Progress of the Pension Systems

JANUARY – FEBRUARY 2023
No.1

This document compiles the major changes that occurred in the pension systems in the January-February 2023 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 March 2023.

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.

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Executive Summary by area of interest

New pension programs and social security reforms (approved)

- **Argentina:** A new pension moratorium law has been approved, allowing people who do not meet the number of years of contribution requirements to retire.
- **China:** Third Pillar Pension Program (Voluntary Savings) has now been launched in 36 cities to address the economic challenges of rapid population aging.
- **Philippines:** A new voluntary provident funds program called the Workers' Savings and Investment Program (WISP) Plus was launched. It replaces two similar voluntary programs: the Savings and Personal Equity Option for members who pay the maximum monthly social security contribution and the Flexi-Fund Program for Filipino workers abroad.
- **Peru:** A law creating minimum pensions and promoting alternative voluntary contributions for pension purposes, aimed at Pension Funds Administrators (Fully funded system, AFP) members, was published in the Official Gazette. These minimum pensions will allow members to set pension savings targets for the management of their individual funded accounts.
- **Slovakia:** Reforms to the country's three-pillar pension system were implemented, including the removal of the retirement age cap, the establishment of an early retirement option for long-term workers, the creation of a pension supplement for parents, the introduction of an automatic enrollment provision and the reduction of commissions.
- **Sweden:** The government made changes to the retirement rules that include: raising the minimum retirement age for contributory pensions from 62 to 63; raising the retirement age for non-contributory pensions and supplementary benefits from 65 to 66; and raising the age at which employment protections end from 68 to 69.

Crises in public PAYGO systems and/or state-managed systems

- **China:** The pension system will run out of money by 2035, due to population aging.
- **Costa Rica:** The president of the Costa Rican Social Security Fund (CCSS), Marta Esquivel, stated that the institution will face liquidity problems between 2026 and 2027 if no adjustments are made.
- **Ecuador:** The reform of the Ecuadorian Social Security Institute (IESS) is imperative, due to financial unsustainability issues in the PAYGO systems.
- **Spain:** Social security debt has tripled since June 2018. According to the Applied Economics Studies Foundation, all the pension reforms proposed by the government would only ease the 3.5% increase in GDP expenditure by half a point.
- **Panama:** Member of the Board of Directors of the Social Security Fund (CSS), Camilo Valdés, revealed that if no changes are made, the Disability, Old Age and Death (IVM) program's funds will be exhausted by 2024.

Reforms proposed or to be discussed

- **Bolivia:** A draft amendment to the pension law was submitted, stating that people can choose between keeping their contributions in the AFPs or transferring them to the public manager.
- **Chile:** Study estimates that the reinforced IPS (Social Security Institute) will cost twice as much as projected in the pension reform.
- **France:** Senate approves raising the minimum retirement age to 64. The French Labor Minister has deemed the Senate's approval of this article a "responsible vote."
- **Peru:** The Association of AFPs submitted a proposal for reforming the pension system. Among other matters, the proposal seeks to establish a minimum pension in a unified system, highlighting the importance of the private sector.
- **Turkey:** The president announced that he will submit an amendment to parliament, partially eliminating the retirement age. This measure would be applicable only to those who enrolled in Turkish Social Security prior to 1999.
- **Uruguay:** The Minister of Labor and Social Security, Pablo Mieres, stressed that "social security reform is necessary," since we must guarantee coming generations adequate and comprehensive pensions for all.

Relevant studies

- The **OECD** published far-reaching reports on global pension systems in February:
  - Pension Markets in Focus 2022 provides detailed and comparable statistics on retirement savings worldwide.
  - Mortality and the Provision of Retirement Income examines the development of mortality assumptions to build mortality tables that better protect the provision of pensions.
- The **International Organisation of Employers (IOE, part of the ILO)** published the report Sustainable Social Security Systems: New and Existing Challenges, which summarizes the global state of social security systems and presents the future challenges and opportunities they face.
- The document Nationalism, populism and identities: contemporary challenges, by **Fide,** compiles all the papers prepared by the different working groups and professionals and discussed in the preparatory sessions and the 2nd Oxford/Fide Congress in 2022.

The OECD published Pensions Markets in Focus 2022, a report that provides detailed and comparable statistics on retirement savings worldwide. This edition of the annual report provides an overview of pension savings in approximately 90 jurisdictions, showing a wide range of relevant, harmonized, and standardized indicators up to 2021.

According to the report, pension assets in OECD countries amounted to almost USD 58.9 trillion (105% of total OECD GDP at the end of 2021; it was 59% at the end of 2001). The assets were accumulated mainly in pension funds, amounting to USD 37.7 trillion.

Some jurisdictions also use other retirement savings vehicles. Examples include: provisions on the books of employers (e.g. Germany, Sweden), pension insurance contracts sold by insurance companies (e.g. E.g. Denmark and France) or products offered and managed by banks and investment firms (p. E.g. Individual Savings Accounts (IRAs) in the United States).

The increasing pension assets trend in the OECD in 2021 is explained by the fact that, despite increased inflation, pension assets earned, on average, a real return on investments (net of management fees) of 3% that year. Moreover, the average annual real return over the past 20 years was positive in 16 of 18 reporting countries.

The report also points out that assets in personal and defined contribution plans are increasing faster than in defined benefit plans in most reporting countries.

(Source: https://www.oecd.org/; Date: February 2023).

