

Pension Notes

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Performance of the Latin American pension funds in 2022



Federación Internacional
de Administradoras
de Fondos de Pensiones

Executive Summary

This document provides relevant pension system statistics for 2022, related to variables such as contributors, coverage, pension funds and investment portfolio.

- **Contributors:** The positive regional contributor growth over the last 12 years resumed in 2022, increasing by 1.7 million between 2021 and 2022 (a 3.87% increase). This upward trend had been interrupted in the year of the COVID-19 health emergency, in which a 3.6% drop was recorded. This general positive trend was repeated in each country, with numbers of contributors increasing in all of them, Peru being the most notable case with an increase of 8.65%, thus reversing its 7.1% drop during the year of the pandemic.
- **Coverage:** This variable, measured as the ratio between enrolled members or contributors and the Economically Active Population (EAP), has continued its upward trend in the last 12 years. Coverage, measured as enrolled members vs EAP, increased by 1.3 percentage points (pp) between 2021 and 2022, from 95% to 96.3%, whereas coverage, measured as the number of contributors vs EAP, also increased by 0.5 pp (from 33.9% in 2021 to 34.4% in 2022). Chile and the Dominican Republic obtained negative variations between 2021 and 2022. This indicator dropped the most in Chile, with a negative variation of 2.1 pp. There were no significant variations in Mexico and Panama. Finally, the countries with positive variations were El Salvador, Colombia, Costa Rica, Peru and Uruguay, the latter having the highest increase of 2.1 pp.
- **Pension funds:** Total funds dropped slightly from USD 624,456 million to USD 623,850 million in 2021 and 2022. Funds as a proportion of GDP also dropped by 2.1 pp, from 25.1% to 23% of GDP. Three factors explain the drop in the level of managed funds: (i) the early fund withdrawal policies in Chile and Peru, which led to the global disbursement of USD 71,359 million by the end of 2022; (ii) the drop in the real average annual returns of the pension funds (despite which their long-term values since the beginning of the systems are still around 6.7%); and (iii) the depreciation of local currencies with respect to the US dollar, especially in Chile, Colombia and Peru.
- **Investment portfolio:** As in previous years, the weighted average share of pension funds by economic sector for 2022 is still dominated by the Government sector, followed by the Foreign sector, with 39.52% and 27.54%, respectively. There were increases in the government, foreign and financial sector figures, compared to 2021. The average share of the corporate sector, on the other hand, dropped by 6 pp.

Introduction

Both positive and negative results were recorded in the individual savings systems in Latin American countries in the years of economic recovery after the COVID-19 crisis. On the one hand, the number of contributors increased as of 2020, although the level of managed funds has not yet recovered. The pensions received in the individual savings systems are linked to the long-term returns provided

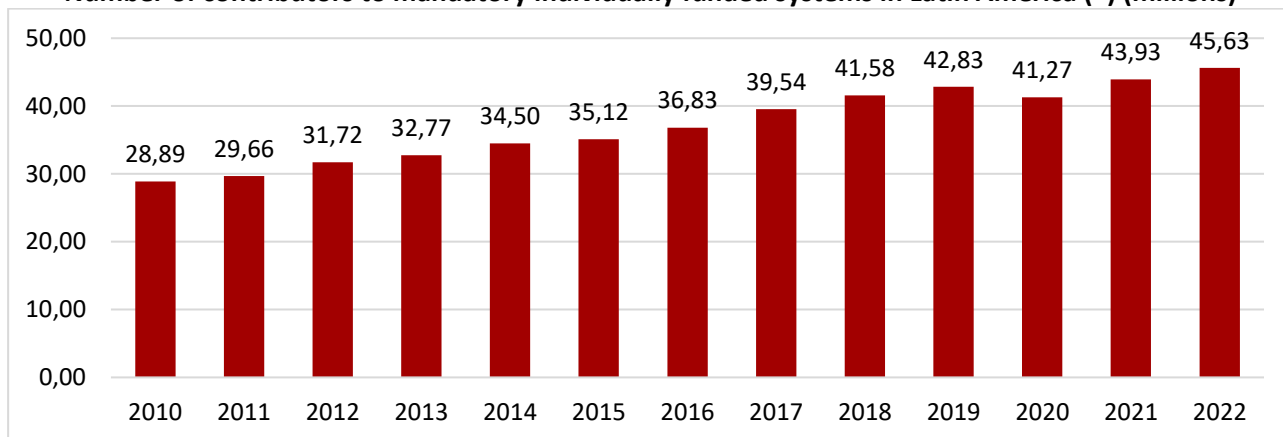
by the system. Hence, although the low 2021 and 2022 yields were bad news, the historical real annual returns of these funds have performed well, standing at around 6.7%, on average, by the end of 2022.

This pension note provides an analysis of statistics related to mandatory individual savings systems in Latin American countries that are FIAP members. Most of the statistics and graphs presented in this document are available in the [2022 annual statistical report](#), which also covers other relevant data. This analysis of the contributors, coverage, pension funds and investment portfolios was based on this data.

I. CONTRIBUTORS

The number of contributors in the mandatory individual savings systems in the region increased by 1.7 million in 2022, compared to the previous year, reaching 45.63 million contributors, as shown in Graph 1, and exceeding the number of contributors prior to the pandemic (2019) by almost 3 million. This was partly because economies revived after the easing of health restrictions.

Graph 1
Number of contributors to mandatory individually funded systems in Latin America (*) (millions)

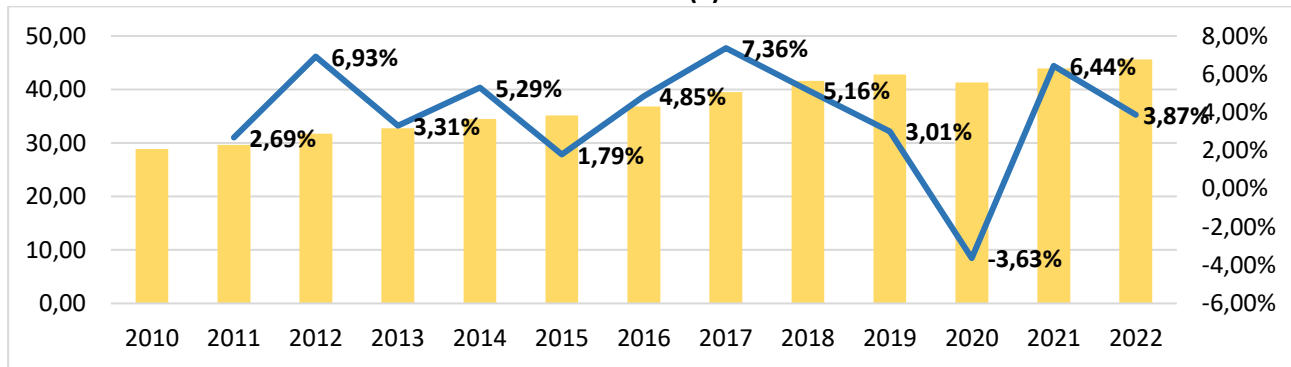


Source: FIAP.

