdrawal (in which the funds in members' individual AFP accounts are divided and an Immediate Life Annuity and a Programmed Withdrawal Pension are contracted simultaneously).[2]. In practice, the new modality can be consulted and contracted by new pensioners, and by those with Programmed Withdrawal who want to switch to a life annuity. The market estimates that interest rates for this new pension alternative will be high and will be linked to the pursuit of security in economically difficult times. The main benefit of the new modality is that it makes the income structure more flexible for adapting to different family needs while providing life annuity benefits, ensuring an amount in UF for each period. This is because in the programmed withdrawal with deferred life annuity modality, which already exists, the temporary annuity is paid from funds remaining in the AFPs and is affected by market swings. With staggered life annuity, on the other hand, pensioners will know the exact pension amount they will receive in the temporary increase period, which will be fixed and constant in UF. ***(Source: www.latercera.cl; www.spensiones.cl; www.df.cl; Date: Aug. 2022).***

Regulators submit to consultation the new mortality tables for calculating programmed withdrawal pensions and life annuity technical reserves. The Financial Market Commission (CMF) and the Pensions Commission (SP) have submitted to consultation the regulations setting out the new mortality tables for the 2023-2029 period. The new mortality tables will take effect as of July 1, 2023, and have no effect on individuals who are already retired and the application and provision of the Universal Guaranteed Pension (PGU). The Organization for Economic Cooperation and Development (OECD) has collaborated in the process of updating mortality tables since 2014, thus incorporating international best practices and the application of new methodologies in this field. The updated mortality tables estimate life expectancies of 86.5 for 65-year-old male pensioners and 90.7 for 60-year-old female pensioners in 2022. This is equivalent to an increase of about six months in life expectancy for men, and a reduction of about five months for women, compared to the tables in force since 2016.

Based on the new life expectancy calculations, whereby men will receive a pension for a longer period, the application of the new tables entails a 1.7% reduction in the first scheduled retirement pension for men aged 65, compared to what they would have received based on the former life expectancy tables.

The first pension for a 60-year-old woman, in turn, would be 0.7 per cent more than if the life expectancy tables had not been updated.

The proposal for updating mortality tables for the 2023-2029 maintains the maximum possible age of 110 for retirees and acknowledges the very low probability of reaching this maximum age (0.019% for men aged 65; 0.214% for women aged 60). ***(Source: www.spensiones.cl; Date: 06.09.2022).***

Adjustments in agreements and content of the post-plebiscite pension reform are expected. Although there were no explicit references to a

[2] There is also a third modality called Temporary Income with Deferred Life Annuity, in which pensioners contract with a life insurance company the payment of a fixed monthly life annuity in UF, at a future date, leaving a balance for a temporary income in their individual AFP accounts, for the period spanning the selection of this modality and the beginning of the deferred life annuity payment.

specific social security system, except for those referring to a public social security system, the pensions issue, and particularly the ownership of funds, were among the most debated subject matter in the construction of the proposal for a new constitution, that was rejected on September 4. This was a significant setback for the Executive, which is expected to announce the core provisions and submit them to Congress in the next few days, so its approach to seeking consensus could require some changes due to what was discussed and rejected in the Constitutional Convention.

For the academic Hugo Cifuentes, "The final text did not affect the discussion regarding the individually funded system, but it did have an effect on the Executive's initiative for formulating laws with an impact on social security, and it seems to me that those exclusive initiative issues must be carefully reviewed." According to former Labor Minister María José Zaldívar, the results would perhaps require reviewing the paradigms installed in the Convention, namely that everything should be centrally managed by the state, or whether the 6% collective savings are necessary, and whether it would perhaps be better for the State to address these matters through general taxes.

Congressmen agree on the same points: the Executive must 'cross the road' and negotiate with Chile Vamos, because it must find a new way to reach agreements and address the issues it had not previously included.