The International Organisation of Employers (IOE) published the report Sustainable social protection systems: new and existing challenges, which summarizes the global status of social protection systems and the future challenges and opportunities they face.

The first section describes social protection floors (SPF), which are part of the ILO's work in promoting social protection worldwide. This is followed by a description of the status of social protection benefits and spending globally, highlighting the impact of COVID-19 and the remaining gaps in coverage. Section 3 raises the debate on opportunities and constraints in increasing investment in social protection, while emphasizing the problem of the informal economy. Section 4 focuses on pensions, which represent a structural challenge for PPS. Section 5 explores the new challenges that digitization and the platform economy pose to current systems and discusses current debates on how to address this issue. Finally, section 6 examines different innovative experiences that have been launched worldwide that can function as pre-established programs for other countries.

In Chapter 4 “Structural Challenges: Pensions” (pages 13-14), the main messages are:

- The best way to deal with the unsustainability of pension systems is to make them individually funded, at least partially, with the advantage that while PAYGO systems are financed solely through contributions, resources in individually funded systems come predominantly from returns on investment.
- Since individually funded systems increase the level of savings, they have had positive macroeconomic effects, leading to higher GDP, employment, and wage growth, thus increase the resources available for financing pensions.
- To meet the demographic challenge and make pension systems more sustainable, countries worldwide have migrated fully

or partially to individually funded mechanisms, from 17 in 1999 to 46 in 2022.

(Source: https://www.ioe-emp.org/; Date: February 2023).

OECD Report analyses the development of mortality assumptions to build mortality tables that better protect the provision of pensions. Mortality assumptions are necessary to ensure the sustainability of pensions. The report explores traditional considerations and approaches to developing mortality tables, as well as providing an international overview of trends and drivers of longevity in recent decades, including the impact of the COVID-19 pandemic. It also details standard mortality tables developed in OECD member countries and provides guidelines to help regulators and supervisors assess whether the mortality assumptions and tables used in the context of pension provision are appropriate.

(Source: https://www.oecd-ilibrary.org/; Date: February 2023).

The FIDE document Nationalism, populism and identities: contemporary challenges, compiles all the individual papers prepared by the different working groups and professionals, discussed in preparatory sessions and at the 2nd Oxford/FIDE Congress in 2022, at Jesus College (Oxford). In line with the Congress' objectives, this document articulates a set of conclusions and recommendations to be disseminated among decision-makers, organizations, industry leaders and experts for consideration by the competent authorities.

The Register is presented as a comprehensive document with a presentation by FIDE's Chairwoman Cristina Jiménez, an overview of the working groups and a call for EU action covering the topics and recommendations of the Congress. The documents included in the Register address issues related to economics, inequality, the future of the EU project, the COVID-19 pandemic and constitutional, legal and governance issues, in the context of nationalism. It also covers aspects of the impact of nationalist/populist policies on the financing of South American pension plans, where there have been unexpected calls to pension funds to address the effects of COVID-19, as well as other cross-cutting issues.

To review the final document, click here (English).

To review the chapter related to pensions, click here (Spanish and English).

(Source: https://thinkfide.com/; Date: January 2023).

Relevant news of the period

Latin America, the Caribbean and North America

Argentina

The government surprised the opposition and managed to pass the new pension moratorium law. Amid disputes regarding quorum and the need of votes for approval, the current administration was one step ahead of the opposition and managed to pass the new retirement system.

Many retirees did not meet the necessary years of contributions to be part of the Argentine pension system, which is why the government sought to pass the moratorium. The winner was the incumbent government since the new law was passed with 134 votes.

(Source: https://www.perfil.com/; Date: 01.03.2023)

Bolivia

A draft amendment to the pension law was submitted, stating that people can choose to keep their contributions in the AFPs or transfer

them to the public manager. The Citizens' Community (CC) senator, Andrea Barrientos, explained that the idea is also a ratification of the criticism of the government and the alleged mismanagement in the transfer of contributions to the public manager.

“We are proposing a mixed system covered by the Pension System. This specific bill of law allows people to choose who they will work with, because the problem is that we do not know where the money will be invested by the Public Manager,” explained the Senator.

(Source: https://lapatria.bo/; Date: February 2023).

Chile

45% of people disapprove of the government’s pension reform and 80% want to choose who manages their funds. This was revealed by the latest Plaza Pública Cadem survey.

According to Cadem, 45% of those consulted disagree with the reform presented by President Boric, while 40% say they approve it.

This marks a difference from previous surveys, from November 18 and 25, when both options were tied at 44% of the responses.

In this poll, from December 30, the president's approval remained at 30%, and disapproval dropped from 66% to 61%, but on observing the December average, approval was 30% and disapproval 64%.

(Source: https://www.aafp.cl/; Date: 17.02.2023)

Study estimates that the reinforced IPS will cost twice as much as projected by the pension reform. According to an assessment by Vinson Consulting, commissioned by the Association of AFPs, the fiscal cost for the Autonomous Public Administrator (APA, the reinforced IPS) to maintain the level of service of the AFP's, would be double what the government projects. It also calculates that the APA will have to absorb 212 processes currently managed by the AFPs, which “looks like a high risk with a potential limited benefit for members,” he says.