(*) To make the figures comparable over the years, and due to lack of information, the total number of contributors does not include Bolivia.

As can be seen in Graph 2, although some years have greater variations than others, with 2017 being the year with the best results, the trend in recent years has always been positive, with the exception of 2020.

Graph 2
Percentage variation in the number of contributors in the mandatory individually funded systems in Latin America (*)



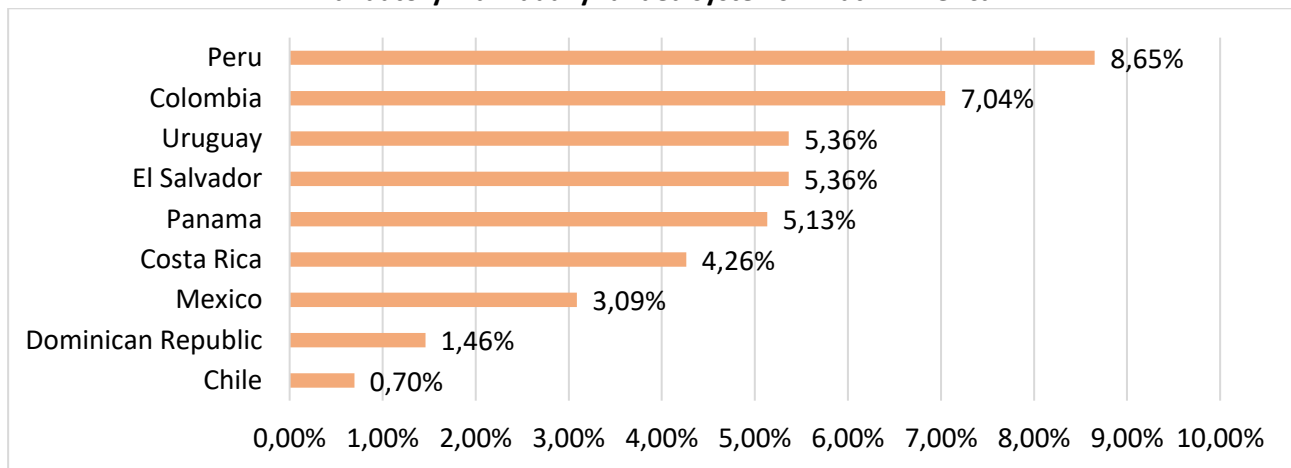
Source: FIAP.

(*) To make the figures comparable over the years, and due to lack of information, the total number of contributors does not include Bolivia.

As can be seen in Graph 3, all countries in the region had positive variations in 2022, the most noteworthy being Peru, with an increase of 8.65%. It is important to highlight this figure because Peru had a 7.1% drop in the number of contributors in 2020, as can be seen in Figure 4.

This Peruvian recovery reflects greater stability compared to the Dominican Republic, as evidenced in Figure 4. The yellow bar in this graph represents the variations during the year of the pandemic, the only year with negative results. After its 7% drop in 2020, Peru had two consecutive years of positive variations, close to 9%. Conversely, the Dominican Republic, which had an almost 10% drop in 2020, experienced more volatile variations in the following two years, with an increase of 14.2% in 2021 and only 1.5% in 2022. Finally, the number of contributors in all countries in 2022 exceeded those in 2019, prior to the pandemic.

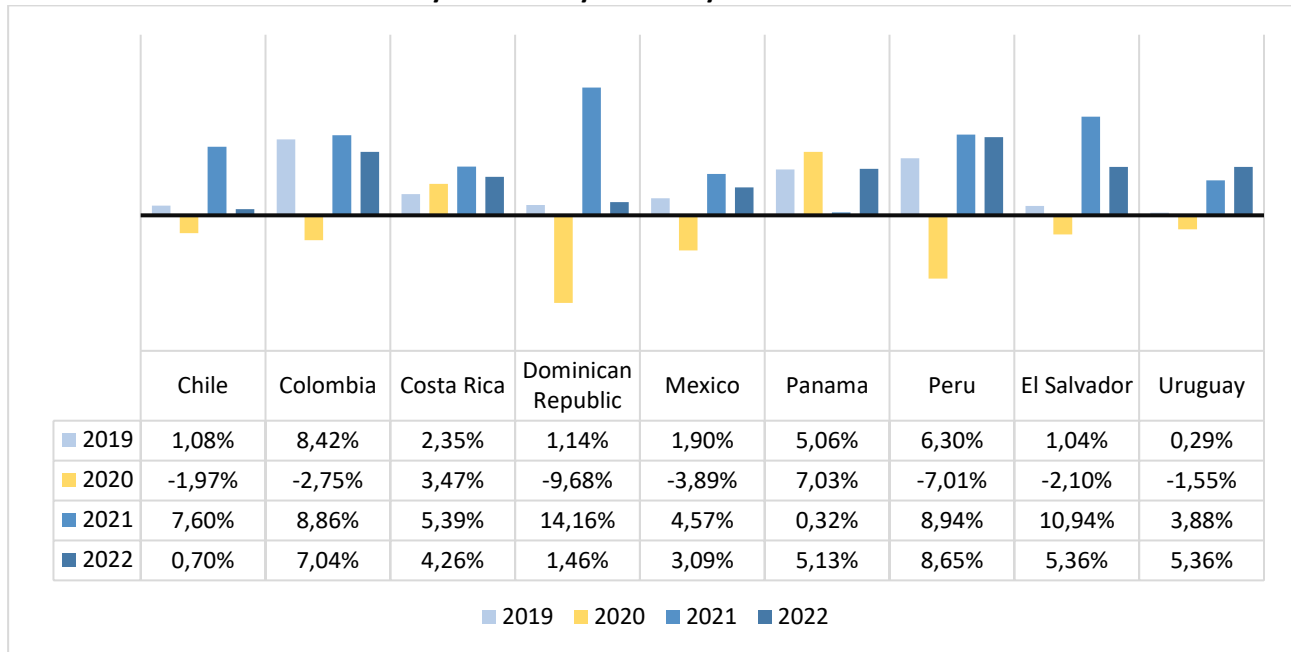
Graph 3
% Variation in the number of contributors by country in 2022/2021
Mandatory individually funded systems in Latin America



Source: FIAP.

Note: In the case of Panama, the data of the mandatory Public Servants' Individual Savings System (SIACAP) has been considered for all intents and purposes.