The Chairman of the Senate Labor Commission, Luciano Cruz-Coke (Evópoli), said 'that this result points to the fact that any attempt to start from scratch, to end one system and start with another, to fail to understand that people value the ownership of funds, that solidarity must be funded with general taxes, is to crash against the wall, because there is already an agreement on these issues in the Chamber of Deputies, which was paralyzed in the Senate. We are willing to discuss the bill of law, but there is no time for statist experiments.' ***(Source: El Mercurio; Date: 06.09.2022).***

A Law governing parental responsibility and effective payment of alimony was published. Alimony can be charged to individually funded pension funds, as a last resort. On September 7, 2022, Law No. 21.484 governing parental responsibility and effective payment of alimony was published in the Official Gazette. The new law aims to provide a solution to women who have filed claims for alimony and demanded financial information on debtors. In general terms, the new law establishes a mechanism for ongoing payment of the alimony debt that the debtor maintains with one or more of his sons and/or daughters. It also facilitates access to the financial information of debtors, with the State being responsible for investigating their bank accounts or other investment or financial instruments, with the process being performed with criteria of justice and dignity.

Regarding payment charged to individually funded pension funds: In special situations, provided that there are 3 continuous or discontinuous alimony payments, and the provider does not have funds in financial institutions, or that such funds are insufficient, the party owed the alimony may request the Court to consult, through interconnections, the balances of the former in individually funded accounts, prohibiting the debtor from switching AFPs. The payment must be made by the AFP in the bank account stipulated in the corresponding Court resolution, within 5 working days from the notification of the resolution ordering the payment of the liquidated debt, under penalty of being jointly and severally sentenced to the payment of alimony in case of failure to do so. The maximum amount of the individual account to be used will be between 50%, 80% and 90%, depending on the number of years remaining for retirement.

Alimony may not be reduced or eliminated if the debtor is included in the National Register of Alimony Debtors.

The law will come into effect six months after the full implementation of Law 21,389 governing the National Registry of Alimony Debtors. ***(Source: http://www.laleyaldia.cl; Date: 07.09.2022).***

USA

Many households have minimal or non-existent savings for emergencies. Lawmakers want to change that and increase retirement savings in the process. It is no secret that households with sufficient savings for emergencies are more the exception than the norm. Two bills in the Senate aim to change that. Experts say that addressing the issue could allow workers to save more for their retirement.

While some companies offer emergency savings accounts to employees, the Senate's proposals have certain parameters, both tied to 401(k) plans.

The proposals were approved in separate committees at the end of June 2022 as part of the evolving version of the so-called Secure Act 2.0 in that chamber. The legislation is based on the original Security Act of 2019 when making additional changes to the U.S. retirement system, in an effort to increase the number of savers and their retirement savings amounts.

The first proposal under consideration would allow companies to automatically enroll their employees in emergency savings accounts, at 3 per cent of salary, which can be accessed at least once a month. Workers could save up to $2,500 in the account, and any excess contribution would automatically go to a linked 401(k) plan account at the company.

The other Senate proposal takes a different approach: it would allow workers to withdraw up to $1,000 from their 401(k) or individual retirement account to cover emergency expenses, without having to pay the typical 10% early withdrawal tax penalty if they are under 59.5 years of age.

Workers who have access to a 401(k) or similar plan in the workplace, but are not participating, could be encouraged to enroll in their company's retirement plan if they have access to available emergency funds. The problem is that in traditional 401(k) plans, where contributions are made pre-tax, withdrawing money from an account carries a 10% tax penalty if the person is under 59.5 years of age (unless he or she meets an exception permitted by the plan).

This concern is addressed in state-facilitated retirement programs, which generally automatically enroll workers who do not have access to a workplace plan, in Roth IRAs (individuals may choose not to enroll if they wish). Roth IRAs come without tax exemption in advance for contributions, like in traditional IRAs, but people can generally claim their contributions at any time without an early withdrawal penalty.

In total, 46 states have implemented or considered legislation for creating retirement savings initiatives to reach workers without an occupational pension plan since 2012.

