Progress of the Pension Systems

APRIL 2024 – MAY 2024
No.2

This document compiles the major changes that occurred in the pension systems in the ***April 2024-May 2024 period****, with emphasis on the development of the individually funded systems. This edition includes information on changes and regulatory proposals* ***until the first week of June 2024.***

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 reproduced in whole or in part by citing the source.

Federación Internacional
de Administradoras
de Fondos de Pensiones

Executive summary by area of interest

New pension programs and social security reforms (approved)

- **Germany**: On May 29, the Council of Ministers approved a new pension law, which among other aspects, creates an individually funded program which will contribute to paying pensions in future.
- **Ireland**: According to a Bill of Law published on April 5, automatic enrolment in pension plans will become effective as of January 1, 2025.
- **Mexico**: The law creating the Welfare Pension Fund was published on May 1. This fund will include the funds of people over 70 in the Afores (Pension Fund Managers), or other inactive funds, for the purpose of financing a 100% replacement rate for the pensions of workers earning the average salary for contributing to the IMSS, or less.
- **Singapore**: On March 4, the Ministry of labour announced that the country will increase the official retirement age from 63 to 64, as of July 1, 2026.
- **Switzerland**: The government announced that the retirement age for women in the pension plans (currently 64) will increase to 65, by three months per year between 2025 and 2028, thus matching the existing retirement age for men.
- **European Union**: The Parliament and the Council of the European Union(UE) approved the provisions of the new directive aimed at improving working conditions and protection of people engaged in “platform” work in the UE. The directive will introduce measures to correctly determine the labour situation of such individuals and promote transparency, human supervision, and responsibility in overseeing such work.

Crisis in PAYGO or government-managed systems

- Argentina: President Milei has proposed a pension reform aimed at repealing the pension moratorium (which enables retirement without the 30 years of contributions) to address the system's sustainability crisis.
- Ecuador: It was announced that the Ecuadorian Social Security Institute is a time bomb about to explode, since the monthly contributions of members only cover 49% of pension expenditure.
- USA: According to the latest official Social Security report, the PAYGO system is at a crossroads, since the reserve fund would be exhausted by 2035 without reform. For the fund to be solvent, pensions would have to be reduced by 25% this year, or payroll tax would have to increase by 4%.
- Spain: According to the Central Bank, for the country to ensure the future sustainability of the system (threatened by population aging) it would have to reduce the replacement rate, convince a broad spectrum of workers to delay their retirement, and assess the private savings capacity for complementing public pensions.
- Czech Republic: The country is considering reforms for reducing pensions (by changing the calculation formula) and increasing the retirement age (considering the changes in life expectancy) to stabilize the Social Security system.
- Venezuela: The new pension law, which will come into effect in July, and makes it mandatory for private sector employers pay a 9% contribution (in addition to salaries and bonuses of workers), has been criticized as a measure that will burden the private sector even more, without adequately addressing long-standing problems in the country's pension system.

Reforms proposed or being discussed

- Australia: The Coalition party has proposed allowing early access to pension savings funds (Superannuation) for young people to be able to purchase a home. According to the Association of Superannuation Funds of Australia (ASFA), this proposal is not the solution for resolving the country's housing crisis, arguing that most young people do not have sufficient retirement balances to cover the down payment requirements for purchasing a home, even if they were allowed to withdraw all their retirement funds (many low income people have depleted their balances due to early withdrawals during COVID-19). Furthermore, allowing early access to retirement funds for purchasing homes would increase demand and raise their prices, which would make it even more difficult for most people seeking to purchase their first home to enter the market.
- Colombia: President Petro’s proposed pension reform establishes a mandatory contribution threshold to Colpensiones (PAYGO system) of 2.3 minimum wages the reform will have a fiscal cost of 33% of GDP by 2100, and if approved would come into effect in July 2025. Asofondos has insisted that all contributions should go to individually funded savings, and that if Congress decides to establish a threshold, it should be one minimum wage.
- Costa Rica: The Pensions Commission put forward a proposal for advancing in the intersectoral dialogue process for thrashing out a new reform of the pension system that would give it greater financial sustainability and adapt to demographic circumstances.
- Spain: The OECD and the European Commission are pushing for the strengthening of employment pension plans, for which they say it would be necessary to streamline financial incentives with the requirements and capacities of corporations and workers and introduce non-tax incentives for young and low-income workers, and women.
- Mexico: In her raft of proposals for pension system, the country's new president, Claudia Sheinbaum, considers expanding access to the non-contributory Universal Pension for the Elderly and continuing to strengthen the Welfare Pension Fund which is currently being developed.
- Peru: On June 6, Congress approved a bill of law for modernising the pension system, which among other aspects creates the pension via consumption as a complementary contribution mechanism, increasing competition by allowing other companies in the financial system to manage funds under the same conditions as the AFP's, and providing minimum pensions to all members (subject to the prohibition of early withdrawals). The bill of law must now be assessed by the Executive for promulgation or returned to Congress with comments.

Executive summary by area of interest

Advances in responsible investment and financial/pension education

- In Chile the AFPs once again committed to the Green Deal **on responsible investment** subscribed in 2019, reflecting the growing concern regarding the sustainable management of resources, in view of the risks and challenges of climate change. In the Dominican Republic , the government launched the country's Green Taxonomy, which will enable investors, companies and other market stakeholders to more easily identify the strategic investment opportunities aligned with environmental objectives.
- **Regarding advances in financial/pension education,** the results of the Financial and Pension Education Census of the Afores at the end of 2023 were published in Mexico. The purpose of the census was to publicize the Afores' commitment to educational initiatives for strengthening retirement savings and pension culture. In the **Dominican Republic,** in turn, the Pension Commission has made joint efforts with platforms like PedidosYa and digital content creators, for promoting education regarding the pension system.