Graph 4
% variation in the number of contributors per country compared to the previous year
Mandatory individually funded systems in Latin America



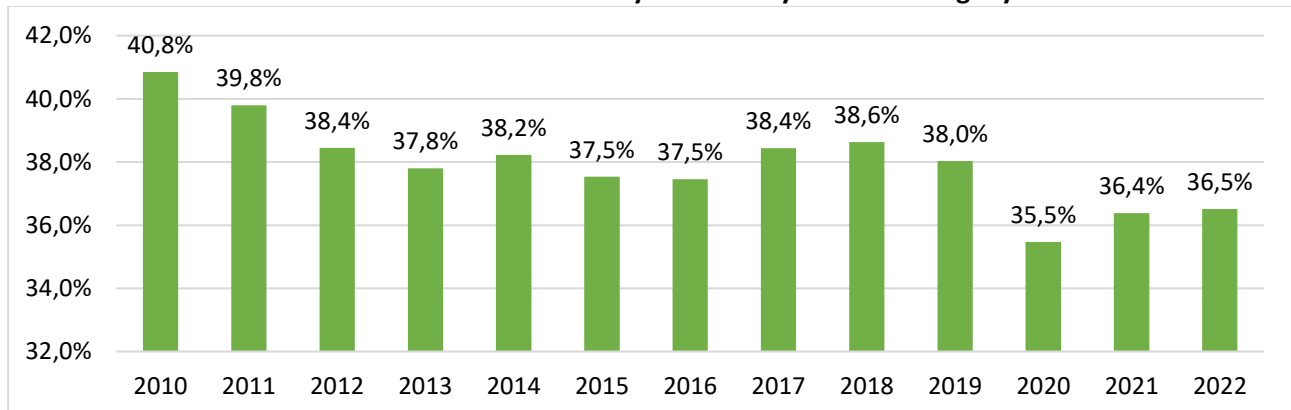
Source: FIAP.

Note: In the case of Panama, the data of the mandatory Public Servants’ Individual Savings System (SIACAP) has been considered for all intents and purposes.

Percentage of contributing enrolled members

Compared to 2021, the number of contributors vs enrolled members in the mandatory individual savings systems in the region remained stable in 2022, with a slight increase of 0.1 percentage points (see Graph 5).

Graph 5
Contributors vs enrolled members in the mandatory individually funded savings systems in Latin America

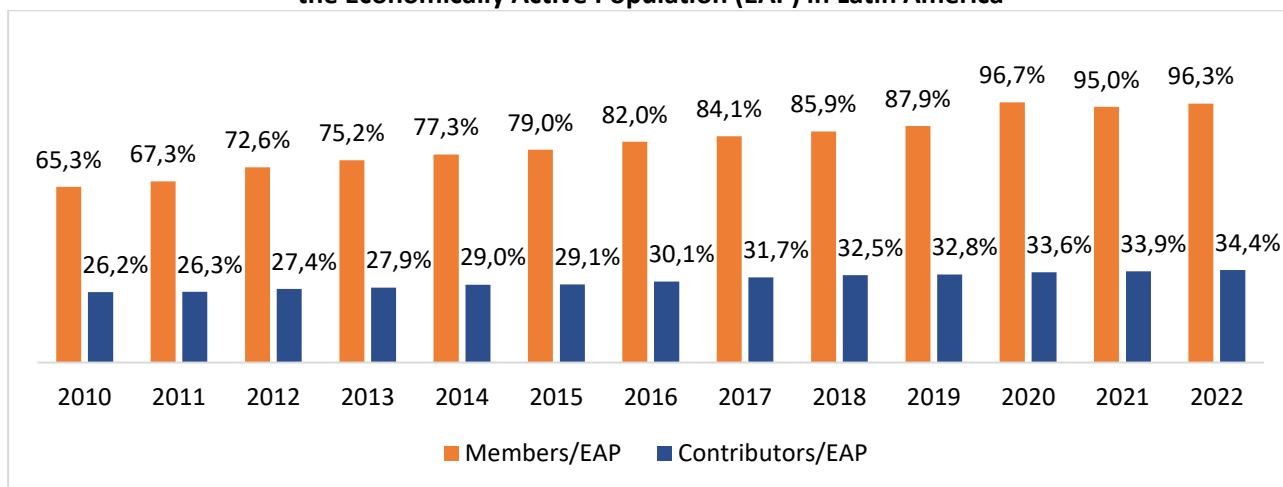


Source: FIAP.

II. **COVERAGE**

The evolution of coverage, understood as the ratio between enrolled members or contributors in the mandatory individual savings systems and the Economically Active Population (EAP), is shown in Graph 6. Compared to 2021, coverage measured as enrolled members vs the EAP, increased from 95% to 96.3% in 2022, i.e., 1.3 percentage points. Likewise, this variable measured as contributors vs EAP, increased by 0.5 percentage points, thus maintaining the gradual growth in the last 12 years.

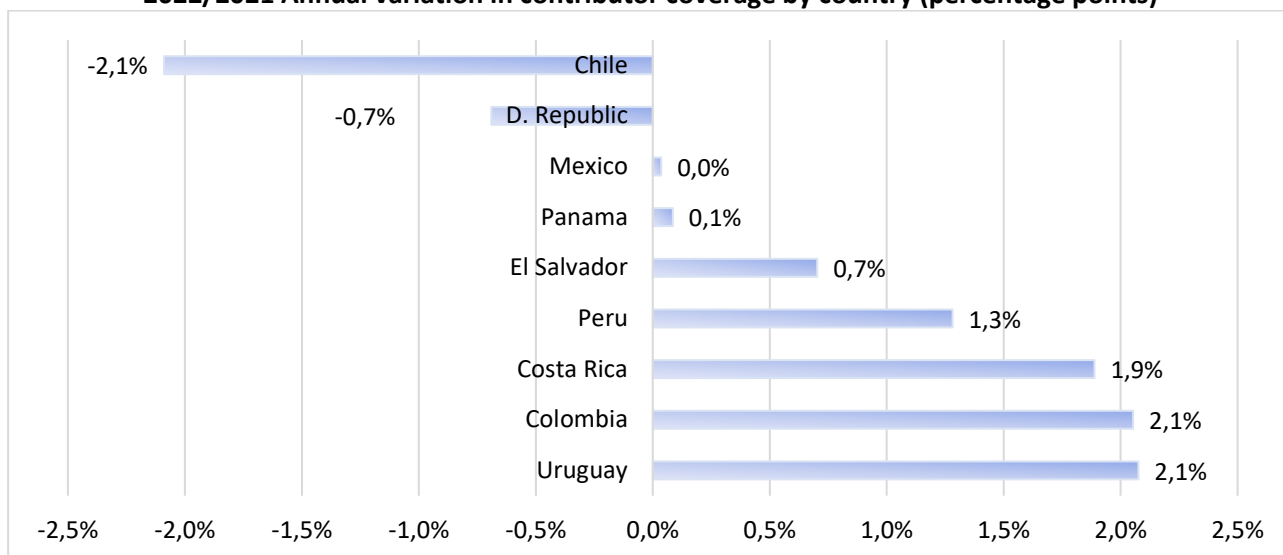
Graph 6
Enrolled members and contributors in the individually funded systems vs the Economically Active Population (EAP) in Latin America



Source: FIAP.

