Progress of the Pension Systems

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No.5

This document compiles the major changes that occurred in the pension systems in September and October 2023, 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 November, 2023.

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Federación Internacional de Administradoras de Fondos de Pensiones

Executive Summary by area of interest

New pension programs and social security reforms (approved)

- **Mexico:** In October, the Pension Regulator, CONSAR, announced that the Pension Fund Managers (Afores) will charge 0.57% commission on workers' balances as of 2024, for the third consecutive year.
- **United Kingdom**: A law was passed in September that extends the coverage of the pension program based on automatic enrolment, by reducing the minimum enrolment age (from 22 to 18) and eliminating the minimum annual income threshold for being able to participate (of approx. USD 7,646) [prior to this law, contributions to this program were only paid when the worker's annual income exceeded that threshold].

Reforms proposed or being discussed

- **Chile:** On Chile Day London 2023, the Superintendent of Pensions, Osvaldo Macías, asked the Central Bank to extend the investment limit of the AFPs in alternative assets, which would help improve the risk/return profile of investments, and thus improve future pension amounts.
- **Colombia:** The Ministry of Finance and ASOFONDOS expressed concern about the high costs and fiscal consequences of the government's proposed pension bill of law, leaving an unpayable debt to the next generations (of up to 186% of GDP). ASOFONDOS insists that the reform must be sustainable over time and cover the old-age risks of current and future generations.
- **Costa Rica:** The Pension Commission proposed dividing members into four generational funds, with the riskiest for younger people and the most conservative for those about to retire.
- **Peru**
  - The Association of AFPs announced its pension reform proposal based on individual savings, which includes a minimum guaranteed pension (with at least 20 years of contributions), a proportional contribution by the State for an equivalent amount, the reimbursement of 1% of the annual General Sales Tax (IGV) to the individual accounts of workers, a fund or seed capital to each newborn child in individually funded accounts, and greater competition in fund management, with the same rules for all competitors.
  - The Ministry of Economy and Finance submitted its pension reform bill of law to Congress in early October, but it is still under discussion. The proposal is organized into four pillars: Non-Contributory, Semi-contributory, Contributory and Voluntary Pillars. The bill of law seeks to increase non-contributory and contributory coverage, encourage greater competition, and establish a minimum monthly pension of PE$600 (approx. $156).
  - **Dominican Republic**: The Pension Commission submitted for consultation the regulatory framework for the application of complementary pension plans which may be offered by the Pension Fund Managers (AFPs), whereby members can contribute to their accounts through consumption, with all authorized means of payment. These plans may provide early fund withdrawal options under certain conditions, such as the acquisition of a first home, coverage of higher education inside and outside the Dominican Republic, or major medical expenses.

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

- **Germany:** The Government's Advisory Council of Economists called for a gradual increase in the official retirement age (by 6 months every 10 years), in addition to asking young people to contribute to their private schemes, all in order to contain public pension expenditure in the PAYGO system and avoid increases in the amounts of contributions.
- **Ecuador:** The government has not paid its contributions to the PAYGO system between March and July this year, due to which the Ecuadorian Social Security Institute (IESS) warned of the high risk of defaulting on payment to retirees and sinking into "illiquidity."
- **Spain:** Due to population aging, Moody's agency requested adjustments to the PAYGO pension system to guarantee its long-term sustainability and thus avoid a deterioration of its credit rating. At the same time, in its latest economic study of the country, the OECD called for increasing the retirement age (aligning it with life expectancy) and reducing pensions, in order to ease fiscal pressure (it is estimated that pension expenditure will continue to rise until 2040, due to mass retirements and the impact of their annual revaluation against the CPI).

Relevant reports

- **Mercer published its global pension index**, which assesses the pension systems of 47 countries. The best rated countries were the Netherlands, Iceland, and Denmark, with the worst being India, the Philippines and Argentina. This edition also analyses the potential impact of Artificial Intelligence on pension systems.
- **Criteria published a document that examines labor informality in Chile**. The report states that 70% of people agree that informality is due to low salaries.
- **Instituto Santalucía published a document that analyzes the status of the Spanish PAYGO pension system**, based on 20 indicators. One of these indicators (dependency ratio), reflects the aging of the Spanish population.
- **Estudios Públicos published a study showing that the 1980 pension reform in Chile, which switched from a PAYGO system to an individually funded savings system,** had positive and significant impacts on the participation of people between 50 and 70 years of age in the labor market, particularly women.
- **The International Social Security Association (Issa) published a report on the status of non-contributory pensions in the region.** The report points out that these schemes are complementary to the PAYGO programs aiming to combat poverty in old age, and that it is essential to avoid excessive public expenditure on them and promote formal work with social security coverage, in order to avoid sustainability problems.