Relevant reports

- In a research paper, The World bank and the ILO **highlight the fact that active labour market programs improve the employment opportunities and income of young people**. In low- and middle-income countries, support of entrepreneurship and employment services have major impacts, whereas professional training and salary subsidies work better in low-income countries.
- Pensions Europe **published its** 2024-2029 Policy Priorities **for the new European Parliament,** emphasising the vital role of the savings-based pension systems.
- **In its book "**Reshaping Retirement: Navigating Latin America's Pension Systems after COVID-19**", the** IDB **highlights the fact that the early withdrawal of pension funds in Chile and Peru left a significant percentage of workers with zero balances in their accounts,** representing a challenge for fiscal accounts, since governments will have to provide some minimum pension security for workers in the future.
- **In its latest** Fiscal Monitor **, the** IMF **that governments must reduce regressive and inefficient subsidies and redirect resources to specific social protection programs supporting the most vulnerable sectors of the population**.
- **In its** 2024 Report on Aging, **the** European Commission**, points out that despite the parametric reforms, the pension expenditure and financial deficits of the European public PAYGO systems will continue to increase (rising from 11.4% al 11.8% del GDP by 2070) and their pensions will continue to diminish (the replacement rate is expected to drop from 45% in 2022 to38% by 2070).**
- **A** study **by** Observatorio Perspectivas **warned that a longevity insurance in Chile would entail costs higher than the benefits it provides for covering the longevity risk.** It does not recommend its implementation instead of more simple alternatives that immediately improve pensions (like introducing fiscal complementation systems for numbers of years of contributions or postponing the official retirement age).
- AFAP Itaú **published an** article **reviewing the investments of the AFAPc in the Uruguayan productive sector between 1996 and 2023.** The investments financed road infrastructure and educational projects, windfarms, forestry, agricultural and real estate programs, as well as private and public companies in the industrial, commercial and services sectors throughout the country.

Relevant reports or presentations

In a research paper, the World Bank and the ILO highlight the fact that active labor market programs improve the employment opportunities and income of young people. A systematic review by the World Bank and the International Labor Organization (ILO) combines the results of evaluations of 220 youth-focused active labor market programs (ALMPs) conducted worldwide since 1990. Evidence shows that investments in labor market programs for young people pay off. They significantly improve their employment and income prospects, particularly in low- and middle-income countries. Young people who are most at risk of exclusion from the labor market tend to benefit the most. To influence the design of future programs, the report identifies the characteristics of programs associated with positive impacts on youth. Some keys aspects of the study:

(i) ALMPs have significant positive impacts on youth employment and income. These programs offer vocational training, employment services, subsidized employment, or business support.
(ii) Youth training and entrepreneurship programs show the greatest impacts worldwide. These programs provide the skills, work experience, or financial support required for formal employment or self-employment.
(iii) The types of programs that work best vary by country income group. In low- and middle-income countries, entrepreneurship support and employment services have greater impacts. In high-income countries, vocational training and wage subsidies have greater impacts, on average.
(iv) The impacts of these programs in low- and middle-income countries appear greatest for the youngest and most vulnerable groups, such as women, unskilled or marginalized youth.
(v) Key features of effective program design include interpersonal skills training and certification. Successful programs often combine initiatives to address multiple youth barriers, especially in low- and middle-income countries.

Local and regional programs often report better results than national programs. Partnerships between public and non-public stakeholders also have more impact in low- and middle-income countries, on average. ***(Source: World Bank; Date: May 2024).***

PensionsEurope published its 2024-2029 Policy Priorities for the new European Parliament and the European Commission. According to the report, the pension outlook in Europe is at a critical juncture. As we move towards 2029, demographic aging, economic uncertainty and changing labor patterns require a novel approach to pensions. PensionsEurope said that it is committed to promoting resilient, inclusive and adequate pensions across Europe. In the document, the agency outlines the crucial principles for addressing Europe's key challenges and the vital role that savings-based pension systems must play:

(i) Provide access and adequate pensions: it emphasizes the need for increased pension coverage, closing existing gaps and ensuring positive outcomes, with savings-based pensions as a key part of the solution.
(ii) The key role of the pension funds: It explains why pension funds differ from other financial actors and outlines their unique contributions to society.
(iii) Balancing national and European policies: it calls for a good balance between European and member state policies, ensuring that pension funds benefit more from the Single Market.

Sectoral and Horizontal Legislation: It highlights the importance of maintaining minimum streamlining in sectoral legislation (IORP II Directive), while considering the peculiarities of pension funds in other horizontal legislations. ***(Source: PensionsEurope; Date: 03.06.2024).***

The IDB published its book "Reshaping Retirement: Navigating Latin America's Pension Systems after COVID-19". In collaboration with research centers in the region and the Inter-American Development Bank (IDB), this book studies the cases of Argentina, Chile, El Salvador and Peru, exploring the impact of the pandemic on the well-being of pensioners and the accumulation of benefits, highlighting the resilience of pension systems in the face of adversity and the fundamental role of public policies in charting their destiny. The book offers insights into navigating uncertainty and crafting policies that improve the standard of living of the elderly, while calling on policymakers, academics, and experts to join forces in designing equitable, sustainable, and resilient pension systems for generations to come. The publication highlights that the most important effects of the pandemic on pension funds will not be seen in the dynamics of the labor or financial market, but in the political sphere: in numerous countries with pension funds with individually funded accounts, governments pushed through laws that allowed workers to collect benefits in advance. These cash advances were more significant among low-income workers (in countries like Chile and Peru, cash withdrawal left a significant percentage of workers with zero balance in their pension accounts), posing a potential challenge to fiscal accounts, since governments may have to provide some minimum pension security for workers in the future. ***(Source: BID; Date: May 2024).***