Although there are some minor differences between state-run programs, the general idea is that employees automatically enroll in a Roth IRA through a payroll deduction (starting around 3% or 5%), unless they choose not to participate.

It is unclear whether any of the Senate's emergency savings proposals would be included in that chamber's final version of the Secure Act 2.0, or whether an approved provision would look exactly like what has been proposed. If it does not happen this year, the legislative process would begin again in a future session of Congress. ***(Source: www.cnbc.com; Date: 31.07.2022)***

Mexico

Afores must have an independent Academic Council. The National Retirement Savings System Commission (CONSAR) proposes that the 10 Pension Fund Managers (Afores), must collectively integrate an independent Academic Council, in accordance with a preliminary draft by the National Commission for Regulatory Improvement (Conamer). The purpose of the Council is to establish and approve the contents, guidelines and evaluation tools that enable validating the knowledge of Afores personnel in financial matters, financial derivatives (means of operation for the purchase/sale of assets in the future) and structured instruments (such as Investment Project Certificates, Cerpis, and Development Capital Certificates, CKD). The members of the Council must not have any employment or ownership relationship with the Afores or with the Mexican Association of Afores (Amafore). The individuals selected must be professionals of recognized prestige in the financial system, or in the financial academic sphere, and more than 50% of the members of the Academic Council must be professionals in the financial academic sphere. The Afores will be responsible for issuing the rules and regulations, bearing in mind that there must be an odd number of experts. Furthermore CONSAR will appoint a representative and an alternate to the Council, with duties and powers identical to those of the other members. ***(Source: www.eleconomista.com.mx/; Date: 29.08.2022).***

The Retirement Savings System (SAR) will have pension advisors. The Ministry of Finance and Public Credit (SHCP) announced in the Official Gazette dated August 23, 2022. The purpose of this document is to create the position of "Pension Adviser," responsible for the activities of:

(i) Service Agent: draw up, update and validate the worker identification files, as well as receiving and responding to requests for services, in accordance with the SAR's service to users provisions, issued by Consar, as well as all other procedures that employees request from the fund managers, and

(ii) Promoter: Registered in the registry of promoting agents, who can perform, in the name and on behalf of a fund manager, marketing and promotion activities, guidance and attention to requests, for the purpose of registering and transferring individual accounts.

Hence, the "Social Security Advisor" will be the one who assumes the duties of the promotion and service agents, so that they complement each other and create positive agreements to provide a better service for the benefit of the workers, objectively promoting a social security education for them, and thereby sensitive to the SAR's variables. The document published in the DOF will come into effect on January 2, 2023. ***(Source: https://idconline.mx/; Date: 24.08.2022).***

Panama

Proposals have been put forward to reform the Social Security Fund (CSS), which managers the public PAYGO system, to change the pension system to a savings system. The economist Ernesto Bazán explained how the PAYGO pension system managed by the CSS works and proposed a structural reform to switch to a sole savings system. He also recommended dividing the institution into two blocks, with one part handling matters related to health, and the other, pensions. According to Bazan, the problem must be resolved in one act, with a structural reform that is sustainable, unlike the existing system. Bazán believes that the defined benefit fund "is very unfair" because it provides good pensions without having made good contributions, and the beneficiaries of this fund also receive a cross-subsidy from those who contribute to the benefit defined by the first 500 dollars of salary. In this regard, low-income individuals in the mixed subsystem[3], will retire with very low pensions because they already have a low salary, they contribute to the cross subsidy, and the pension replacement rate is between 50% and 60%. With this in mind, according to the expert, the adoption of a new savings system would require assuming several debts amounting to approximately US$65 billion, with a payment schedule spanning about 40 years. First, it will have to assume a debt with those in the defined benefit subsystem, and then another debt with people who have been cross-subsidizing from a certain income level, which could be from US$1,500 and less. According to the economist, there must be three characteristics to this reform: (i) that it should be sustainable, as in Colombia, Chile and Peru; (ii) that it has a principle of proportionality (if I contribute more, I receive more); and (iii) that it is supportive (supplementary contribution for people who really need it). ***(Source: www.telemetro.com; Date: 31.08.2022).***