Relevant reports or presentations

Mercer published its 2023 Mercer CFA Global Pension Index. The report assesses the different global pension systems, covering 47 countries and including Botswana, Croatia and Kazakhstan for the first time. In addition to comparing and evaluating systems, the index highlights shortcomings and suggests improvements.

The main article in this edition discusses artificial intelligence and its impact on pension systems by enabling improved decision-making, contributing to greater staff productivity and better investment portfolio management, thus influencing long-term returns.

Globally, the top performer was the Netherlands with an 85-point index, followed by Iceland (83.5), and Denmark (81.3). This index is the result of the adequacy, sustainability and integrity sub-index ratings, weighted at 40%, 35% and 25%, respectively, in the final index. Portugal was the highest-ranking country in the adequacy sub-index, Iceland in sustainability, and Finland in integrity.

The highest ranking Latin American countries were Chile, ranked 14th with 69.9 points, followed by Uruguay ranked 15th, with 68.9 points. The country with the poorest performance in the region, and with a very low assessment, was Argentina, ranked 47th with 42.3 points. ***(Source: Mercer; Date: 17.10.2023)***.

Criteria prepared a document for the Association of AFPs entitled "Myths and realities of labor informality in Chile." The study was based on a national survey of 2,000 people, covering perceptions, incentives and motives related to labor informality. 26.7% of the Chilean labor market is informal, so reducing this percentage is a significant challenge for increasing pensions.

The first section of the report "The realities of labor informality: an ethnographic approach," is based on the following points:

- The realities of informality: i) It is not an identity; ii) it is assumed with dignity; iii) it is not voluntary, but merely occurs; and iv) it is a poorly defined and intermittent experience.
- People are self-employed because of i) a yearning for independence; ii) job loss; iii) formal employment is not always available; iv) a culture of informality; and v) low incentives for formalization.
- There are different types of self-employed people: the adventurer, the entrepreneur, the instinctive and the improviser.

The second section "Myths regarding labor informality" points out that:

- 64% would choose to be self-employed if they could freely choose to be independent or dependent.
- Regarding the phrase "the self-employed have better income than contracted workers," 27% agreed, 19% disagreed and 54% neither agreed nor disagreed.
- In relation to employment preferences, 70% prefer a job with a rigid schedule but with health insurance and assured retirement, versus 30% who prefer flexible schedules even if they do not have health insurance and assured retirement.

Finally, among the causes of informal employment, 70%, the highest percentage, said that it was due to low salaries. ***(Source: AAFP; Date: October 2023)***

Instituto Santalucía publishes "El Pensiómetro: El Barómetro de las pensiones" (The Pensions Barometer). The document analyzes the state of the Spanish PAYGO system using 20 indicators based on official Social Security statistics. The most notable indicators are:

- The opposite of the dependency rate: measured as the ratio between the working-age population (20-64) and the population aged 65 and over, which dropped by .03 to 3.01, compared to 3.04 in the previous year), thus continuing the downward trend from 3.59 in 2021, reflecting the aging of the Spanish population in recent years.
- Effective retirement age: measures the actual retirement age, which is usually lower than the official retirement age due to the larger number of early retirements. In June 2023 it was 64.83 years, increasing by just under a month compared to 64.77 years in June 2022.
- Replacement rate: the replacement rate measured as the ratio between the average pension of retirees between 65 and 69 years of age and the average salary of workers between 60 and 64 years of age, shows an ongoing long-term reduction from 70.1% in 2012 to 66.8% in 2023, i.e., a reduction of 0.8 percentage points in the last year.
- Contributory balance: obtained as the difference between contributory income and expenditure. The contributory deficit of 1.84% of GDP in June this year was more moderate than the 1.98% deficit in June 2022. ***(Source: Instituto Santalucía; Date: September 2023)***

Perspectivas published the report "Challenges of the PAYGO pensions in Uruguay." Uruguay has a common pension system, based on the following four pillars: solidarity, distribution, mandatory savings, and voluntary savings. The text explains the two major reforms of its system, while diagnosing the PAYGO system.

