

In a Congress organized by FIAP and the Mexican Association of Pension Fund Managers:

FIAP warned that 60% of people over 65 do not receive a contributory pension in Latin America

During his speech, the President of the International Federation of Pension Fund Administrators, Guillermo Arthur, attributed this problem to the labor informality in the region.

October 23, 2023.- Academics and experts from different countries attended the 2023 Amafore (Mexican Association of Pension Fund Managers) Congress in the Citibanamex Convention and Exhibition Center in Mexico City, jointly organized by AMAFORE and the International Federation of Pension Fund Administrators (FIAP).

One of the objectives of this year's Assembly was to analyze the scope of investment possibilities of the pension savings accumulated by workers throughout their active working lives.

Along these lines, FIAP's President Guillermo Arthur highlighted the advantages of alternative instruments for improving the returns on existing investments in the investment portfolios of many countries. "Investment in alternative instruments in the region is not more than 5.1% of the portfolios, on average, whereas it is between 20% and 50% among the main institutional investors worldwide," he added.

Consequences of labor informality

Another issue he addressed during his speech was the concern regarding the effects of high labor informality on the financing of pensions in Latin America. "60% of people over 65 do not receive a contributory pension in Latin America. Hence, we have explored tools that mitigate its impact on pensions," he said.

One of the proposals for addressing this problem is to allocate a percentage of VAT to the individual accounts of workers, which should be considered for further development, as in Chile, Costa Rica, Peru and Uruguay.

Along these lines, Arthur also insisted on the benefits entailed in voluntary savings with automatic enrollment, whereby workers are automatically enrolled in a voluntary savings plan, with the ability to opt out if they choose to do so.

"On reviewing the case of the United Kingdom, we can see that between 2012 and 2021 the percentage of workers enrolled in voluntary savings programs grew from 46.5% to 79.4%, while opt-out rates were relatively low, fluctuating between 8 and 10%," he said.

Returns of the funds

The real annual return on the investments of fund managers in contributory pension systems is approximately 6.7% while such systems have been operative in FIAP member countries.

"This means that, in some countries, the value of the funds of the first generations of workers have tripled and even quadrupled the amounts of their paid-in contributions. An analysis of the composition of workers' funds reveals that their contributions account for no more than one third of their value. The rest is the result of the returns on fund investments, thanks to the excellent performance of the fund managers," he said.