The AFPs currently manage 212 operational processes that the Autonomous Public Fund Manager (APA), created by the pension reform, would have to absorb, standardize, and make operative. The investment and expenditure required for creating this new organization will be approximately twice the amount contemplated in the Government’s Financial Report, if it is to maintain a quality of service similar to that of the AFPs today. This was revealed by a technical and operational assessment carried out by Vinson Consulting on behalf of the Association of AFPs, quantitatively and qualitatively evaluating the implications and risks of the reinforced Social Security Institute (IPS), centralizing the administrative functions proposed in the pension reform, which are currently performed by the AFPs. The founding partner and director of Vinson Consulting, Salvador Muzzo, first mentions that “our specialty is the management of institutions in their strategic, operational, technological, commercial and governance processes, and their practical implementation. We are not experts in fund management, so our opinion only concerns this sole fund manager which would take over the administrative and operational part of the pension system, and not the other entities that would manage the financial aspects of the funds.”

Nonetheless, Muzzo believes that “the greatest risk is the transfer of 212 operational processes from the different AFPs, each with its own computer systems and procedures, to a single agency. Thus, the already complicated challenge of transferring the operational processes of an AFP to a public entity that has no experience in managing them, is multiplied several times by simultaneously adding the complexity of streamlining these processes in a single agency with the more than 11 million members of the system. The Vinson Consulting report says that this transfer of 212 processes “would appear to be a high risk with a potential limited benefit for members.” Furthermore, the outsourcing of more than 200 processes reveals significant integration and fiscal investment difficulties, since it is not clear whether providers would be able to handle this massive handover on their own. The study says that “accrediting contributions in a limited timeframe, calculating and paying different types of pensions in a timely manner, integrating systems to cope with massive numbers and consolidating historical records, appear to be new highly complex processes for the APA to assume.”

According to the consulting firm’s analysis, “it is not clear whether there are sufficient numbers of providers in the market to enable these functions to be outsourced competitively.”

(Source: https://www.latercera.com/; Date: 17.02.2023).

Colombia

The Colombian Association of Pension and Unemployment Fund Managers (Asofondos) reaffirms that the pension fund savings belong to the workers.

In the midst of the public debate regarding the social security of Colombians, Asofondos insisted on the need for a pension reform that strengthens a solidarity pillar for the most needy, sustainable over time and based on savings.

In this regard, Asofondos reiterated that “the savings managed by the AFPs are the individual property of members, constituting the greatest guarantee to protect them in their old age.” For the Chairman of the Trade Association, Santiago Montenegro, “what is fair and correct in the midst of this public debate regarding the social security of Colombians is to be transparent in one’s affirmations. Pension savings in private funds are the sole and exclusive property of workers, and their management is in expert hands, yielding excellent results,” said Santiago Montenegro, the Chairman of Asofondos. So much so that, after 28 years of this pension system, workers' savings now amount to $350 billion (USD 73,000 million), deposited in their pension funds, the product of their contributions and, especially, of the excellent returns of their portfolios which currently account for 70% of the total amount of those funds.

(Source: https://actualicese.com/; Date: 17.02.2023).

Costa Rica

According to the Organization for Economic Co-operation and Development (OECD), the country needs a comprehensive strategy to tackle high informality. It states that this is both a cause and a consequence of low productivity.

Informality in Costa Rica, at around 45% of employment, is still high, the OECD says in a document that it will present to the Government.

“A comprehensive strategy is required, with necessary actions in several policy areas, such as reducing non-wage labor costs, facilitating the creation of formal enterprises, even reducing the bureaucratic and economic cost of establishing a formal enterprise, helping more Costa Ricans to acquire the skills necessary to access formal jobs, simplifying taxes and improving enforcement mechanisms,” the OECD said. According to the organization, payroll costs paid by employers are high compared to the OECD average, making formalization difficult.

Experience in some OECD countries, such as Colombia, indicates that reducing non-wage costs by reducing payroll costs paid by employers can help reduce informality. Available impact assessments suggest that the reform led to a reduction of 2 to 4 percentage points in the informality rate in Colombia. Costa Rica's relatively high payroll contributions indicate that there are many possibilities to move in this direction," he said.

According to the analysis, payroll costs in the country account for 37% of the wage cost, and employers pay 72% of them. However, not all payroll costs are intended to fund the social security system (i.e., health and contributory pensions).

"Approximately 35% of payroll costs go to other institutions, in particular the fund responsible for social protection programs (the Social Development and Family Allowances Fund, FODESAF), the National Learning Institute (INA), or a state bank." This is a very regressive and inefficient way to finance these institutions, as it hinders the creation of formal jobs, eroding taxable base income. Instead, those institutions could be entirely financed in the midterm through the general budget."

For the OECD, this would facilitate formalization without compromising the financing of the social security system.

"This change would even be positive for the social security system, as more workers would become formal workers and taxpayers.

Institutions currently funded through payroll costs are already receiving some of their funding from the general budget, suggesting that institutional measures to facilitate change are underway."

(Source: https://www.crhoy.com/; Date: 03.02.2023).

The Chairwoman of the Costa Rican Social Security Fund (CCSS), Marta Esquivel, said that the institution will start having liquidity problems between 2026 and 2027 if no adjustments are made.

Although there is a financial data reliability issue, Esquivel said, it is clear that "if we continue with the current level of spending and investment, we will exhaust the reserves in three years."

"Right now, what's giving us oxygen is that we are not executing," she continued. The institution has a reserve of ₡1.4 trillion (USD 2.1 billion), but it is destined to investments, she explained.