The first major reform of the Uruguayan system occurred in 1995, when an individual savings pillar was introduced to complement the existing PAYGO pillar. The second reform occurred in 2023, its main purpose being to address the challenges faced by the PAYGO pillar.

The Uruguayan system was favorably assessed until 2020, due to its good ranking and replacement rate of 64% of the average salary for men. However, maintaining the PAYGO systems was unsustainable over time, due to population aging and excessive Uruguayan state expenditure, since the State had to spend 11.2% of GDP to sustain the PAYGO and solidarity pillars.

To address this issue, the 2023 reform (which does not increase the contribution rate because it is already high) includes the following: First, a gradual increase in the retirement age from 60 to 65. Second, the formula for calculating the PAYGO system's pensions was changed. Third, the contribution rate remained the same, but the contribution rate to the PAYGO system increased. Previously, half of the 15% contribution on the individual's salary went to the PAYGO pillar, and the other half to the mandatory savings pillar, whereas after the reform, 10% goes to the PAYGO system and 5% to mandatory savings. Finally, the exclusively PAYGO Funds that still existed in Uruguay switched to the common regime combining PAYGO and individual savings. ***(Source: Perspectivas; Date: September 2023).***

Estudios Públicos (Public Studies) analyses the effects of the 1980 pension reform in Chile in its article "The rules of pension systems and labor market participation between the ages of 50 and 70: evidence in Chile." The article undertakes to showcase the effects of the pension reform on the labor market, based on the transition from a PAYGO to an individually funded system in the 1980 reform. Data from household surveys conducted in Greater Santiago between 1957 and 2021 was used to perform this analysis. Using econometrics, the study estimates the likelihood of labor force participation by date of birth cohort, controlling for individual, socioeconomic, and macroeconomic characteristics.

The main results and effects of the reform of the pension system are:

- It has generated a significant increase in the probability of employment of retired men between 50 and 70 years of age.
- The probability of employment of pensioners between 60 and 70 years of age has significantly increased.
- It has had significant effects on the likelihood of employment, and even more significant effects for women between the ages of 50 and 64 who are still working. ***(Source: Estudios Públicos; Date: October 2023)***

The International Social Security Association (ISSA) published a report on the recent evolution of non-contributory pension programs in the region. The report points out that these types of programs complement the contributory social security systems, by providing a guaranteed source of income to people who are not adequately protected by other forms of social security. Thus, such schemes can be effective tools for fighting poverty in old age, promoting social inclusion, and mitigating the effects of inequalities in the labor market. The article discusses recent policy reforms affecting social pensions in Chile, Ecuador, Jamaica, and Mexico, and presents an overall view of social (non-contributory) pension increases in the region. The most notable conclusions of the report are:

- While non-contributory pensions fill the contributory pension gaps, incorporating uninsured workers into contributory systems is still a meaningful way to improve living standards in old age, make non-contributory pensions economically sustainable, and achieve broader policy goals.

Ongoing efforts to increase access to contributory systems and formal employment not only improve living standards, foster inclusion and promote decent working conditions, but are indispensable for avoiding excessive public expenditure on non-contributory pensions, which could jeopardize their sustainability. Hence, coordination between non-contributory pensions and contributory systems is crucial. ***(Source: ISSA; Date: 19.10.2023).***

Relevant news of the period

Latin America, the Caribbean and North America

Chile

Adjustments to pension fund investments were discussed at Chile Day London 2023. The event held in the British capital, which seeks to promote economic and cultural relations between Chile and the United Kingdom, brought together different actors from the financial world, with the pensions issue being part of the agenda.

The Superintendent of Pensions, Osvaldo Macías, confirmed that he has made a series of requests for changes in the investment regimes of pension funds, pointing out that he sent an official letter to the Central Bank asking it to extend the investment limit of AFPs in alternative assets, in addition to a series of other requests to the governing body to make changes in the investments of pension funds with a view to improving returns.

The Chairwoman of the Association of AFPs, Paulina Yazigi, welcomed the announcement, saying "Increasing alternative asset limits is very good news for future pensions." ***(Source: Ciedess; Date: 14.09.2023).***

Horizontal's study analyzes the regressive nature of financing solidarity with contributions. This analysis poses the dilemma of financing solidarity pension systems through general taxes or contributions.