Peru

The Government of President Castillo creates a Multisectoral Commission to prepare a draft for a new Pension System. The government of President Pedro Castillo promulgated a Supreme Decree that creates a Multisectoral Commission responsible for preparing the rules and regulations governing a new pension system that will provide more benefits and greater coverage. The Commission will be tasked with preparing a technical report of said proposal, considering non-dependence on fiscal sustainability, in addition to another report containing a real assessment of the Peruvian pension system. The working group will comprise the Chairman of the Council of Ministers; the Deputy Minister of Economy and Finance (MEF); the Deputy Minister of Finance of the MEF; the Deputy Minister of Labor and Promotion of Employment, and a representative of the Chairman of the Council of Ministers (PCM). There will also be a representative of the Central Reserve Bank of Peru (BCR) and a representative of the Banking, Insurance and AFP Commission (SBS). The members of the Multisectoral Commission will have alternates. The members and their alternates will not entail expenditure for the State, because they will be ad honorem. This Commission is authorized to request information, collaboration, advice, support, opinion or technical contributions from civil society spokespersons, and representatives of public or private agencies at a national and international level. The Commission shall have a duration of six months as of the date of its establishment. ***(Source: https://www.gob.pe; Date: 10.07.2022).***

SBS updates the methodology for calculating pension fund returns. The Banking, Insurance and Pension Funds Commission (SBS) published Circular No. 180-2022, which updates the methodology for calculating the returns of the pension funds managed by the AFPs, considering situations of excess investment in some assets that have been reported in the last two years.

[3] In Panama, the pension system comprises two subsystems. First, the defined benefit system, which is a common stock exchange which receives many contributions provides funds to pay pensions (this fund has been subsisting with reserves, which are expected to be exhausted in about another year). Second, the mixed subsystem, to which individuals contribute, and in which one part goes to subsidizing the defined benefit system and the other part is deposited in individual accounts.

To attend to requests for withdrawals from the pension funds, authorized by the Executive and Legislative powers, the AFPs had to sell their most liquid assets. Hence, illiquid assets had a higher stake in the investment portfolio of pension funds, which caused situations of over-investment in these instruments, i.e., they exceeded the authorized investment limits.

Furthermore, the new investment limits scheme, approved by SBS Resolution No.1559-2022, requires the updating and explanation of some methodological aspects and the definition of the types of instruments that are considered illiquid, for the application of the investment limits and their adequacy plans.

In this regard, to ensure that the methodology for calculating the return on excess investment is consistent with the performance of the instruments involved in this type of situation, the SBS has considered it necessary to update the current methodology.

The statute sets out general formulae applicable to all investment instruments, taking into account particular cases, such as capital call and distribution instruments, derivative instruments, current accounts, term deposits, reporting transactions and securities lending. It is worth mentioning that this adjustment will under no circumstances affect the returns obtained by members of the private pension system (SPP). The Circular will take effect as of October 1, 2022. (Source: www.sbs.gob.pe; Date: 06.09.2022).

Uruguay

President Luis Lacalle Pou presented the draft of the preliminary Social Security Reform bill of law, which gradually increases the retirement age from 60 to 65 by 2035, among other things. The country is once again initiating a debate on the reform of the social security system. President Luis Lacalle Pou has prepared a **preliminary bill of law** that is being discussed by the political parties before being submitted to Congress. The primary clauses of the preliminary draft mention:

- The existing system of multiple retirement schemes will be condensed into a sole system. These schemes include the Social Security Bank (BPS: industry, commerce, civil, rural, teachers), the Police Fund; the Military Retirement Service, and the Notarial, University Professionals and Banking schemes. Within 20 years there will be a common pension system for all "funds."
- This new common system will have two components: a solidarity system (PAYGO, as until 1996) and an individually funded savings system (AFAP) for all sectors, which will apply to new workers.
- All pensioners will be able to work after retiring, something that only a few could do until now. That will be under a special system.
- There will be incentives for additional savings, so that workers can improve their future retirement. For example, that the two VAT points discount for using a debit card can go directly to the holder’s individual savings account.
- The retirement age will be gradually increased from 60 to 65. The first person to reach the official retirement age of 65 will retire in 2035.
- The reform covers those born from 1967 onwards. Those born before that date will retire under the existing system.
- The retirement age will not increase for construction and rural workers. They will still retire at 60, due to the nature of their work.
- There are activities that are considered to be risky or particularly demanding, which will have bonuses for age calculation purposes. Teachers will keep their existing bonus,

recognizing 4 years for every 3 years worked (3x4).

- Active police officers currently have a 5x7 bonus and retirement after 35 years of service. The preliminary reform draft proposes changing the bonus to 5x6 with retirement after 30 years of service, as in the entire system.
- There will be two types of retirement for the military: mandatory and voluntary
  - The mandatory system is for military personnel as such, excluding support or health services. Mandatory retirement ages associated with the physical requirements of the activity will increase by up to 5 years, compared to those of the 2018 reform.
  - The service bonus solely for military personnel, established in 2018, will continue.
  - A special regime will be created for individuals exposed to disability or death in active service.

- The 65 years of age requirement does not apply to those with 40 years of service or more. They will be able to retire after the age of 60.

The reform establishes a universal pension for all individuals over 70 who are unable to access a pension due to a lack of work history, contributions or years of work. ***(Source: www.subrayado.com.uy/; https://medios.presidencia.gub.uy; Date: 29.07.2022).***

Asia and the Pacific

Australia

The government approved a law that increases the contribution rate to the individually funded system from 10% to 12% as of July 2025, among other things. On July 1, 2022, the government implemented changes to the country's individually funded retirement system (called "Superannuation")[4] increasing the minimum employer contribution rate (also known as the "Super Guarantee" or SG rate), eliminating the minimum employee income requirement to receive the SG, increasing the retirement limit under the First Home Super Saver (FHSS), and lowering the eligibility age for Downsizer contributions (contributions paid into the pension fund with the money from the sale of the primary dwelling). The increase in the contribution rate was originally approved in 2012 with an effective date of July 1, 2015, but its implementation was delayed by 6 years. The other reforms are part of a bill passed on 10 February 2022, which aims to improve equity in the Australian pension system.

Key details of the recently implemented reforms include:

- **Employers' Minimum Contribution Rate Increase**: The employers' minimum contribution (or SG rate) increased from 10% to 10.5% of monthly payroll. The rate is expected to increase by another 0.5 percentage points in July 2023 and every July thereafter until it reaches 12% in July 2025.
- **Elimination of Minimum Employee Income Requirement**: All employees are now eligible

[4] Australia's retirement system is a mandatory occupational pension program that covers employed individuals; voluntary coverage is available for self-employed workers. Although employees are not required to contribute, the government provides tax incentives and matching contributions to encourage voluntary contributions. To receive an old-age pension, a person must be 59 years of age or older (turning 60 by July 2024) and permanently retired (or in an approved retirement transition agreement). Retirees with fewer financial resources may also be eligible for the non-contributory old-age pension focused on lower incomes, and various government-funded and government-administered supplementary benefits.

to receive GS regardless of their monthly income (as before, employees under the age of 18 must work at least 30 hours per week to receive GS). The government estimates that about 300,000 employees (about 3 per cent of the total workforce) were affected by the previous minimum income requirement (A$450 per month) and were typically young, low-income, part-time workers, with a majority of women (63%).