Graph 7 shows pension systems coverage by country between 2021 and 2022, with variations measured in percentage points. Despite an increase in contributors, the even higher EAP growth resulted in a decrease in the contributor/EAP ratio in Chile and the Dominican Republic. In Chile, it dropped from 65.3% in 2021 to 63.2% in 2022, and in the Dominican Republic, from 35.9% to 35.2%. This reveals how important it is for the increase in the EAP to be accompanied by good job opportunities for those who wish to join the labor market, and that jobs are of a formal nature, in order to increase the number of contributors. The best results, on the other hand, were recorded by Colombia and Uruguay, with an annual variation of 2.1%.

Graph 7
2022/2021 Annual variation in contributor coverage by country (percentage points)



Source: FIAP.

Note: In the case of Panama, the data of the mandatory Public Servants’ Individual Savings System (SIACAP) has been considered for all intents and purposes.

In summary, the evolution of coverage vs contributors in Latin America has grown steadily, despite the health crisis and its harmful effects on the labor market. The challenge is to continue increasing this indicator, requiring greater formalization of economies.

III. PENSION FUNDS

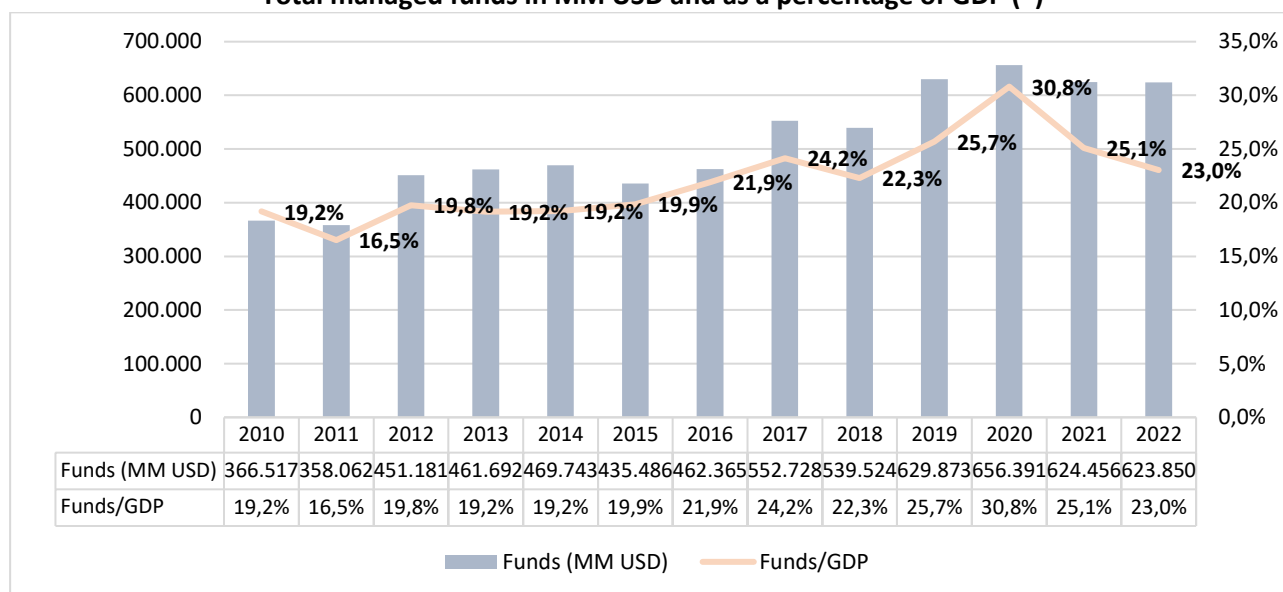
From 2010 to 2020 there was an upward trend in the pension funds in mandatory savings systems, reaching the amount of USD 656,391 million (30.8% of GDP), with slight drops in the next two years, ending with USD 623,850 million in 2022 (23% of GDP) [see Graph 8].

The drop in the last two years can be explained by at least three factors: 1) The early fund withdrawal policies in Chile and Peru, during and after the pandemic, with a total withdrawal in Chile of USD 48,339 million, and USD 23,020 million in Peru; 2) The negative impact of the pandemic on pension fund returns, which have been decreasing, recording an annual real weighted average return in the mandatory individual savings systems in Latin America of 5.8% in 2020, 2.4% in 2021, and -9.9% in 2022 (see Table 1); and 3) The depreciation of local currencies against the US dollar between 2020 and 2022 in Chile, Colombia and Peru (see Graph 9), countries representing more than 44% of the total funds of the Latin American region.

Despite the lower real annual returns of the pension funds, their long-term performance is still very good. In fact, the real returns of the pension funds since the mandatory individual savings systems were introduced (historical real returns), are 6.7% on average in the period ending in December 2022 (see Table 2). As repeatedly stated, it is important to mention that the pension funds’ investment performance must be seen in the long term, since the benefits will be paid over the

same period. It is a mistake to focus on short-term assessments (increases or decreases in the value of the pension funds), since they are influenced by economic conditions that will not necessarily be repeated in the future.

Graph 8
Total managed funds in MM USD and as a percentage of GDP (*)



Source: FIAP.

(*) Considers: Bolivia, Colombia, Costa Rica, Chile, El Salvador, Mexico, Panama, Peru, Dominican Republic and Uruguay.

Note: In the case of Panama, the data of the mandatory Public Servants’ Individual Savings System (SIACAP) has been considered for all intents and purposes.

Table 1 - Annual real return on mandatory individual savings systems in countries with available information (2020-2022)

	2020	2021	2022
Colombia (1)	8.2%	5.9%	-15.6%
Costa Rica	8.6%	14.1%	-14.0%
Chile (2)	3.9%	0.1%	-7.5%
El Salvador	4.7%	-2.0%	-5.8%
Paraguay (3)	8.4%	0.1%	-14.4%
Dominican Republic	4.5%	3.4%	-2.1%
Barbados (1)	10.1%	4.9%	-9.9%
AUM weighted average	5.8%	2.4%	-9.9%

Source: FIAP.

(1) Colombia: The annual real return shown corresponds to the Moderate Fund. The Net Asset Value (NAV) methodology employed by the Colombian Association of Pension and Unemployment Fund Managers (ASOFONDOS), was considered. Note that the Multifunds in this country began operating in March 2011, and the Moderate Fund is the continuation of the former sole existing fund. The other funds are: (i) Higher Risk Fund; (ii) Conservative Fund; and (iii) Programmed Withdrawal Fund.