The study concludes that financing solidarity pension systems through social security contributions is a regressive mechanism that imposes an excessive burden on formal workers, especially lower income workers. Funding such solidarity with the nation's general taxes, on the other hand, is progressive and does not impose a particularly heavy burden on formal workers. In fact, each income quintile contributes a greater percentage in relation to its income. ***(Source: Horizontal; Date: 14.09.2023).***

Colombia

Ministry of Finance acknowledges that the pension reform bill of law will impose an unpayable debt on young people and future generations After concerns regarding the costs and fiscal impact of the Government's proposed pension system, the Ministry of Finance finally announced its own estimates, which coincide with the calculations made by several think tanks and experts.

The Colombian Association of Pension Funds (Asofondos) views these figures with concern, since they reveal a system that is not feasible and tremendously expensive for current and future generations, to the extent that there will be no resources to pay pensions. According to the Trade Association, the government's figures could be even more worrying, since they are based on optimistic assumptions, such as a very high discount rate that significantly reduces pension liabilities (if a 3% discount rate were used, the liability would be 186% of GDP, an even more worrying figure). According to Asofondos, through this analysis of the Ministry of Finance, the government itself is providing the arguments for modifying those aspects that trigger expenditure instead of generating savings, Asofondos insists that the discussion in Congress must lead to a pension reform that is sustainable over time and covers the old age risks of current and future generations. ***(Source: Asofondos; Date: 10.10.2023).***

Costa Rica

The Pension Commission proposes changes to the pension system: divide members by age and risk profile. The Pension Commission proposes changing the Mandatory Pension Regime (ROP), dividing members into four age and risk groups, called generational funds. This initiative, currently in public consultation since October 4, aims to ensure that each group has a differentiated investment policy. For those approaching retirement, or already retired, it suggests a more conservative strategy to mitigate potential variations in stock market returns.

The groups would be constituted as follows:

- Fund A: people born before 1970.
- Fund B: those born between 1970 and 1979. In this group, the fund balance is equivalent to ₡3.4 trillion (approx. $6.4 billion).
- Fund C: Individuals who were born between 1980 and 1989, and whose funds currently managed by the OPCs amount to ₡3 billion (approx. US$5.7 billion).
- Fund D would comprise the youngest workers, i.e., people born from 1990 onwards. Fund Managers currently manage ₡1.6 billion of this group's funds (approx. USD 3 billion ***(Source: La República; Date: 11.10.2023).***

Ecuador

The Government fails to pay its contribution, putting the payment of retiree pensions at risk. The Board of Directors of the Ecuadorian Social

Security Institute (IESS) warned the Ministry of Finance of the high risk of defaulting on the payment of pensions to retirees since the Ministry stopped transferring its pension payment contribution as of February this year. It issued this warning on August 10, 2023, through an official letter to the Minister of Finance, Pablo Arosema.

In the document, the IESS states that it is experiencing a "situation of illiquidity," showing that the Ministry of Finance committed to pay USD 2,186 million in 2023 to cover its 40% contribution for the pensions of retirees. But Finance only transferred $338 million of that figure, for the months of January and February. Thus, the IESS's delay amounted to USD 892 million by July, although it continued to increase and was already USD 1.25 billion by September.

Finance's payments to the IESS to July 2023 have been as follows (millions of dollars):

Month	Accounts receivable from Finance	Payment from the Ministry of Finance	Pending payment
January	177	174	3
February	167	164	3
March	200	0	200
April	169	0	169
May	171	0	171
June	173	0	173
July	173	0	173
Total	1230	338	892

(Source: Primicias; Date: 16.11.2023).

Mexico

Amafore's Chairman explains higher voluntary retirement savings. According to statistics of the National Commission for the Retirement Savings System (Consar), the voluntary savings reported by the Afores at the end of the third quarter of this year were 19.6% higher than at the end of the third quarter of 2022.