A study by Observatorio Perspectivas warned that a longevity insurance in Chile would entail costs higher than the benefits it provides for covering the longevity risk. According to the report, existing mortality tables in July predict that most newly retired men will live to the age of 87 and women will live to the age of 91. They also tell us how many people will live to the age of 110, because it is important not to deprive them of a pension for having lived so long. More than 58,000 of the 100,000 women who were 60 years old in 2020, are expected to live to 90, and about 15,000 to 100. For novel coverage of the longevity risk and ensuring that no one is left without a pension in old age, it has been proposed to establish longevity insurance and shorten the mortality tables to age 85 in Chile. However, if this measure is implemented, 67% of the current generation of new pensioners would exceed this threshold, leaving 127 thousand people without their own resources to finance pensions at that time. And this number is growing. In the next eight decades, it is estimated that the population over 85 years of age will multiply by 6.3 times, from 314 thousand people to almost two million. Longevity insurance could increase old-age pensions by 20%-21% in the long term, but its financing would cost between 1% and 4% of salary. To this we must add the cost of generations that benefit from insurance without having contributed to its financing, which is almost an additional 1%. Implementing longevity insurance also entails a high level of risk, since there may be no insurance companies willing to insure longevity risk at a reasonable price. It could also be regressive, since people with higher incomes have a longer life expectancy, which means that society as a whole would be financing the pensions of the most privileged. Hence, the report does not recommend its implementation instead of more simple alternatives that improve pensions immediately, like introducing fiscal complementation systems for numbers of years of contributions or postponing the official retirement age. ***(Source: Observatorio Perspectivas; Date: May 2024***

The IMF published its most recent Fiscal Monitor, pointing out that governments must reduce regressive and inefficient subsidies and redirect resources to specific social protection programs that support the most vulnerable sectors of the population. According to the report, even as the global economic outlook stabilizes, fiscal policy continues to grapple with the legacy of high debt and deficit levels, while facing new challenges. This year, the risks to public finances are serious, as 80 economies or economic groups are holding elections amid increased support for high public expenditure. The report recommends countries to boost long-term growth with a well-designed fiscal policy

package that promotes broader innovation and facilitates technological disclosure. Ongoing fiscal consolidation efforts are required to safeguard the sustainability of public finances. In this regard, the report indicates that to achieve more decisive fiscal consolidation, governments should reduce regressive and inefficient subsidies and redirect resources towards specific social protection programs that support their most vulnerable populations. It also notes that many advanced economies with aging populations should focus on containing pressure on health and pension expenditure through welfare reforms and other measures. Emerging market and developing economies should renew their efforts to rationalize large government wage expenditures, reform social safety nets to increase means testing and reduce fragmentation and continue to support the efficiency of social expenditure through well-implemented digitalization. ***(Source: IMF; Date: April 2024).***

The European Commission published its 2024 Aging Report, which states that, despite parametric reforms, the pension expenditure and financial deficits of the public PAYGO systems in Europe will continue to increase, and their pensions will continue to decrease. This report, which is published every three years, provides long-term projections on public expenditure on pensions, health care, long-term care and education in the European Union (EU), offering a comprehensive analysis of the long-term challenges faced by pension systems in the EU and the policy responses implemented by member states to ensure their sustainability in the face of population aging. The report further analyzes the impact of various sensitivity tests and policy scenarios on pension expenditure, such as increased life expectancy, migration, inflation, and linking retirement ages to life expectancy.

Some key points related to pensions include:

a. Public pension expenditure in the European Union reached an average of 11.4% of GDP in 2022 and is projected to rise to 11.8% by 2070. This will be a consequence of demographic trends, the structural deficiencies of such systems and the generous pensions they still provide.
b. In the future, the pensions of this type of system should continue to decrease, given demographic trends and the reforms that more closely link contributions to pensions, which will severely affect future generations. In fact, the average replacement rate will drop from 45% in 2022 to 38.2% by 2070 (i.e., a drop of 15.5%), while pension expenditure as a percentage of GDP tends to stabilize in many countries.
c. Official retirement ages are increasing in many countries, but effective retirement ages are typically lower due to early exit pathways. Governments should strengthen early retirement rules to ensure that higher official retirement ages translate into higher effective ages.
d. Several countries have automatic adjustment mechanisms that link pensions or retirement ages to life expectancy. This helps ensure the sustainability of pension systems as life expectancy increases.

Pension reforms are projected to increase labor force participation rates among workers aged 55-64 by approximately 10 percentage points (from 65.4% to 75.5%) on average, by 2070. The upward trend reflects the combined effect of pension reforms on the retirement behavior of older age groups and the progressive increase in female labor market participation, given the greater presence of cohorts of young woman in the labor market. This will raise the effective retirement age by about 2 years on average. ***(Source: EC; Date: 18.04.2024).***