(2) Chile: The data shown is the real weighted average return of all Multi-Funds (Fund A [Riskiest]; Fund B [Risky]; Fund C [Intermediate]; Fund D [Conservative]; Fund E [Most Conservative]). These returns are weighted by the level of assets in each Multi-fund vs the total assets of the pension funds.

(3) Peru: The real return shown in the series is the real return of the Type 2 Fund (Mixed or Balanced)

(4) Uruguay: The data show the returns of the Accumulation Sub-Fund.

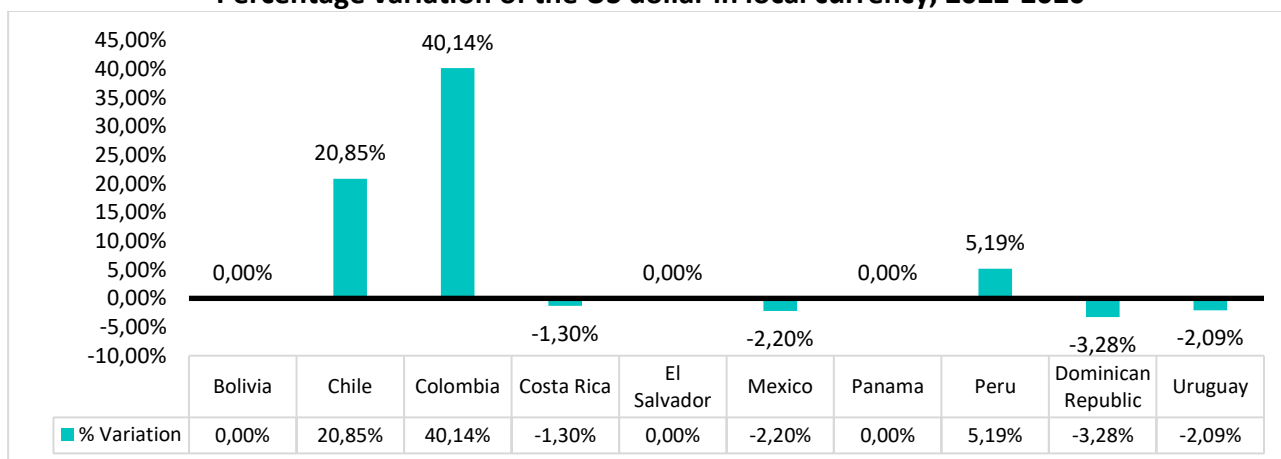
Table 2 - Historical real annual returns of the mandatory individual savings systems in countries with available information (years 2020-2022)

	2020	2021	2022
Colombia (1)	8.0%	7.9%	6.9%
Costa Rica	5.4%	5.8%	4.8%
Chile (2)	8.0%	7.8%	7.3%
El Salvador	3.3%	3.0%	2.5%
Paraguay (3)	7.1%	6.8%	6.0%
Dominican Republic	7.5%	4.8%	4.7%
Barbados (1)	7.5%	7.4%	6.7%
AUM weighted average	7.6%	7.3%	6.7%

Source: FIAP.

- (1) Colombia: The real historical annual return shown corresponds to the Moderate Fund.
- (2) Chile: The data shown is the real historical annual return of intermediate fund C (from 1981 to each respective year).
- (3) Peru: The real historical annual return shown is that of the Type 2 Fund (Mixed or Balanced).
- (4) Uruguay: The data show the real historical returns of the Accumulation Sub-Fund.

Graph 9
Percentage variation of the US dollar in local currency, 2022-2020



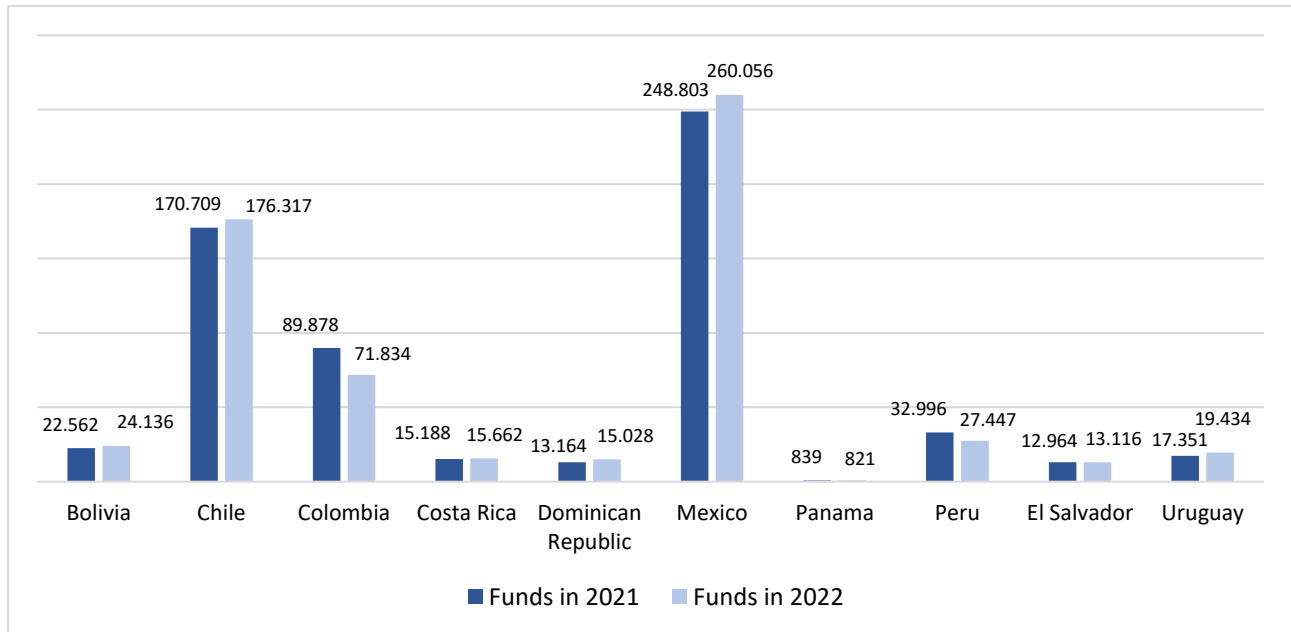
Source: FIAP.

Graph 10 shows a comparison of pension funds per country in 2021 and 2022. In this analysis, Mexico stands out as the country with the highest level of funds, amounting to USD 260,056 million in 2022, with Chile in second place, with USD 176,317 million. It is important to mention that Mexico has a much larger population than Chile, which has a bearing on this difference.

Panama, on the other hand, had the lowest level of funds in 2022, with only USD 821 million. Finally, it is worth mentioning that fund levels decreased in three countries: Colombia, Panama and Peru. The drop in Peru is mainly due to massive new withdrawals of pension funds and the drop in the average real annual returns of the funds (from 0.1% in 2021 to -14.4% in 2022). Colombia was the country with the largest decrease, from USD 89,878 million in 2021 to USD 71,834 million in 2022, which can be explained by the lower real average annual returns of funds (from 5.9% in 2021 to -

15.6% in 2022) and the significant depreciation of the local currency against the US dollar between 2021 and 2022 (of more than 20%).