Guillermo Zamarripa, Chairman of the Mexican Association of Afores (Amafore), attributes the increase in voluntary savings to two main causes. First of all, he highlights the fact that Mexicans, especially the new generations, have shown greater awareness of what retirement entails, which motivates them to make voluntary contributions to achieve higher pension savings. Secondly, he points out the improvement in the mechanisms for accessing the Afores, with more than 17 thousand access points distributed throughout the country, where workers can make voluntary contributions, starting at 50 pesos. ***(Source: Dinero en imagen; Date: 16.10.2023).***

Consar announced that the Pension Fund Managers (Afores) will charge 0.57% commission on workers' balances for the third consecutive year. At the inauguration of the "Amafore 2023 Assembly," Héctor Santana, head of the Insurance, Pensions and Social Security Unit of the Ministry of Finance, said that on the instructions of President López Obrador, important reforms have been carried out to strengthen the retirement savings system (SAR). ***(Source: The Economist; Date: 23.10.2023).***

Peru

The Association of AFPs proposed a minimum pension, individual savings accounts, and more competition. The reform of the pension system in Peru must include a minimum guaranteed pension, incorporating all workers (dependent, independent and self-employed) while promoting long-term savings in Individually Funded Savings Accounts, said the Chairlady of the Association of AFPs (AAFP), Giovanna Prialé.

Prialé pointed out that the individually funded Private Pension System (SPP) is key to providing financially and socially sustainable pensions, especially in the face of the challenge of worldwide population aging, which makes PAYGO systems unsustainable: there are more and more people of retirement age and fewer workers who can finance their pensions. She also emphasized that if everyone was currently enrolled in the PAYGO scheme of the National Pension System, and considering labor informality, 2 formal workers would finance the pension of 1 senior citizen. By 2050, that ratio would be 1: 1, and by 2100, a formal worker would have to fund 3 seniors.

The AAFP proposal, based on Individually Funded Savings Accounts in the name of each member, comprises the following points:

1) Minimum pension for all. Implement a minimum pension scheme that acknowledges and rewards individual effort through solidarity mechanisms. The AAFP's approach aims to grant a minimum monthly pension to people with at least 20 years of contributions and a staggered pension to those who have contributed for between 10 and 20 years. It is estimated that 3 out of 10 of the 11.7 million members of the contributory systems would obtain a minimum pension on their own, based on their contributions and returns. Meanwhile, 3 out of 10 members would receive the State guaranteed minimum pension, with an estimated cost of 0.64% of GDP. Finally, 4 out of 10 members would not meet the minimum conditions for receiving the State guaranteed pension but would maintain ownership of their funds.

2) Matching contribution. It proposes a matching contribution by the State for each $ contributed by members, up to the minimum pension amount. This contribution aims to incorporate informal and self-employed workers who do not have constant savings capacity.

3) Reimbursement of 1% of the General Sales Tax (GST). It proposes that each citizen be reimbursed 1% of the GST paid per year, thus increasing pensions and returns and encouraging savings and formalization.

4) Seed capital. This implies that the State should open an individually funded savings account for each Peruvian born live, that is capitalized until the person turns 65. If the means testing criteria are not met on retirement, the fund balances would be reimbursed to finance the beneficiaries. This initiative will progressively replace the Pension 65 program (non-contributory program), allowing a more efficient use of State resources. Pension 65 currently benefits 627,000 retirees on a permanent basis, and with the proposed seed capital it would amount to 5.5 million retirees in 10 years, with a cost similar to the assistance program (0.12% of GDP).

5) Increase the number of Fund Managers. Members will have more options to choose from, opening the pension system to new players, with the same rules: separate equities and intangible funds to protect savings.

6) Creation of a performance commission, with a component associated with returns, to provide a new alternative for members. ***(Source: El Comercio; Date: 05.09.2023).***

Bill proposed by the government to reform the pension system sent to Congress. The Ministry of Economy and Finance (MEF) sent its proposal for a new Peruvian pension system to the Congress of the Republic in early October. However, it is still being discussed by the Labor Commission, and thereafter, if accepted, it would have to go before the Plenary of Congress.

The MEF said that the initiative seeks to progressively increase the coverage of members through a structure that articulates public and private management. It also includes new competitors in the pension market, such as banks, municipal savings banks, rural savings banks, as well as insurance companies and investment banks, expanding the options currently available to the system's contributors. The bill also establishes a minimum pension of pen 600 (approx. USD 156) and estimates that within 5 years of its implementation, 2.4 million people will benefit, with the number of beneficiaries increasing to 5 million within 10 years.