AFAP Itaú published an article reviewing the investments of the AFAPs in the productive sector between 1996 and 2023. According to the report, there were US$7.5 billion worth of issues in the capital market between 1996 and 2023. Currently, 78% of private securities in circulation are in the investment portfolios of AFAP members, representing US$ 4,720 million. The investments have financed road and educational

infrastructure projects, wind farms, forestry, agricultural, and real estate projects, as well as public and private companies in the industrial, commercial, and service sectors throughout the country. The fiduciary duty of the AFAPs is to maximize the savings of each worker for a better retirement. As the fund managers make professional investments, the capital market naturally grows and develops. This favors economic growth, employment and the standard of living, while improving the corporate governance of the issuing companies themselves, so a virtuous circle is generated that favors the individual savings accounts of workers through the returns generated by investments. In the coming years, new investments are expected in the infrastructure sector, and, following the trend of recent years, more issues of negotiable obligations and trusts. The investment portfolios of the AFAPs will incorporate the instruments with the best combination of risk and market return for the benefit of their members, currently exceeding one million six hundred thousand people. ***(Source: AFAP Itaú; Date: 10.05.2024).***

In a report, Pivotes published its proposal for improving pensions in Chile. This document analyzes the Chilean pension system and puts forward a proposal for substantially improving the pensions of current and future retirees. According to the report, the self-funded pensions of current retirees are low, which is explained by the fact that the current generation of retirees saved little through formal employment during their active lives (between the age of 20 and the official retirement age) to finance a long retirement period: 50% of male retirees contributed less than CLP 26,300 (approx. USD 29) per month during their working lives to finance a retirement that lasts 21 years; and 50% of female retirees contributed less than CLP 9,500 (approx. $10) per month during their active lives to fund a 30-year retirement. To help retirees who had little access to formal employment, the Solidarity Pillar was created, financed by general taxes. Today it comprises the PGU, which provides CLP 214,296 (approx. USD 234) to adults 65 years or older from the most vulnerable 90%. Through the PGU, the State transfers an amount equivalent to 6.7% of PAYGO pensions to the elderly. What are the total pensions (self-funded + PGU) of current retirees? The most demanding way of assessing pensions is by comparing them to the last salary received. The total pension covers more than 65% of the last net salary of all contributing individuals.

Some sectors propose providing more assistance to retirees through the contributions of current workers. This is not convenient for three reasons: (i) Workers contribute for very few years to finance a long period of retirement: the average woman saves 10% of salary for 17 years to finance 32 years of retirement; the average man saves 10% of salary for 24 years to finance 23 years of retirement; (ii) Under the current system, replacement rates are projected to be lower for future generations; (iii) The percentage of the population with formal employment is low in Chile, so it is better to distribute the financial burden for helping retirees throughout the economy through general taxes.

Given this situation, Pivotes proposes:

(i) For current workers: increase the contribution rate to individual accounts. It is estimated that if the 6 additional points of contribution go to individual accounts, matching replacement rates can be achieved for the different generations.

(ii) For current retirees: if a decision is made to provide more aid to pensioners, it should be financed with general taxes and focused on the elderly, who do not have high replacement rates. This group comprises women who contributed for more than 20 years. It has been proposed to give a supplement of 0.1 UF (approx. USD 4) per year of contributions to all retirees with more than 20 years of contributions. This assistance would cost USD 356 million per year. ***(Source: Pivotes; Date: 09.05.2024).***

Relevant news of the period

Latin America, the Caribbean and North America

Argentina

The pension reform proposed by President Javier Milei aims to repeal the pension moratorium, a measure that allowed people to retire without the necessary contributions. President Javier Milei's framework law proposes eliminating the pension moratorium, which allowed thousands of people, especially women, to retire without the 30 years of contributions required by the Social Security system). The Framework Law proposes eliminating the moratorium that has been in force since 2023 (Law 27,705 of 2023) and that people must mandatorily meet the official retirement age and have 30 years of contributions to access a pension. In principle, the Framework Law would maintain the retirement age at 60 for women and 65 for men, provided they also contributed to the Social Security system for 30 years. The change would then entail the possibility of people who did not contribute for 30 years receiving an income in their old age. The new pension would not be equal to a retirement pension - it would be a Proportional Retirement Benefit - and everyone would be able to access it only after the age of 65. This measure is part of a broader reform agenda to reshape Argentina's social security system and address its sustainability crisis. The proposal has generated controversy, with critics highlighting concerns about the potential impact on pensioners who relied on the moratorium to access retirement benefits. The debate regarding the feasibility and implementation of Milei's proposed reforms is expected to take place in Congress. ***(Source: Iprofesional; Cronista; Pagina12; Date: April/May 2024).***

Chile

The AFPs once again committed to the Green Deal for investments. In a ceremony in early May, the AFPs renewed their commitment to the Green Deal that had already been signed in 2019. The initiative, promoted by the Ministry of Finance as of that year, aims at establishing a formal commitment by the Chilean financial sector for managing climate change risks and opportunities. The Chair of the Association of AFP's, Paulina Yazigi, said that the Association is proud to renew the Green Deal, which represents an ongoing commitment by the Chilean financial sector, regulators and the Executive, to include climate change management in financial decisions. The Chair of the Trade Association believes that the agreement reflects the growing awareness of the importance of sustainable management of resources, in view of the risks and challenges posed by climate change. The agreement was not only subscribed by the Association of AFP's, but also by other stakeholders in the financial industry, such as the Financial Market Commission (CMF), the Central Bank, the Pensions Commission, Banco Estado, the Santiago Stock Exchange, the Association of Banks and Financial Institutions (ABIF), the Chilean Association of Insurers (AACH), the Chilean Association of Investment Fund Managers (ACAFI) and the Association of Mutual Funds (AFM).