- **Increase in the maximum withdrawal limit under the FHSS**: Under the FHSS rules and regulations, participants can withdraw a portion of their voluntary retirement contributions to help cover the down payment of a first dwelling. The new reform increases the maximum withdrawal amount from A$30,000 (USD 20,332) to A$50,000 (USD 33,887).

✓ **Downsizer contribution age reduction**: Under the Downsizer contribution measure, older participants can contribute up to A $300,000 (USD 203,322) of the proceeds from the sale of a home to their retirement accounts. (Among couples, each qualified member can contribute up to A$300,000.) The new reform reduces the age of eligibility for Downsizer contributions from 65 to 60. ***(Source: Social Security Administration; Date: July 2022).***

South Korea

The country implements new investment option rules for defined contribution pension plans. Effective July 12, employer-sponsored defined contribution pension (CD) plans[5], have 1 year to comply with the new investment option rules approved by the government in December 2021. Under the new rules, the DC pension plans covered by the Employer Retirement Benefit Security Act, must select one or more investment options that workers can choose as their default investments (workers participating in DC pension plans must now choose default investments for their accounts). This reform aims to improve the investment returns of DC pension schemes by encouraging participants to invest more of their savings in higher-yielding investment products. According to pension industry figures, more than 80% of DC pension plan assets are currently held in 1-year term deposits that generate low returns, often below inflation.

Key details of the new investment option rules include:

- Employer-Selected Investment Options: By July 12, 2023, employers with CD pension plans must update their pension plan documents to include one or more investment options, from which plan participants may choose their default investments.
- Default investment choices of workers: Workers participating in DC pension plans must choose their default investments from the options offered to them by their plans. Default investment choices are used to invest workers' savings if they do not provide an additional investment option, such as after starting work or after a fixed-term investment reaches maturity.

[5] Employer-sponsored pension plans complement South Korea's National PAYGO Pension Scheme (NPS), which provides old-age, survivor and disability pensions, as welll as social security benefits. Participation in the NPS is mandatory for dependent and self-employed workers aged 18 to 59, and voluntary for individuals with no income, under 27 years of age, married to an insured person or meeting certain other conditions. To qualify for an NPS old-age pension, a person must be 62 years of age (gradually increasing to 65 by 2033) and have at least 20 years of contributions; an early old-age pension is available as of 57 years of age (gradually increasing to 60 by 2033) with at least 10 years of contributions. The basic social security pension is paid to individuals 65 years of age or older, with income (including NPS pensions) below certain limits.

- Eligible Investment Products: Investment products that may qualify as default investments under the new rules include capital-guaranteed products, target date funds, balanced funds, asset allocation funds, money market funds, and regular equity funds. ***(Source: Social Security Administration; Date: August 2022).***

Europe

Germany

The country is discussing an increase the retirement age to 70. Germany is reporting a record number of vacant posts in the first quarter of this year. The number jumped to an unprecedented 1.74 million vacant posts, the highest since reunification 30 years ago. Germany has also seen a record reduction in the number of young people. According to the Federal Statistical Office in July, only 10% of the population is between 15 and 24 years of age, compared to 20% over 65. The country's birth rate is too low to compensate for the statistical changes in age. This also means that the state pension fund is under severe pressure. One proposed solution is to raise the retirement age to 70. The president of the Federation of German Employers' Associations in the Electrical and Metallurgical Engineering Industries, Stefan Wolf, called for this increase in early August. The proposal was quickly endorsed by the national media during the summer holidays. Trade unions, social groups and leftists reacted furiously, and Dietmar Bartsch of the Socialist Left Party called the proposal "antisocial nonsense." Germany is in the process of gradually raising the retirement age from 65 to 67 for those born after 1967. Learn more here. ***(Source: https://noticiasdelmundo.news; Date: 28.08.2022).***

Spain

The law promoting occupational pension plans came into effect. On July 2, 2022, a pension reform law came into effect in the country. It establishes publicly promoted pension funds, introduces simplified pension plans, limits waiting periods for membership and modifies tax incentives. The law received Congressional approval on June 30 and is part of a broader government effort to reform Spain's public and private pension programs. The Act aims to increase participation in occupational pension schemes[6] and boost individual retirement savings, particularly among those employed in small and medium-sized enterprises (including smaller public sector entities) and the self-employed. According to the government, approximately 2 million workers (about 9% of the workforce) currently participate in occupational pension schemes.