The proposal's main measures are organized into four pillars:

1) Non-Contributory Pillar, with measures that would progressively ensure an economic subsidy to all people living in poverty, on retirement. This pillar seeks to ensure coverage (a non-contributory pension) for people over 65 years of age living in extreme poverty; and, progressively, for people over 75 years of age living in poverty. It also includes severely disabled people living in poverty. This pillar also guarantees the possibility of caring for other population groups with vulnerabilities.

2) Semi-contributory Pillar. The state guarantees access to a minimum pension, or a special proportional pension for members of the System (public and private), with Public Treasury resources, in response to specific requirements, recognizing the problems of many pensioners, who to date do not receive a pension that covers their principal needs.

3) Contributory Pillar, in which measures are proposed that seek to strengthen the System and make it sustainable. This pillar seeks the universality of the system, since it proposes not only automatic enrollment at 18 years of age, but also the ability of self-employed workers to contribute to their pension funds. Likewise, Companies in the Financial System would be allowed to manage pension funds, as part of the Peruvian Pension System.

4) Voluntary Pillar, transversal and complementary to the System, aiming to diversify the contribution options currently available to members, making them more flexible. Thus, members would be able to make social security contributions at any time, with the State being able to match the voluntary contribution, as a mechanism for encouraging savings.

Nonetheless, according to the experts, this bill of law is at a crossroads in Congress, since the Executive also proposes prohibiting further withdrawals from the AFPs, while Parliament insists on presenting bills to validate these withdrawals.

According to the expert Natalia Bernal, Professor of Economics at Universidad del Pacífico, the priorities included in the bill of law are not sufficient. According to her, the main coverage issue is not properly addressed in this proposal. The Professor emphasizes that the bill's fiscal cost estimate does not allocate sufficient funds to increase this coverage.

Although Noelia Bernal sees the issue of automatic enrollment in the system for people over 18 as a positive change, she also considers it insufficient. "Enrollment is not enough. How do we convince them to pay in, to contribute? The bill says nothing about that. What will happen is there will be a large number of members with zero soles in their accounts," she said. ***(Source: Infobae and El Comercio; Date: October/November 2023).***

Dominican Republic

Changes to the Dominican Pension System. The Pension Commission submitted for consultation the regulatory framework for the application of complementary pension plans which may be offered by the Pension Fund Managers (AFPs), whereby members can contribute to their accounts through consumption, with all authorized means of payment. These plans may provide early fund withdrawal options under certain conditions, such as the acquisition of a first home, coverage of higher education inside and outside the Dominican Republic, or major medical expenses. ***(Source: Sipen; Date: 07.11.2023).***

Pension fund investments positively impact the tourism sector. Francisco Torres, Superintendent of Pensions, highlighted the significant influence of pension funds in the tourism sector, making it the third most important sector in the Dominican Pension System. He pointed out the connection between the two through the financing of tourism projects, including infrastructure, luxury projects and the expansion of road networks.

In a seminar held in Punta Cana, Torres reported that around 165,000 workers in the tourism industry, representing 8% of active contributors, contribute more than 315 million pesos to the pension system per month. This seminar also addressed the relationship between tourism and the stock market, with the participation of several experts. SIPEN's attendance responds to the commitment made to Asonahores to provide education on the pension system to the Dominican population. ***(Source: El Nuevo Diario; Date: 11.09.2023).***

Europe

Germany

German Council Calls for Moderate Retirement Age Increase and Other Reforms The German Government's Advisory Council of Economists, known as the "Wise Five," recommended a moderate and gradual increase in the retirement age and other reforms to address the challenges of leaving the labor market for baby boomers.

The group's expert on the subject, Martin Werding, said that the Council proposes an extension of the retirement age of six months every ten years, to compensate for the increase in life expectancy, especially for those born between 1946 and 1964. In this regard, Werding said "We have accumulated a burden that must now be shared as fairly and equitably as possible. There are several possible models. We could consider a form of redistribution in which higher pensions increase less than lower ones. We could consider a more moderate increase in pensions," he said.

The Council's Chairwoman, Monika Schnitzer, also warned about the urgency of the reforms, because otherwise, there would have to be increases in contributions and the mandatory contributions of public budgets to the retirement system.