According to the official Green Deal document, failure to act promptly and effectively could have significant economic and financial impacts, exposing our economy and society to various risks. The document warns that new opportunities will be generated in the transition to a carbon neutral economy, along with other changes, all of which will have a direct impact on the returns and risks of the Pension Fund Managers, and their consequent effect on future pensions. This time around the agreement includes the following: (i) report the percentage of the investment portfolio of each AFP that considers assessments related to climate change, in pursuit of greater transparency and the acceleration towards carbon neutrality in Chile; and (ii) immediately adopt international reportability standards, such as IFRS S1 and S2. ***(Source: DF; Date: 09.05.2024).***

In May the government submitted an alternative proposal to the Preschools Bill of Law being discussed in the Senate, which had been approved in general in April. The new bill of law, Preschools for Chile, was jointly submitted with a bill of law to modernize preschool education, which entered the Chamber for review. These bills of law address the deficiencies of the previous Universal Preschool bill of law, which lacked an educational and quality assurance perspective, among other aspects. Article 203 of the new reform bill of law:

(i) Gradually extends the right to attend preschools to the children of parents working in companies of all sizes, of the self-employed and those who work in private homes. It thus advances in co-responsibility and coverage. A fund based on employer contributions, equivalent to 0.2% of total taxable income, was created to finance it, supplemented by tax resources.

(ii) It eliminates the controversial Registry of Caregivers that had been understood as a setback in the educational possibilities of children at this stage of their lives.

(iii) It requires service providers to comply with the standards of the Official Registry that seeks to ensure the quality of preschools.

(iv) It enables the participation of public preschools that had been excluded in the previous bill of law.

The preschool education bill of law, in turn:

(i) Extends the deadline for preschools to meet the requirements for Official Recognition by ten years. This deadline had already been extended in the past. The legal, technical and infrastructure standards of the system are highly demanding and have been difficult for many public and private establishments to achieve, without necessarily implying that they do not meet quality standards.

(ii) It seeks to provide a legal framework for the alternative programs offered by the National Preschool Board (Junji), which have contributed educational and schedule diversity to the system.

(i) It seeks to define working hours more clearly, in addition to establishing new information mechanisms, a central element for better monitoring. ***(Source: Espacio Público; Date: 12.05.2024).***

Colombia

The pension reform proposed by President Gustavo Petro establishes a mandatory contribution threshold of 2.3 minimum wages to Colpensiones (PAYGO system). This means that contributions by workers earning up to 2.3 minimum wages will go to Colpensiones, while contributions above that threshold will go to private pension funds (AFPs). Nonetheless, Petro recently announced that he will seek to increase this threshold from 2.3 to 4 minimum wages if the House of Representatives approves it. This gave rise to criticism from some experts and politicians, who believe that such a high threshold could affect the fiscal sustainability of the reform and concentrate too many resources in Colpensiones. Finally, the pension reform was submitted to the House of Representatives, maintaining the threshold at 2.3 minimum wages, as had been agreed in the Senate (Petro's proposal to increase it to 4 minimum wages did not succeed in the House). June 20 is the deadline for the approval of the pension reform in the Colombian House of Representatives, according to the deadline established by the National Government and members of the legislature. If approved, the new law would take effect in July 2025. The Colombian Association of AFPs (Asofondos) has insisted that all contributions should go to the individually funded savings accounts and that if Congress decides to maintain a threshold, it should be one minimum wage. Furthermore, this flow should be saved in its entirety by Colpensiones, under the same rules of the game as all the stakeholders in the system. Fund management must also be technically competent, and its corporate governance must be divorced from political cycles and totally

independent. Only under these conditions would the fund be sustainable over time. According to the Ministry of Finance, the initiative will have a fiscal cost equivalent to 33.4% of GDP by 2100. It also shows that the public savings fund created by this reform will be exhausted by 2070, which will force the State to finance100% of the value of pension allowances. ***(Sources: Asofondos; Infobae; El Tiempo; El Tiempo; Cambio Colombia; El Colombiano; Infobae; Date: May/June 2024).***

Costa Rica

Supen proposes creating a committee to put forward a reform of the pension system by mid-2025. The Pensions Commission (Supen) submitted a proposal to advance in an intersectoral dialogue process, to thrash out a new reform of the pension system that will make it more financially sustainable and adaptable to the demographic situation. As part of the proposal, it was agreed to establish a network of institutional, trade union, academic, business, political and civil society stakeholders that participate in the technical activities that are designed and developed, in order to have the necessary inputs to build the proposal (s). Mauricio Soto, the head of Supen's Risk Supervision Division said that the idea was for members of the network to participate in the conversation, including Rodrigo Arias, Chairman of the Legislative Assembly; Miguel Ángel Rodríguez, former president of the Republic; Jaime Barrantes, Pension Fund Manager; Lenin Hernández, Chairman of the Assembly of Workers of Banco Popular; Marielos Alfaro, of the Costa Rican Union of Chambers of Commerce and Associations of the Private Business Sector, among others. The intention is to build a work agenda with a minimum level of consensus, for which an interdisciplinary committee would be created, to submit a proposal to the Legislative Assembly in mid-2025. According to Supen's proposal, progress should be made in: (i) improving the protection of the elderly population, in the face of demographic changes challenging labor markets, employability and wages; (ii) the reorganization of the finances of the Disability, Old Age and Death Regime (IVM, PAYGO system), with the design of new pension schemes that remove the burden of minimum pensions, which today consume about 43% of pensions; and (iii) progress towards initiatives that seek the universalization of the pension system so that the largest number of people are covered with a pension when they reach retirement age. ***(Source: Semanario Universidad; Date: 16.05.2024).***