Esquivel added that the financial disorder prevailing in the institution makes it impossible to assess the cost of the salary increase approved by the Board of Directors for its 63,000 employees last year, and even the item used to cover it.

Speaking before the deputies of the Commission for the Control of Public Income and Expenditure, Esquivel said that it has been difficult for her to obtain information on the state of the institution's finances.

In September 2022, the Board of Directors of the Fund endorsed a retroactive increase in wages as of January 2020, despite the fact that the Actuarial Management warned of the risk that this decision entailed for the agency's finances.

Actuarial Management said that the increase would "negatively accentuate the magnitude of Social Security deficits." Due to the above, President Rodrigo Chaves fired the Executive Chairman of the CCSS, Álvaro Ramos, on September 17.

(Source: https://www.nacion.com/; Date: 01.03.2023).

Ecuador

The reform of the Ecuadorian Social Security Institute (IESS) is urgent. This is due to financial unsustainability issues related to the PAYGO system.

While reform is complex, because it requires a broad social consensus, it is inevitable and imperative for at least four reasons.

- The first and most notorious: the population ages at a faster rate than membership grows, and life expectancy is higher. Five contributors currently support one retiree, when the minimum is eight. And the trend is downwards. This has led to the gap between money entering the system by way of contributions and money leaving the system by way of pension payments growing wider, generating what is known as a basic deficit.
- The second reason is that 40% of state contribution is no longer sufficient. By 2022, pension expenditure had exceeded contributions by US$2.5 billion and government input was less than US$2 billion.
- A third reason is related to the reserves of the system, which should grow efficiently and with high returns to cover existing and future pensions. This has not been the case. Between 2015 and 2018 the government stopped honoring its 40% contribution and has a history of delayed payments. The IESS has therefore been forced to divest, in addition to the fact that a large part of the reserves are invested in government bonds.
- A fourth reason is employer default, which complicates the management of the system's finances. Faced with this scenario, young members are the ones who most coordinate the debate of the reforms with one objective: to guarantee their pensions in the long term (50 years).

(Source: https://www.elcomercio.com/; Date: 16.02.2023).

Peru

According to the country's Minister of Economy and Finance, a new withdrawal of funds from the AFPs would be the “worst measure.”

One of the measures calling for a seventh withdrawal of funds proposes that workers can ask for up to 4 ITUs (Tax Units) of their contributions, i.e., up to 19,800 soles (USD 5,208), while another one proposes a withdrawal of up to 3 ITU, equivalent to 14,850 soles (USD 3,906).

A third proposed bill of law calls for releasing up to 50% of pension funds to pay off members' debts have with banks, funds or formal financial institutions.

The economist Enrique Castellanos recalled that the private retirement fund had already been affected by the previous fund withdrawals. “There have been six previous fund withdrawals; we have withdrawn 88 billion soles (USD 23,149 million), almost half of the fund; we have spent half of that, which took us almost 30 years to save, in two years,” he said. Castellanos also pointed out that most workers are informal, so they do not have an AFP account.

“75% of our workforce is informal, so 75% don't see or hear anything. 25% are not enrolled in an AFP. Of nine million members, nearly half, four million, no longer have any funds because they withdrew them in the last two years.”

The Chairman of the Private Competitiveness Council, David Tuesta, in turn, agrees that this situation would not help most Peruvians, nor would it benefit small and medium-sized enterprises, as some congressmen assert. “This seventh retirement would only help the formal workers, and anyone who had anything most likely withdrew everything in the first and second withdrawals. “This has nothing to do with helping small and medium-sized enterprises”, he said.

The former minister also pointed out that retirement savings are being dismembered. “The result will be a lack of protection in old age and a transfer of risks and problems to younger generations. This will severely affect pensions and welfare in the country,”

(Source: https://rpp.pe/; Date: 17.02.2023).

A law creating minimum pensions and promoting alternative voluntary contributions for pension purposes, aimed at AFP members, was published in the Official Gazette.

Law 31670, published in the Official Gazette, El Peruano, today, seeks to create a healthier welfare culture by setting goals with a view to retirement with a minimum pension, while promoting alternatives for the voluntary contributions of members to the Private Pension System, charged to fourth and fifth category tax returns, or any other favorable tax or balance.

The law explains that the minimum pension will allow members to set a pension savings target for the management of their individually funded accounts (CIC). It points out that enrolment for the minimum pension is optional for contributors, under no circumstances depriving them of the right to avail themselves of the benefits of the Private Pension System or other laws in force.

Contributors decide on their minimum pension, an amount not less than the Basic Consumption Basket (BCB) determined and published by the National Institute of Statistics and Information Technology (INEI), allowing them to set a savings goal while they are contributing. Thus, a minimum retirement balance is set, i.e., the target amount in the individually funded account of the contributor at the time of retirement. The minimum retirement balance comprises the mandatory and voluntary contributions that contributors make to their individually funded accounts, as well as the returns generated by their AFP.

The aforementioned law empowers the Ministry of Economy and Finance to expand the scope of contributors who can request repayments of fourth and fifth category income taxes or any other tax or balance held by members, to be paid to their individually funded accounts.

The Executive must regulate this law within at least 90 calendar days.

(Source: https://lpderecho.pe/; 13.01.2023)

The Association of AFPs submitted a bill of law to reform the pension system. The bill seeks to establish a minimum pension within a unified system and highlights the importance of the private sector in fund management and advising enrolled members.