Finally, the five wise Councilors first warn young people to complement their retirement funds with private plans, and second, call for the creation of models for people who are not knowledgeable about investing for their retirement. ***(Source: Infobae; Date: 08.11.2023)***

Spain

Moody's US agency requests further adjustments to the PAYGO pension system to avoid a deterioration in the country's credit rating. Moody's rating agency has issued a warning about the Spanish financial situation, pointing out that if adjustments are not implemented in the PAYGO pension system, the deficit will affect the country's credit rating as of the end of this decade. In this regard, the bank's analysts suggest that "The adoption of new savings measures to guarantee the long-term sustainability of the pension system would be positive from a credit standpoint." Specifically, they point to the need to carry out "structural reforms to increase the employment rate, or potential real GDP." According to the agency, the need to make adjustments is justified by the intense aging of the Spanish population and the political decision to revalue the benefits based on the CPI, by law. Moody's also estimates that the Social Security deficit will increase to 4% of GDP by the end of the 2040s.

Finally, the agency acknowledges that the recent pension reform will increase Social Security revenue from 13.1% to around 13.7% of GDP by the end of the decade, although it will subsequently drop to 13%. However, Moody's warns that projected revenues could be lower if measures taken to increase them result in "undesirable economic effects," such as potential job losses due to increases in contributions. ***(Source: Msn; Date: 05.09.2023).***

The OECD calls for raising the retirement age and cutting pensions. The Organisation for Economic Cooperation and Development (OECD) recommends that Spain make significant adjustments to its pension system, proposing an increase in the official retirement age and its alignment with life expectancy. This measure, according to the OECD, could generate annual savings of close to EUR 1.5 billion.

In its Economic Survey of Spain, the OECD highlights the urgency of reducing public debt. It warns that pension expenditure will continue to rise until 2040, due to mass retirements and the impact of their annual revaluation based on the CPI. The pressure on pension expenditure is expected to ease after 2040, alleviating financial needs.

Finally, the organization proposes improving the fiscal deficit as "imperative." It proposes the withdrawal of the anti-inflation shield, which would translate into lower returns in real terms, as well as adjustments in various types of taxes (such as eliminating some reduced VAT rates and increasing taxes on alcohol and tobacco). ***(Source: 65 y más; Date: 26.10.2023)***.

United Kingdom

The country expands the coverage of the pension program based on automatic enrollment. On September 18, royal approval was given to a law extending coverage under the country's automatic enrollment (EA) -based pension program[1], by lowering the age of admission from 22 to 18 and eliminating the lowest annual income threshold for participation (from GBP 6,240, approx. USD 7,646) (Currently, worker and employer contributions are only paid on income above that threshold.) The annual income threshold of GBP 10,000 (approx. $12,253) that activates the EA, is not affected by the new law, and workers can still opt out of the program once they are enrolled. Increased coverage is expected to boost retirement savings for younger, lower-income workers, who are mostly women. The implementation schedule for the changes will be determined after a public consultation by the Department of Work and Pensions.

Under the EA-based pension scheme, employers in the UK are required to offer workplace pension schemes to their workers, automatically enroll eligible workers in the schemes and make contributions on their behalf. Currently, employers must automatically enroll workers who are at least 22 years of age but less than the Official Retirement Age (ORA) of 66, with an annual income of at least GBP 10,000 (approx. US$12,253). The minimum worker and employer contribution rates for participating workers are 5% and 3%, respectively, of annual income in excess of GPB 6,240 (approx. USD 7,646) and up to GBP 50,270 (approx. USD 61,598). Both workers and employers can choose to contribute more than their respective minimums, and workers can choose to contribute less if their employers contribute more than 3%. The State contributes 1% of the covered income in the form of tax relief (tax advantage). ***(Source: SSA International Update October 2023; Date: October 2023)***

[1] In addition to employer-based pension schemes (occupational pension scheme), the UK's old-age pension scheme consists of a single tier State Pension Scheme (STP) for people retiring on or after 6 April 2016. The STP provides a full fixed benefit at State Pension Age (SPA) with at least 35 years of paid or credited contributions. A partial benefit is paid to people who have reached the SPA and have at least 10 years of contributions and less than 35. Pensioners with limited financial resources may qualify for a Pension Credit subject to resource verification if they have attained SPA or a welfare benefit subject to income verification if they have reached age 80 and meet certain other conditions.