Ecuador

The Ecuadorian Social Security Institute (IESS) is a time bomb that could explode in the country's face. Between January and April 2024 alone, it accumulated delays in payment to the IESS of USD 611 million. The Ecuadorian deficit State cannot fully pay the 40% contribution or subsidy on time, while the monthly payments of members only cover 49% of all pension expenditure, and a similar percentage needed to finance health care. One of the factors that explains that ticking time bomb is related to the pension system, which has three structural issues: (i) it covers a minority of the workforce (38%); (ii) it does not encourage savings; and (iii) it discourages the formal hiring of workers. ***(Source: Lahora; Date: May 2024).***

United States

Social Security (PAYGO system) is facing a crossroads due to the depletion of reserve funds by 2035. According to the 2024 Social Security Trustees Report published in April 2024, the projected exhaustion date of the Old-Age and Survivorship Insurance (OASI) Trust Fund remains unchanged in 2033. At that time, the fund will not be able to pay all pensions and the anticipated income will only cover 79% of the program's scheduled pensions in the future. According to a May 2024 report by the Center for Retirement

Research at Boston College, , the exhaustion of the OASI Trust Fund does not mean that Social Security has run out of money, as payroll tax income will continue to cover a significant portion of pensions. However, relying solely on current tax revenues would result in an immediate drop in the replacement rate for the typical 65-year-old worker, from around 36% to 29% (a level not seen since the 1950s). The Trustees project that the combined OASI and Disability Insurance (DI) trust funds [the so-called OASDI] would be exhausted by 2035, one year later than reported in 2023.

The 2024 Trustees report also slightly reduced the projected 75-year OASDI deficit to 3.5% of taxable payroll (up from an estimated 3.61% in 2023). This improvement is mainly due to an upward revision of the productivity growth rate and a further reduction of the supposed disability incidence rate. The report also underscores the need for Congress to act quickly to avoid draconian cuts in benefits and restore confidence in the Social Security program. To illustrate the magnitude of the changes needed to the OASI to make Social Security solvent over the next 75 years, the trustees estimate the hypothetical payroll tax increase or reduction in benefits needed to maintain solvency (see table below). Thus, for example, the payroll tax should increase by 4.02%, or benefits should be reduced by 24.6%, to achieve solvency by 2035. ***(Source: CMS.gov; Peter G Peterson Foundation; SSA; Congressional Research Service; CRR.bc.edu; Date: May 2024).***

Table 3. Hypothetical Measures to Maintain Solvency

	2023 Report		2024 Report	
	2023	2034	2024	2035
Payroll tax increase (in percentage points)	3.44	4.15	3.33	4.02
Scheduled benefit reduction	21.3%	25.2%	20.8%	24.6%

Source: CRS, based on the 2023 and 2024 OASDI trustees reports.

Mexico

The Senate of the Republic approved the creation of the Welfare Pension Fund. The reform proposes that the Fund will comprise the resources of the Afores accounts of people aged 70 years or older who are inactive, to finance a 100% replacement rate in the pensions of workers who earn the average salary or less. The initiative was approved in the Chamber of Deputies on April 22. The decree was sent to the Federal Executive and published in the Official Gazette of the Federation on May 1, 2024. At President López Obrador's conference on April 19, the head of the federal agency assured that workers' accounts will be absolutely safe in the Welfare Pension Fund, because they will be managed by a technical-financial committee, including the Bank of Mexico, SHCP, Infonavit, IMSS, ISSSTE and CONSAR. ***(Source: Canal Congreso; Forbes; Date: May 2024***

What has Sheinbaum proposed in pension and tax matters? The new President of Mexico, Claudia Sheinbaum, has made a series of proposals on pension and tax matters. Among the pension proposals are:

- Expand access to the Universal Pension for the elderly, to grant half of that support (which would be equivalent to MXN 3,000, approx. USD 169, bimonthly) to women aged 60 to 64. The program can currently be accessed at age 65.
- Continue to strengthen the Welfare Pension Fund in the process of being constituted, which will grant supplements for workers to retire with pensions equal to their last salary, within a ceiling of MXN 16,778 (approx. $942) per month.

Sheinbaum has ruled out a tax reform in at least the first years of her government. However, she has stated that she will have fiscal responsibility and will technify the country's customs service to increase tax collection. ***(Source:: The Economist; Date: 03.06.2024).***

The results of the Afores' Financial and Welfare Education Census were published at the end of 2023. This evaluation aims to publicize the commitment of the Afores to educational initiatives to strengthen retirement savings and pension culture. for which 31 subtopics were evaluated. Five new ones stand out: Replacement Rate, Verification of Compliance with Employer contributions (Contribution Density), self-employed Workers, Reimbursement of Resources and the Afore Niños Account. The Census is an annual statistical diagnostic exercise, that privileges the educational and non-promotional content that the Pension Fund Managers (Afores) made available to workers and the general public during 2023, through an assessment of their actions, materials and digital tools. ***(Source: CONSAR; Date: 17.05.2024).***

Peru

The regulations (Law 32002) governing the seventh early withdrawal of mandatory pension funds were approved on April 18, authorizing a new withdrawal of approx. USD 5,500[1]. The Banking, Insurance and AFPs Commission (SBS) will be entrusted with establishing the schedule for the process, defining the tentative dates for the entire procedure. ***(Source: Gestion; Infobae; El Comercio; Date: May 2024).***