This aims to guarantee a minimum pension for all citizens, including self-employed and informal workers. The importance of the private sector in managing funds and advising participants was highlighted in this Conference. Currently, only 30% of workers will be able to access a pension. The proposal is based on the savings effort and seeks to guarantee a minimum pension for those who have contributed for at least 20 years, and a proportional pension for those who have contributed for between 10 and 20 years. It also proposes a government-funded seed capital for each new-born child, to improve access to Pension 65 for all citizens and to use state resources more efficiently. The AAFP noted that the government should not control pensions but should focus on a long-term reform that guarantees a minimum pension for all Peruvians.

(Source: https://infomercado.pe/; Date: 10.03.2023)

Panama

A member of the Board of Directors of the Social Security Fund (CSS), Camilo Valdés, claims that if no changes are made, the funds of the Disability, Old Age and Death (IVM) program will be exhausted by 2024.

Although there have been calls for restarting the dialog by the CSS, no date has been set. In its latest report, the Technical Actuarial Board warned that if nothing is done the IVM's funds will be exhausted by 2024, i.e., the funds will no longer be available in October 2023. The only program running a deficit to date is the IVM, which is using reserves. According to Valdés, pensions cost around $2.2 billion a year.

However, workers and employers pay in about one billion dollars annually in their respective contributions, i.e., the missing amounts must be covered with other funds.

"Since we assumed our duties in the CSS Board of Directors, we have unsuccessfully proposed that Corporate Governance standards be installed in the CSS to create a culture of transparency, accountability and greater effectiveness and efficiency in the institution," Valdés said. It is also possible that the risk rating agencies will remove Panama's risk rating, which could affect the operation of local banks, which hold significant sums of money belonging to the Social Security Fund, which are used for the different services that it provides to its clients. The employer's representative is concerned about the passivity with which the situation is addressed, and the country will soon be further indebted to pay this year's deficit, which would be irresponsible.

(Source: https://www.ecotvpanama.com/; Date: 01.03.2023)

Uruguay

The Minister of Labor and Social Security, Pablo Mieres, stressed that "the Social Security Reform is necessary, since it addresses the need to guarantee coming generations that they will be able to receive adequate and comprehensive pensions for all."

"The reform seeks to create a single social security system, in which all retirement services are subject to similar rules. The bill of law submitted to Congress has been widely discussed by all of society," said the minister, explaining that "it is a gradual, long-term reform, and not a sudden Uruguayan-style change." The Minister said that all countries with the demographic characteristics of Uruguay have retirement ages from 65 to 67 years of age. In this regard, he said that life expectancy is constantly increasing in Uruguay and that people reach more advanced ages in better conditions.

The new generations have delayed reproductive patterns, delaying parenthood more and therefore having fewer children. The combination of these factors leads to the sustainability issues currently evidenced in the social security system. That is why the reform is necessary and essential."

(Source: https://diarionorte.com.uy/; Date: 28.02.2023).

Asia and the Pacific

China

The third pillar pension program was launched.

The government launched a third-pillar private pension program in 36 cities to complement the country's first-pillar state pension and second-pillar occupational pension programs. The framework for the third pillar program was first announced by the government in April 2022, after running a pilot program in selected cities in

September 2021. This program aims to boost voluntary retirement savings among China's workers, as the country faces growing economic challenges due to the rapidly aging population. With a relatively low retirement age (60 for men, 55-50 for women) and a declining fertility rate (1.16 children per woman in 2021), China is expected to see a decline in the working-age population of around 35 million individuals between 2021 and 2025. As a result of these trends, the government projects that the number of retirees per 100 workers in China will increase from 17 in 2020 to 33 in 2035.

The latest details of the new third-pillar pension program include:

- Eligible workers: Individuals covered by government first-pillar pension programs may choose to participate in the third-pillar program. The first pillar programs had covered 1030 million people by the end of 2021.
- Account Setup: Enrolled members can have a personal pension account under the third pillar program. The account must be opened using the Personal Pension Information Management Service Platform, which tracks contributions, returns on investment, payments, taxes and other transactions.
- Account Contributions: Participants can contribute up to 12,000 yuan (US$1,739.45) per year to their personal pension accounts. (There are no employer contributions.) The contribution ceiling may be adjusted in the future by the Ministry of Human Resources and Social Security and the Ministry of Finance, based on socio-economic factors.
- To encourage enrolment, the government offers an annual tax deduction for contributions of up to 12,000 yuan and a reduced tax rate on pension benefits (from 7.5 percent to 3 percent). Furthermore, participants' investment earnings are not subject to tax.
- Investment Options: Participants can invest their savings in products that meet certain standards, including clear investment strategies and focusing on long-term performance. These products may include target date funds (with assets under management of at least 50 million yuan [US$7.25 million]), mutual funds, equity funds, bond funds, and insurance products. Pension industry sources predict that investments from the third pillar program could result in China's private pension market growing from the current US$300 billion to US$1.7 trillion by 2025.
- Access to benefits: Participants can make withdrawals from their account once they have reached the official retirement age, lost the ability to continue working, or have left China. Funds can be withdrawn as a lump sum or in monthly installments.
- Inheritance Provisions: If participants die before reaching the official retirement age, their account balances will be bequeathed to their designated heirs.
- Program Management: China's Banking and Insurance Regulatory Commission oversees commercial banks and wealth management firms that manage personal pension accounts. Separately, the China Securities Regulatory Commission regulates the investment products that can be offered to participants.