Key provisions of the Reform Law (in force immediately, unless otherwise stated) include:

- **Establishment of publicly promoted pension funds**: The law establishes a new system of publicly promoted pension funds (Open Publicly Promoted Employee Pension Funds, FPEPP) to be offered to occupational pension plans through a common digital platform. Two new public commissions under the Ministry of Inclusion, Social Security and Migration will oversee the FPEPPs, including the selection of

[6] In addition to occupational pensions, Spain's old-age pension system comprises contributory and non-contributory public pensions and individual savings schemes. To qualify for a contributory old-age pension, a person must have reached the age of 66 years and 2 months (gradually increasing to 67 by 2027) and have at least 15 years of contributions, including at least 2 years within the last 15 years before retirement [the official retirement age is reduced to 65 for individuals with at least 37 years and 6 months of contributions]. The non-contributory old-age pension is paid to individuals who have reached the age of 65, have resided in Spain for at least 10 years from the age of 16 (including the last 2 years before retirement) and have a family income below certain limits.

private fund managers and the formulation of investment objectives. The assets of the FPEPPs will be managed exclusively in the interest of the members of the fund, and the management commissions will have a cap (which the government must still specify).

- **Introduction of simplified pension schemes**: The law introduces a new type of defined contribution pension scheme (Simplified Pension Scheme, PPEs) with a simplified creation process. PPEs can be formed through sectoral collective agreements between employers and trade unions, by public sector employers representing their workers, by professional groups representing self-employed workers, and by enterprises and cooperatives owned by workers representing their members. A PPE must have the same rules and characteristics for all plan members, and plan assets may be invested using FPEPP or private pension funds.
- **Limitation of periods of absence for access of participating workers**: The maximum period of absence that can be imposed by new and existing employment pension plans on new members is 1 month.
- **Modification of tax incentives**: From 1 January 2023, employers contributing to qualified occupational pension schemes will pay reduced social security contributions, with a maximum annual reduction of around EUR 1,431 (approx. US$1,464) per worker. Employers will also receive a 10% corporate tax deduction for occupational pension contributions paid on the first EUR 27,000 (approx. US$ 27,629) of the annual gross income of each worker. Finally, workers with annual gross earnings of up to EUR 60,000 (approx. US$ 61,398) may pay in annual social security contributions higher than those currently allowed if the annual contributions of their employers are less than EUR 1,500 (approx. US$1,535) [currently, workers and their employers can make combined annual contributions of up to EUR 1,500 plus an additional EUR 8,500 if the employer pays the greater part of this amount. Separate contribution rules apply to self-employed individuals]. ***(Source: Social Security Administration; Date: August 2022).***

The Court of Auditors sees deficiencies in the pension reform and calls for tax adjustments. The European Court of Auditors has drawn attention to Spain and other European countries, identifying several shortcomings in the measures contained in their respective recovery plans. In its Special Report 21/2022, dated September 8, it concludes that "the Commission's assessment of national recovery and resilience plans is generally adequate, but there are risks in their implementation." This report examines the plans of Spain, France, Italy, Germany, Croatia and Greece. With regard to Spain, the European supervisory body warns that it must improve the sustainability of the pension system, noting that the country will need to introduce "proportional fiscal adjustments in the future" to face the expected global impact of the increase in pension expenditure. For the EU auditors, pension reform is a missing element in the Recovery Plans submitted by most countries.