In June, the plenary session of Congress approved the decree proposing a new law to modernize the Peruvian Social Security System. The proposal was approved on June 6 by 38 votes in favor, 10 against and 16 abstentions in the Plenary of Congress (out of a total of 130 legislators) and must now be evaluated by the Executive to enact it or return it to Congress with comments. Some of the main points of the proposal are:

i. Ensure greater competition in the offers of fund managers, allowing the entry of banks, financiers, savings banks and insurers.
ii. Provide a minimum pension to members (conditional on no early withdrawal of AFP funds). All contributors of retirement age who prove at least 240 effective contributions are entitled to receive the minimum pension, whether they are mandatory or voluntary contributions with a provisional purpose at the time of retirement, and do not withdraw funds.
iii. Offer profit and loss commissions to pension fund managers.
iv. Create the "consumption pension" as a supplementary contribution mechanism. This proposal is one of the latest changes included in the decree and has been intensively raised by the Fuerza Popular bench. This is a voluntary contribution for social security purposes that comes from the consumption expenses incurred by members, duly supported by payment vouchers containing the National Identity Document (DNI). I.e., formal and unemployed workers, or housewives, can make purchases in markets, supermarkets, on trips, hotels or others, and an amount will be contributed to their pension savings account. The payment receipt that will be considered for the consumption pension may have a maximum value of up to PEN 700 (approx. US$186).
v. Prohibit the withdrawal of funds accumulated in the mandatory individually funded accounts of members active in the labor market.
vi. Progressively incorporate self-employed and informal workers into the pension system.
vii. Notional accounts in the National Pension System (PAYGO), so that each retiree has access to a pension in accordance with the amounts contributed.
viii. Recognition voucher to voluntarily move from the ONP (PAYGO) to an AFP. The reform project, which must now be approved in the Plenary of Congress, allows the provision of a recognition bonus for the voluntary transfer

[1] The law provides for the early withdrawal of up to 4 Tax Units (ITU), equivalent to PEN 20,600 (approx. US$ 5,500).

of members of the Office of Pension Standardization (ONP) to the Pension Fund Administrators (AFP).

ix. Increase in the early retirement age, from 50 to 55.
x. "Default" involvement in the ONP (PAYGO). All individuals over the age of 18 must choose the system to which they want to belong (private or public). Those who do not choose the AFP or ONP system when coming of age, will be mandatorily enrolled in the PAYGO system.

According to data provided by the Ministry of Economy and Finance (MEF) and the Congressional Economic Commission, the pension reform will represent a fiscal impact of 2.7% of GDP in the first year of its implementation alone, increasing to 3.4% by 2035 and 6.5% by 2040, a trend that suggests a growing long-term fiscal impact. ***(Source: DFSud; RPP; Comunicaciones Congreso; Infobae; Infobae; Infobae; Date: May/June 2024)***

The Peruvian Institute of Economics analyzed the challenges and opportunities of the Peruvian pension system. On April 4, the Peruvian Institute of Economics (IPE) organized the event "What pension reform law do we need?" Balance, opportunities and risks." This meeting was attended by prominent representatives of public, private, academic and civil society sectors, who discussed the current state of the pension system, possible reforms and the risks involved. Giovana Prialé, Chairwoman of the Association of AFPs, emphasized the need for the evaluation of the system to be both permanent and technical, to corroborate that the system is suitable for the structure of the labor market. The experts and key stakeholders of the pension system in the country identified the following minimum reform guidelines:

- Reverse the 95.5% withdrawal: Since the approval of Law No. 30425, only 1% of enrollees choose a monthly pension. According to a survey by the Inter-American Development Bank (IDB), more than half of those who withdraw their funds spend them faster than a Life Annuity, leaving retirees vulnerable and dependent on family or state support.
- Protect the system from extraordinary new withdrawals: Since 2020, six withdrawals have drained PEN 87,937 million (approx. US$ 23,074 million) of pension savings. With the recent withdrawal approved in 2024, it is estimated that the funds managed by the AFPs will fall back to levels of 13 years ago.
- Guaranteeing minimum pensions: Peru's low replacement rates require an expansion of non-contributory pensions. The OECD estimates that a universal minimum pension for over-65s would cost around 1.6% of GDP and provide a 40% replacement rate for retirees with wages close to the Minimum Living Wage (MVR).
- Increase competition and flexibility: The system would benefit from more stakeholders and pension savings options. It is necessary to adapt the contribution schemes to the intermittent income of informal or seasonal workers, with contributions complemented via means-testing by the State.
- Solving the financial unsustainability of the PAYGO system managed by the ONP: growing population aging makes the PAYGO system unfeasible. The Fiscal Council estimates an actuarial deficit of almost PEN 180,000 million (approx. USD 47,231 million), equivalent to 20% of GDP in 2023. ***(Source: Infomercado; Date: 23.05.2024).***

Dominican Republic

The Pensions Commission makes joint efforts to educate people regarding the pension system through different initiatives. On the one hand, with PedidosYa they have joined forces to promote pension education and foster understanding of the benefits of the Dominican Pension System, which includes training, workshops and online publications to inform the Dominican population about the advantages of the pension system and how the different institutions involved work. The Superintendent of Pensions said: "The alliance with PedidosYa allows

us to provide social security education to a wider and more diverse audience. We are convinced that, through innovation and the use of daily platforms, we can transform the perception and commitment to pension savings in our country. " On the other hand, with the same objective, the Pensions Commission held an innovative and educational meeting with 45 content creators from various digital platforms, due to their immense ability to connect with different audiences, a key strength for the mission of educating Dominicans about the importance of planning their future retirement. ***(Source: SIPEN, SIPEN; Date: May/June 2024).***