(Source: [SSA International Update January 2023](); Date: January 2023).

China's pension system will run out of money by 2035. As China's population ages, pressure on pension budgets has skyrocketed.

China is not going through the best of times. The Chinese population is aging. The Asian country has entered an "era of negative population growth" after figures exposed a historic drop in population numbers for the first time since 1961. The country had 1.41175 billion inhabitants in 2022, compared to 1.4126 billion the previous year, according to data from the National Bureau of Statistics, a drop of 850,000. This fact has marked what could be the beginning of a period of decline, despite the government's substantial efforts to reverse the trend. This is already starting to be a problem for China's leaders; as they try to reform the country's fragmented and underfunded pension system, Heilongjiang's provincial government needs cash transfers from wealthier regions to pay for pensions for its residents, a Reuters investigation has found. As China's population ages, pressure on pension budgets has skyrocketed.

The same research finds that 11 of China's 31 provincial-level jurisdictions have pension budget deficits. But Heilongjiang is where the problem is most critical. The state-run Chinese Academy of Sciences predicts that the pension system will run out of money by 2035. "If the pension system does not change, this is unsustainable," Xiujian Peng, a senior researcher at the Centre for Policy Studies at the University of Victoria in Australia, told Reuters. Peng said the richer provinces currently fill the void, "but they can't do that forever, so this is a problem for everyone."

(Source: https://www.elnacional.cat/; Date: 28.02.2023).

Philippines

A new voluntary provident fund program has been introduced

The Philippine Social Security System (SSS) introduced a new voluntary provident fund program called the Worker Savings and Investment Program (WISP) Plus. The new program replaces two similar voluntary programs: the Savings and Personal Wealth Option for SSS members who pay the maximum monthly social security contribution, and the Flexi-Fund Program for Filipinos working abroad, which aims to provide SSS social insurance program members with a flexible, tax-free supplemental savings option. WISP Plus is independent of the Worker Savings and Investment Program (WISP), a supplementary pension fund managed by the SSS and launched in January 2021. It is mandatory for SSS members with monthly covered income above 20,000 pesos (US$367.31).

Key details of WISP Plus include:

- Membership Eligibility: WISP Plus is open to all SSS members, including Filipino workers abroad and self-employed individuals, who have not claimed a final SSS pension. (Final SSS pensions include old-age social insurance, total disability, and survivor's pensions.) There are no income requirements for enrolling in WISP Plus.
- Account Settings: SSS members can sign up for WISP Plus through their MySSS online accounts. SSS members can set up only one account and their WISP Plus membership does not expire.
- Account Contributions: Fund members can contribute to their WISP Plus accounts at any time as long as they have paid their most recent social security contribution (whether self-employed or living abroad) or at least one social security contribution in the last 3 months (if employed).
- Investment Strategy: The Social Security Commission (SSC) is responsible for ensuring that WISP Plus assets are invested in accordance with established allocation guidelines, which include investing at least 15% of the assets in government securities, and up to 20% of the assets in corporate or

multilateral securities, institutions or shares, up to 25% of assets in short or mid-term loans to members of the fund, up to 40% of assets in money market funds or similar approved instruments, and up to 70% of assets in guaranteed loans to SSS pensioners. The income from these investments is distributed proportionately to the members of the fund, based on the size of their account balances. The returns on the investments of the members of the fund are tax-free and the capital amounts of the accounts are guaranteed by the government.

- Withdrawals: Account balances are automatically paid to fund members as a lump sum when they start receiving their final SSS benefits. However, fund members may withdraw some or all of their accumulated savings at any time after 1 year of participation. Partial withdrawals are limited to one per month and fund members must leave at least 500 pesos in their accounts.
- Inheritance: The account balances of deceased fund members are paid to their designated beneficiaries in the SSS files.
- Program Management: SSS will manage WISP Plus transactions and SSC will oversee program investments. Fund members must pay an annual management commission of 1 percent of their accumulated savings to cover program operating expenses. The commission will be reviewed every 2 years and changes will be subject to SSC approval.

(Source: SSA International Update February 2023; Date: February 2023).

Turkey

The President announced that he will submit an amendment to Parliament that partially eliminates the retirement age.

Age will no longer be a requirement for accessing public pensions. Instead, a certain number of years of work is required. “With the regulations we will share with you today, approximately 2,250,000 more people will be entitled to retire. No age limit will restrict the right to retirement,” the President said in a statement at the Presidential Complex. Although this change is not yet in force and still has to pass through parliament for approval in this month of January, hundreds of citizens have queued at Social Security offices in different Turkish cities to request retirement and enquire about the conditions since President Erdogan announced the measure. Likewise, the agency's electronic portal has collapsed, as reported by the local press.

This is in fact a partial elimination of the retirement age. This measure will only apply to those who enrolled in Turkish Social Security before September 1999. The current legislation was introduced in that year, requiring men to be 60 years old, or women to be 58 years old, to retire and receive a public pension. This requirement will remain in force for other workers and for those now entering the labor market.

But those who started working prior to September 1999, will again be subject to the former law, which was in force when they enrolled in social security. At that time, it was only required to have worked 5,000 days over 20 years, for women, and 25 years for men. In practice, this translates into the possibility of retiring under the age of 50.