In the case of Spain, the concern is heightened by the fact that the recent reform law has established the system of annual revaluation of payments based on the CPI, and by the expected avalanche of retirement in the coming years due to the massive retirement of the baby boomer generation. The European Commission has warned of all of this on several occasions, and, in fact, the Community Executive issued a warning to Spain at the end of June 2022, warning of the risk of a "significant gap" in the pension system, urging Pedro Sánchez' government to comply with all the measures agreed in this area to ensure their sustainability in the short, mid and long term, including the extension of the calculation period.

In its report, the European Court of Auditors criticizes the fact that most of the gaps identified in the country-specific recommendations largely represent recurrent structural challenges that Member States have faced for years, without any clear-cut solutions.

According to the Court, Spain has not yet addressed elements relating to the "sustainability of pensions" in the implementation of the scheme, following the Brussels recommendations. Fulfilling this depends on the country being able to agree to collect European funds: EUR 70 billion in transfers by 2026.

To fulfill his promise, the Minister of Inclusion, Social Security and Migration, José Luis Escrivá, plans to complete the second part of the pension reform by the end of 2022, which includes negotiating such controversial measures as changing the calculation system to determine pension amounts, and removing the caps on the maximum contribution amounts and the maximum pension. ***(Source: www.65ymas.com; Date: 09.09.2022).***

Gibraltar

The expansion of the automatic enrollment pension program continues. As of July 1, 2022, the British Overseas Territory of Gibraltar has expanded its automatic enrollment occupational pension program[7] to cover employers in the private sector with 101 to 250 employees. Previously, the program only covered private sector employers with at least 251 employees, but it is being gradually extended to smaller employers until all private sector employers are covered by July 1, 2027. The government launched the automatic enrollment program in August 2021 following the passage of the 2019 Private Sector Pensions Act to boost retirement savings among private sector workers. According to the government, there were 23,638 private sector workers in Gibraltar in October 2021, representing about 78% of the territory's workforce.

Other key features of the automatic enrollment program include:

- ✓ **Eligible Workers**: Covered employers must automatically enroll their employees in qualified occupational pension plans if they are 15 years of age or older, have been continuously employed for at least 1 year and have annual gross earnings of at least £10,000 (USD 12,031) [the employment contracts of individuals working for more than one employer are reviewed separately]. Eligible employees may choose not to participate in the program or enroll later by notifying their employers or plan administrators.
- ✓ **Funding**: Enrolled employees and their employers must each contribute at least

[7] In addition to occupational pension schemes, Gibraltar's pension system comprises a social insurance (PAYGO) program that provides old-age, disability, survivor, maternity, medical, work accident and unemployment benefits. To fund the program, employees contribute 10%> of covered weekly earnings and employers contribute 20% of the covered weekly payroll (certain minimum and maximum amounts apply to employee and employer contributions). To receive a full old-age pension (State Pension) under this program, an individual must have reached the age of 65 or 60 and have at least 2,250 or 2,000 weeks of contributions (men and women, respectively). A partial old-age pension is paid if an individual has reached the normal retirement age, is not entitled to a full pension, and has at least 585 or 520 weeks of contributions (men and women respectively). The full monthly old-age pension is currently GBP 463.75 (USD 557.96) and the minimum monthly old-age pension is GBP 120.35 (USD 144.80).

2% of weekly or monthly earnings/payroll to their occupational pension plans (employers may choose to pay the employee's minimum contribution of 2%).

- ✓ **Gradual Implementation**: The program is being rolled out in stages to give smaller employers more time to meet financial requirements. Now that the program covers large employers (with at least 101 employees), it will be extended to medium-sized employers (51 to 100 employees) by July 2025, small employers (15 to 50 employees) by July 2026, and micro-entrepreneurs (14 employees or less) by July 2027. Existing employer-sponsored occupational pension plans may continue to operate under the new program if they meet certain minimum requirements.
- ✓ **Governance**: The Gibraltar Financial Services Commission oversees the program and maintains a record of all covered employers and their employees (including pension plan members, ineligible employees, and employees who have chosen not to participate). ***(Source: Social Security Administration; Date: July 2022).***