Graph 10
Total managed funds per country in the mandatory individual savings systems
Millions of USD in 2021 and 2022



Source: FIAP.

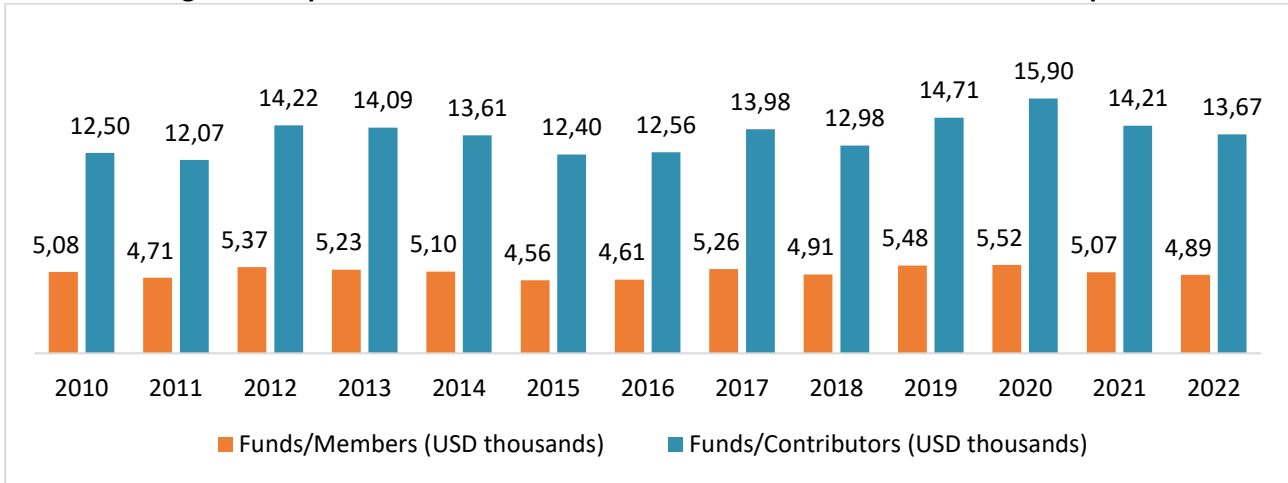
Note: In the case of Panama, the data of the mandatory Public Servants’ Individual Savings System (SIACAP) has been considered for all intents and purposes.

Enrolled members and pension fund contributors are shown in Graphs 11 and 12. First, according to Graph 11, the average funds per enrolled member were USD 5,084 in 2010, and USD 4,891 in 2022, which reveals the drop in total funds in 2021 and 2022, as shown in Graph 8. Second, funds per contributor rose from USD 12,499 in 2010 to USD 13,672 in 2022, but this variable also decreased in 2021 and 2022.

Finally, according to Graph 12, which shows the funds of enrolled members and contributors managed in several countries, Chile leads with USD 38,792 million, whereas Panama has the lowest amount of USD 4,654 million. Panama also has the lowest total level of funds in the region. The highest amount in Chile is explained by the fact that it is the oldest system in the sample.

Graph 11

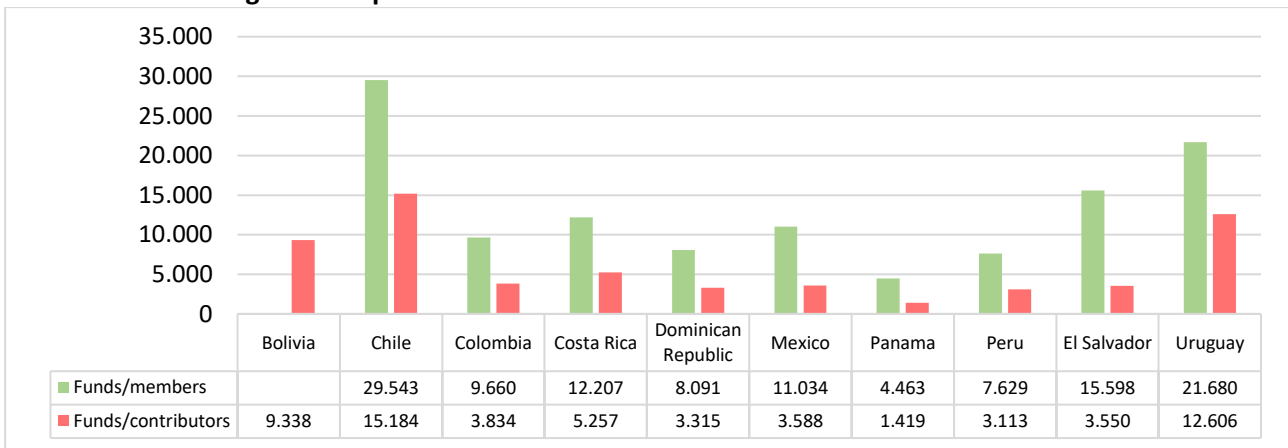
Total managed funds per enrolled member and contributor in thousands of USD – Respective Years



Source: FIAP.

Graph 12

Total managed funds per enrolled members and contributors in thousands of USD - 2022



Source: FIAP.

Note: In the case of Panama, the data of the mandatory Public Servants' Individual Savings System (SIACAP) has been considered for all intents and purposes.