The easing of the requirements to qualify for a pension will entail an additional expenditure of 12.5 billion euros, according to the Bloomberg agency.

(Source: https://www.65ymas.com/; 08.01.2023).

Europe

Slovakia

Reforms have been made to the three-pillar pension system

Slovakia's government introduced reforms to the country's three-pillar pension system that include removing the retirement age cap, establishing an early retirement option for long-term workers, creating a pension supplement for parents, introducing an automatic enrolment provision, and reducing commissions. The changes aim at improving the financial sustainability of the first pillar program and boosting supplementary retirement savings in the second and third pillar programs.

Changes to the first pillar program include:

- Elimination of the retirement age cap: In 2017, Slovakia's official retirement age for people born after 1954 was linked to changes in life expectancy, but a 2019 amendment stipulated that the official retirement age could not exceed 64 years. The latest reforms remove this cap for people born after 1966, which will enable further increases in the retirement age based on changes in life expectancy.
- Modification of pension value indexation: When applying for a social security old-age pension, the monthly benefit is calculated by multiplying the insured person's average personal salary, years of coverage, and current pension value. The reforms reduce the rate at which the value of pensions are adjusted every January from 100% to 95% of the annual change in the average national salary.
- Establishing an early retirement option for long-term workers: Individuals can now claim a social security old-age pension at any age if they have at least 40 years of coverage and their monthly pension would be at least 1.6 times the legal monthly subsistence minimum (currently €234.42 [US$255.38]). An early old-age pension under this option is reduced by 0.3% for each month it is claimed prior to the official retirement age.
- Creation of a parental pension supplement: Old-age retirees with one or more adult children (biological or adopted) in covered employment now receive a monthly supplement of 1.5% of each child's average monthly covered income in the calendar year, 2 years before the current calendar year. The payment of this pension supplement does not affect the child's social security contributions or future pension entitlement.
- Extension of the duration of survivor's pensions: The standard duration of survivor's pensions for surviving spouses increased from 12 months to 24 months.

Changes to the second pillar program include:

- Introduction of an automatic enrolment provision: Starting May 1, people under 40 entering the workforce for the first time will be automatically enrolled in the second pillar program, with the option of opting out within 2 years. (Voluntary enrolment will be possible for people under 40 who are already in the workforce.) Enrollment in the second pillar program is currently limited to workers under the age of 35, is mandatory, and cannot be reversed.
- Delay increases in the employer’s contribution rate: The employer’s contribution rate to the second pillar, which is funded by diverting employer contributions from the first pillar to the second pillar program, will increase from 5.5% of covered

monthly payroll to 5.75% in 2025, instead of 2023, and to 6% in 2027 instead of 2024. Contributions by Second Pillar employees will remain voluntary.

- Reduced management commissions: There are no longer any account maintenance or asset appreciation commissions. The maximum annual commission that fund managers can charge for managing investments increased from 0.3% to 0.45% of assets in 2023 but will drop to 0.425% in 2024 and 0.4% in 2025.
- Change of default investment option: Effective May 1, the default investment option for new entrants and certain existing entrants under the age of 54 will change from guaranteed yield bond funds to unsecured yield life cycle (target date) index funds.
- Limitation on Scheduled Withdrawals: Starting in 2024, retired participants can only use half of their account balances for scheduled withdrawals (including lump sum payments). Once this half is exhausted, the remaining half must be transformed into a life annuity. There is no current limit on the portion of an account balance that can be used to make scheduled withdrawals.

Changes to the third pillar program include:

- The maximum annual commission that pension fund managers can charge participants for managing their investments dropped from 1.2% to 1.15% of assets in 2023 and will continue to drop to 1.05% in 2024 and 1% in 2025.

(Source: SSA International Update February 2023; Date: February 2023).

Spain

Social security debt has tripled since June 2018. After the successful motion of censure, the liabilities of the Social Security Administration stood at 34,888 million euros. At the end of December last year, the figure was 106,178 million euros.

This debt, as the Bank of Spain itself notes, is almost entirely due to the loans that the State has made to Social Security, a practice that has intensified during Sánchez's term, partly due to the previous executive, but also because the incumbent Government and José Luis Escrivá's Ministry of Social Security have found this to be the way to finance their pension policy.

Some of them, for significant amounts, are the so-called improper expenses that have been diverted to the Budgets and which, in Escrivá's opinion, should not really be charged to Social Security. But, in any case, the evolution of debt as a result of loans is a clear sign of the imbalance of the system. The agency headed by Pablo Hernández de Cos points this out: he explains that loans are the financing granted by the State to finance a significant part of its budget imbalance.

(Source: https://www.elmundo.es/; Date: 18.02.2023).

All the pension reforms proposed by Escrivá would only ease the 3.5% increase in GDP expenditure by half a point.

Raising the calculation period from 25 to 28 years and raising the maximum contribution base income do not ensure the sustainability of the system as demanded by Brussels, according to the Foundation for Applied Economics Studies (Fedea). The foundation has warned that the Government's reform proposal for ensuring the sustainability of the pension system - raising the calculation period from 25 to 30 years, discarding the two worst years, and raising the maximum contribution base income - will far from compensate the increase in expenditure for the revaluation of pensions based on the average CPI. According to the think tank's estimates published today, the increase in the number of years for calculating the pension would imply savings of 0.3% of GDP by 2050, while the increase in contributions would contribute "at most" 0.15% of GDP that same year.

In a press release, Fedea points out that the sum of these amounts would be "well below what is necessary" to compensate for the increase in expenditure derived from the revaluation of pensions linked to inflation, since the Government itself estimates this expenditure at 3.5 points of GDP by 2050. "The sum of both amounts is well below what is necessary to compensate for the increase in pension expenditure resulting from the first phase of the ongoing reform," says Fedea.

The second part of the pension reform, which should ensure its sustainability and has to be ready this month to ensure the provision of European funds, since it is part of the Government's commitments to Brussels, is giving the Minister of Inclusion, Social Security and Migration, José Luis Escrivá, serious headaches, since the ministers of Unidas Podemos and the Minister of Labor, Yolanda Díaz, oppose the extension of the calculation period. In this regard, they argue that it is not part of the recommendations of the Pact of Toledo and that it reduces pension amounts.

(Source: https://www.larazon.es/; Date: 16.01.2023).

France

Senate approves raising the minimum retirement age to 64. Lawmakers approved Article 7, which extends the retirement age, with 201 votes in favor and 115 votes against.

French Labor Minister Olivier Dussopt deemed the Senate's approval of the article a "responsible vote," while underlining the "very large" majority and criticizing the behavior of the left, which he called an "obstruction."

"It is first and foremost a Senate accountability vote. We have disagreements, we have discussions with the Senate, it's normal, but on the question of age, on the answers that must be given to the structural deficit, we will be able to gradually increase the retirement age," Dussopt said.

However, before the end of the week, lawmakers have to examine and approve the entire bill, which includes a revaluation of pensions to 85 percent of the minimum interprofessional wage, around 1,200 euros net.

The text of the pension reform will be discussed on March 15 in a joint committee to agree on a common version that will then be validated, by both chambers starting on March 16. The vote is expected to be tight in the National Assembly, which previously failed to vote on the full draft on first reading. At the earliest, the final vote would be possible on the same day, and the maximum term is March 26, at the end of the day.

(Source: https://www.semana.com/ and https://www.elmostrador.cl/ ; Date: 08.03.2023).

Sweden

Changes in the retirement age are implemented.

Sweden's government has implemented amendments to retirement rules that include raising the minimum retirement age for contributory pensions, raising the retirement age for non-contributory pensions and supplementary benefits, and raising the age at which labor protections end. The changes aim to improve the sustainability of Sweden's pension system as Swedish life expectancy continues to rise.

Key changes implemented by the Swedish government (all effective January 1) include:

- Increase in the minimum retirement age for contributory pensions: The minimum retirement age for the notional defined contribution pension (NDC) program and the individual savings program (or premium pension) increased from 62 to 63 years.
- Increased retirement age for non-contributory pensions and supplementary benefits: The retirement age for the means-tested guarantee pension, the contributory pension supplement, the housing allowance, and means-tested old-age income support, increased from 65 to 66 years.
- Raising the age at which labor protection ends: The age at which employees lose the right to remain employed under the Labor Protection Act (and are protected from age-based dismissals) increased from 68 to 69. (Retirement is usually mandatory at this age unless an employer agrees to extend an employee's employment contract.)

As of 2026, Sweden's retirement age adjustments will be linked to changes in life expectancy through a new parameter called target age (riktålder). Introduced in 2020, the target age is calculated each year as follows: (1) by subtracting the life expectancy of the Swedish population at age 65 for the 5-year period ending in 1994 from the same figure for the 5-year period ending in the year preceding the year of calculation, (2) by adding two-thirds of this difference to 65 years, and (3) by rounding this sum to the nearest full year. A new target age takes effect 6 years after its year of calculation, but the target age may increase only once every 3 years. When an increase in the target age becomes effective, retirement ages will automatically increase by the same amount. According to current calculations and projections, the target age will be 67 in 2026 and will gradually increase to 71 by 2089.

(Source: SSA International Update February 2023; Date: February 2023).

Oceania

Australia

Incentives have been offered for retirees to reduce the size of their homes.

The Australian government has implemented a law that provides economic incentives for beneficiaries of the "Age pension" (means-tested non-contributory pension) to move to smaller homes. This, by extending the period during which proceeds from the sale of a principal residence are not considered financial assets and by reducing the interest rate at which these funds are considered to generate income.

A statement by the ministers of the Department of Social Services said that the new law aims to increase the stock of larger homes available for younger families to buy, by incentivizing retired homeowners to downsize to smaller homes. According to a recent study of Australian census data, 55% of Australians aged 25-39 were homeowners in 2021, compared to 66% of the same age group in 1991.

The "Age Pension" is subject to both asset and means-testing. Under the above rules, the proceeds from the sale of a principal residence were exempt from means-testing for 12 months, with a possible additional extension of 12 months under extenuating circumstances. Moreover, most of the income from the sale of a home was considered to generate income at a rate of 2.25 per cent per annum. (This attributed income is considered in the means-testing for the Age

Pension.) Under the new rules, the means-testing exemption for income from the sale of homes has been extended to 24 months (with a possible additional 12-month exemption under extenuating circumstances), and the estimated rate used to calculate annual income from these funds has been reduced to 0.25 percent. Thus, retirees who sell a primary residence will have more time before the proceeds of the sale are considered in the means-testing and less income is considered in the means-test.

(Source: SSA International Update January 2023; Date: January 2023).