IV. INVESTMENT PORTFOLIO

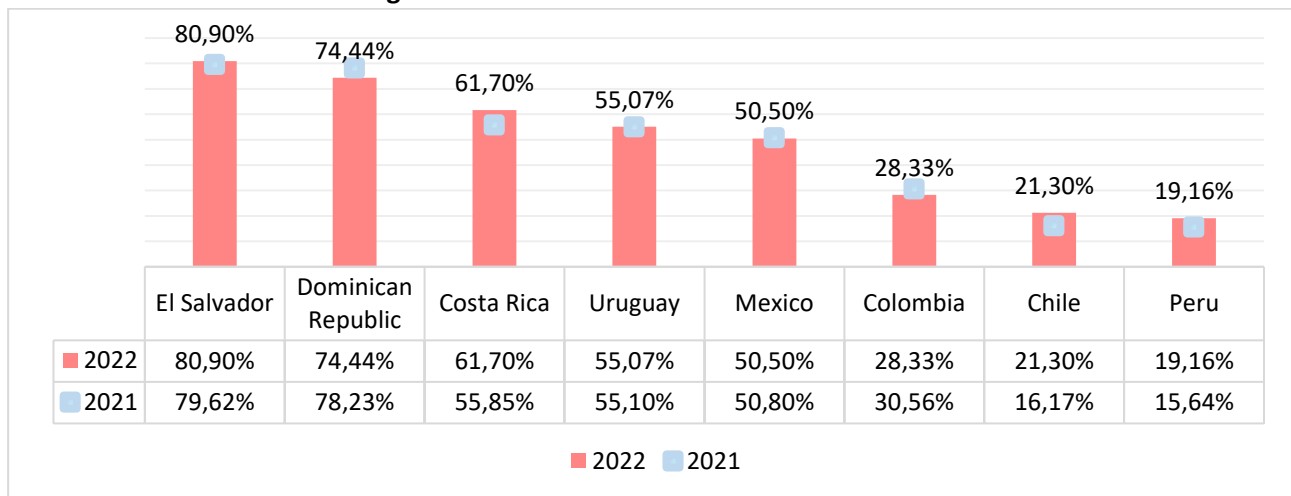
As can be seen in Graph 13, there is broad diversity in the investments made in Government (State) instruments. El Salvador stands out with the highest proportion of 80.9%, while Peru has the lowest level at 19.16%. There were variations on this type of investment in Costa Rica, Chile, Peru and El Salvador in 2021, with increases of 5.85 pp, 5.13 pp, 3.52 pp and 1.28 pp, respectively, whereas decreases were observed in the Dominican Republic (-3.79 pp), Colombia (-2.23 pp), Mexico (-0.3 pp) and Uruguay (-0.03 pp).

In the Corporate sector (Graph 14), investments fluctuate between 1% in Costa Rica, up to 30% in Peru. The Dominican Republic and El Salvador do not have equity investments in this sector. Equity investments are greater than those in fixed income only in Peru and Colombia, with significant differences.

In the financial sector (Graph 15), the percentage ranges from 3.2% in Mexico to 19.5% in Chile, showing that regional investments in fixed income are higher than those in equities, with the exception of Colombia, where the percentage in equities is 6.84% and 4.77% in fixed income. Finally, there are no equity investments in Mexico, El Salvador, Uruguay and the Dominican Republic.

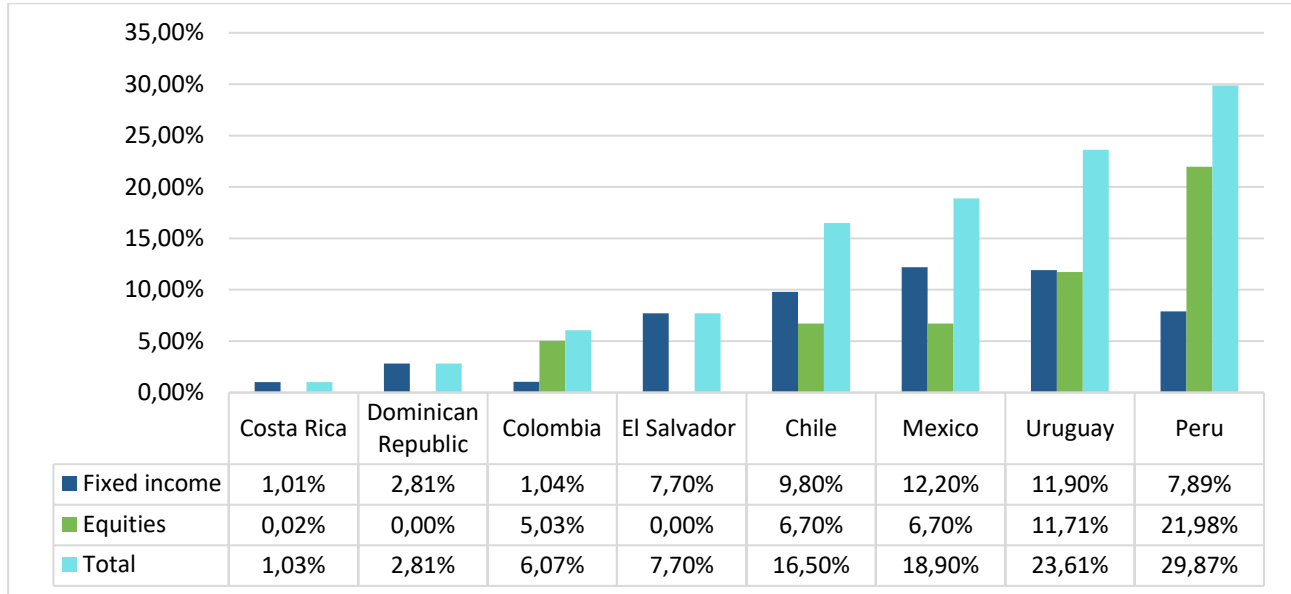
As shown in Graph 16, total foreign investment in the Dominican Republic is zero, in contrast to the other countries analyzed, where it varies from 6.5% in El Salvador to 41.3% in Chile, and 54.21% in Colombia. In all these countries, equity investment significantly exceeds fixed income investment in this sector, except in the Dominican Republic, which, as previously mentioned, has no foreign investment.

Graph 13
Percentage of investment in Government instruments – 2022



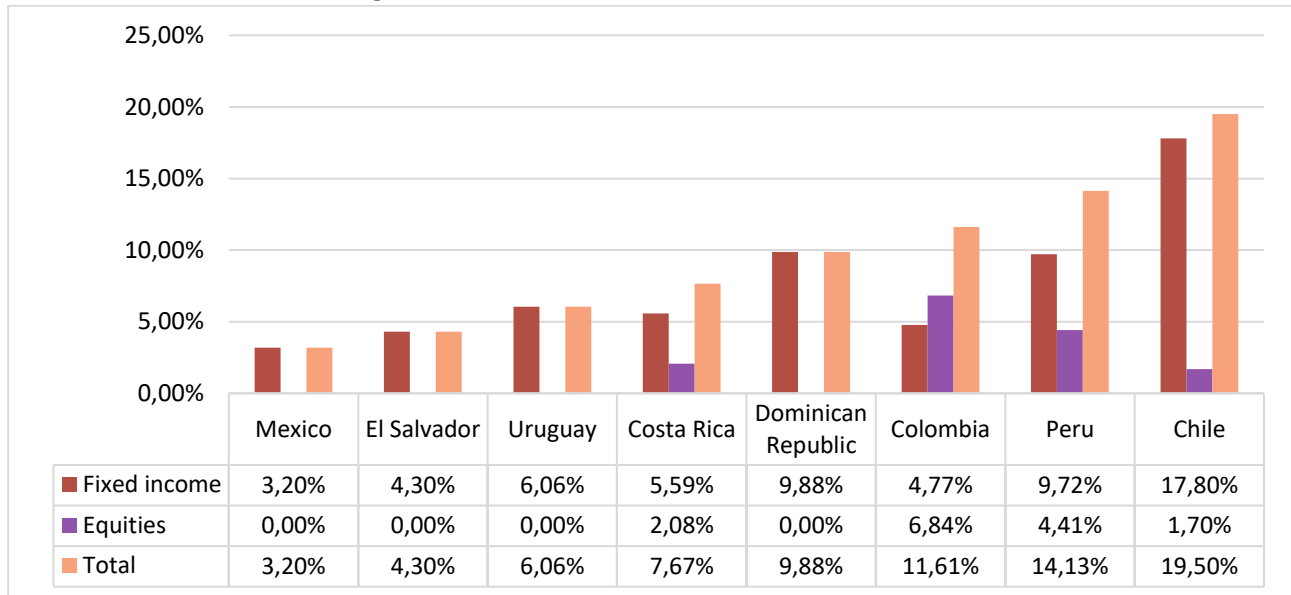
Source: FIAP.

Graph 14
Percentage of investment in Corporate Sector instruments – 2022



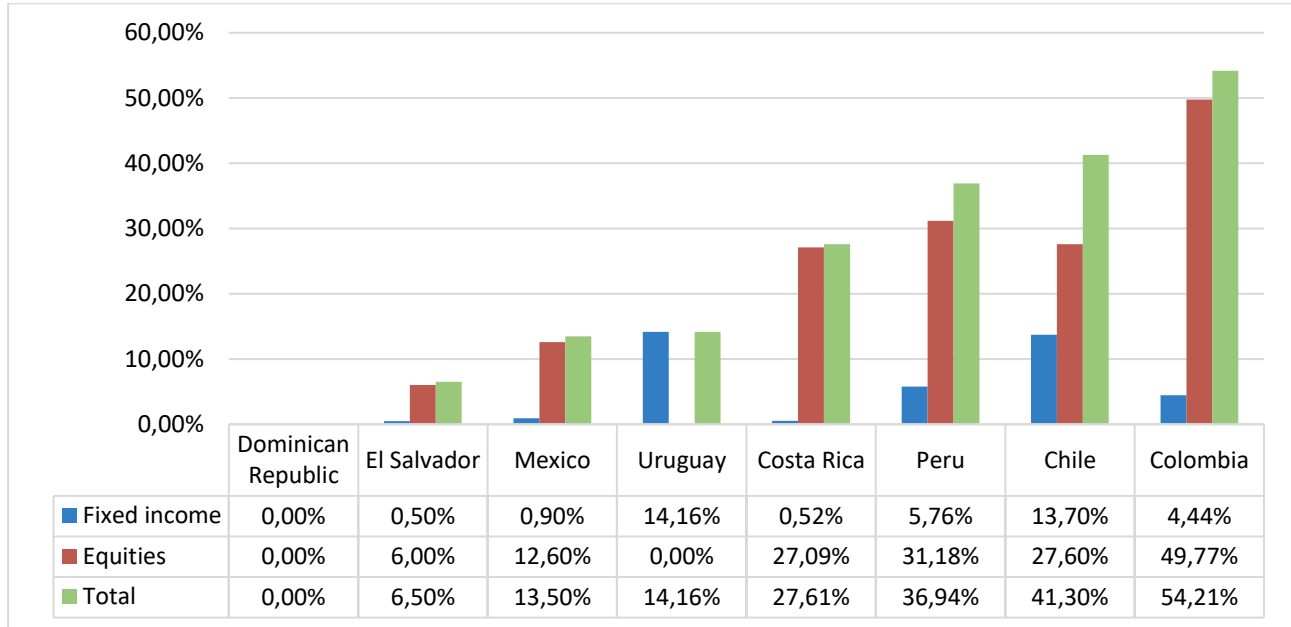
Source: FIAP.

Graph 15
Percentage of investment in Financial Sector instruments - 2022



Source: FIAP.

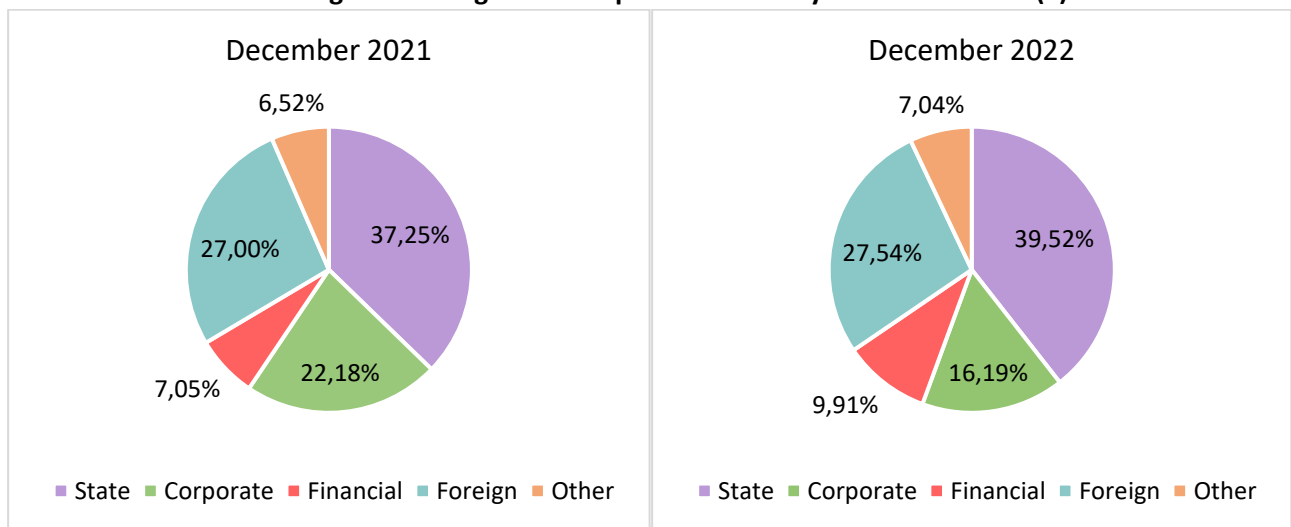
Graph 16
Percentage of foreign investment - 2022



Source: FIAP.

Finally, Graph 17 shows the weighted average share of pension funds by economic sector for the years 2022 and 2021. The Government and Financial sectors increased their share, and the Foreign sector slightly increased its share, while the Corporate sector had a considerable 6% reduction. The Domestic and Foreign sectors were still the most dominant in the countries under study in 2022, with 39.52% and 27.54% of the total portfolio, respectively.

Graph 17
Weighted average share of pension funds by economic sector (*)



Source: FIAP.

(*) Average share of each sector weighted by the percentage of funds managed in the respective country, compared to the regional total, December 2022 and December 2021.

Sources

FIAP: <https://www.fiapinternacional.org/estadisticas/>

FIAP: https://www.fiapinternacional.org/wp-content/uploads/2023/08/Informe_estadistico_anual_dic_2022_espanol-1.pdf

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