The Government published the Green Taxonomy of the Dominican Republic. On Tuesday, June 4, the Securities Market Commission and the Ministry of Environment and Natural Resources (MMARN) launched the Green Taxonomy of the Dominican Republic, an instrument developed with the support of the IFC - International Finance Corporation, which will allow investors, companies and other market actors to more easily identify strategic investment opportunities that align with the country's environmental objectives. This, in turn, will help attract private capital to environmentally sustainable projects, contributing to the transition towards a low-emission, resilient, sustainable and inclusive national economy. More than 170 experts from the public, productive and financial sectors, academia, civil society and international organizations participated in the process of developing the Taxonomy. The Taxonomy will contribute to the investment of pension fund resources in financial instruments that support the development of projects for a sustainable future, contributing to the evolution of a greener and more resilient economy. ***(Source: MMARN; Date: 4.06.2024).***

Uruguay

Passing money from individuals in an AFAP to a Trust "would be an appropriation of resources." On October 27 this year, during the presidential and parliamentary elections in Uruguay, citizens must also vote for or against a plebiscite promoted by the PIT-CNT, the country's trade union movement. The ballot proposes establishing three points in the Constitution: the official retirement age at 60, the matching of the minimum wage and the minimum pension and the elimination of the Pension Fund Managers (AFAPs) which manage the country's individual pension funds, and the transfer of the funds of the members to a trust. The Chairman of the National Association of AFAPs (Anafap), Ignacio Azpiroz, opposes this measure, arguing that "the money with his name and surname that an individual has in the AFAP is his and no one else's; it is as if he had an account in the bank. No one would think of taking money from someone's bank account and passing it to a trust. That would be "appropriation of resources." Azpiroz points out that if the plebiscite is approved, the AFAPs must cease their activities within two years and members' savings would go to a trust managed by the Social Security Bank. He added that the individual savings pillar is very positive for workers' savings, and that all countries with well evaluated Social Security systems have multi-pillar systems. An example of this is Argentina, which returned to the PAYGO system in 2008, which is what the plebiscite proposes with the elimination of the AFAPs, and we simply have to observe the state of social security and pensions in that country today. In summary, the Pit-Cnt proposal to eliminate the AFAPs and transfer the funds to a trust is seen by the fund managers' representatives as "resource appropriation," which would affect the individual savings of members. ***(Source: Infobae; El País; Date: April/May 2024).***

Venezuela

The new pension law that comes into effect on July 4, 2024, has been criticized as a move that will further burden the private sector without adequately addressing long-standing problems in the country's pension system. The government's proposed "Law for the Protection of Social Security Pensions from Imperialist Blockade" mandates a 9% contribution by private

sector employers, in addition to employee salaries and bonuses, to fund the pension system. The law was quickly approved by the National Assembly, bypassing the normal social security contribution mechanisms and placing the funds collected under the control of the National Integrated Customs and Tax Administration Service (SENIAT), instead of the Venezuelan Social Security Institute (IVSS). Critics argue that the law will negatively impact the private sector, reduce formal employment, and increase the cost of living, while the funds raised will not be used to improve low pension amounts. The existing Social Security System Law (LOSSS) in Venezuela has not been fully implemented due to a lack of political will, even though it defines an integrated system with different social security systems, including pensions. Employers have requested incentives and exemptions from the new pension contribution to mitigate the impact on their businesses, as they are already subject to other taxes and levies. In short, the new pension law coming into effect has been criticized as a move that will further burden the private sector, without adequately addressing long-standing problems in the country's pension system. ***(Source: Provea; Venezuela Justia; Cnnespañol Date: April/May 2024).***

Asia and the Pacific

Australia

Early access to Superannuation funds is not the miracle solution for solving the country's real estate crisis. The Australian Superannuation Funds Association (ASFA) is disappointed to see the savings-based retirement system (Superannuation) used as a political bargaining chip in the upcoming federal election, and mistakenly sold as a miracle solution to Australia's complex housing crisis. According to a study and note published by the agency, early access to Superannuation funds by the youngest workers (proposed by the Government Coalition) would cause the following effects:

(i) Limited pension: Most young people do not have sufficient pension balances to meet the housing down payment requirements, even if they were allowed to withdraw all of their pension savings (many low-income individuals have already exhausted their Superannuation balance due to early withdrawals during COVID-19). In addition, those with higher pension balances have generally been able to own a home.

(ii) Higher Prices: Allowing early Superannuation fund withdrawals for housing would increase demand and drive up home prices, making it even more difficult for most would-be first-time homebuyers to enter the market.

(iii) Intergenerational inequality: The policy would primarily benefit those who already have higher pension balances and income, leaving behind those who are less well-off.

(iv) Budget implications: A Deloitte report warns that a policy of this kind could result in a budget deficit of up to $2.5 billion by the end of the decade, due to reduced pension balances and rising old-age pension costs.

ASFA Executive Director Mary Delahunty stresses that “early access to pension funds is not the silver bullet for solving Australia's real estate crisis.” Instead, the organization advocates for policies that address the root causes of the housing crisis, such as improving housing supply and affordability. ***(Source: LinkedIn; ASFA; ASFA; The Guardian; Thenewdaily; Date: May 2024).***

Singapore

Singapore announces increases in retirement and re-employment ages. On March 4, 2024, the Ministry of Labor announced that the country would increase its statutory retirement age from 63 to 64, and its re-employment age from 68 to 69, on July 1, 2026 (the retirement age is the earliest age at which Singaporean employers can require their employees to retire; once employees reach this age, their employers must offer them 1-year re-employment contracts each year until they reach re-employment age, or can no longer meet certain performance and health

requirements)[2]. These 1-year increases in retirement and re-employment ages follow increases implemented in 2022 and are part of a plan approved by the government, employers, and labor representatives in 2019 to increase retirement and re-employment ages to 65 and 70, respectively, by 2030. The aforementioned gradual age increases are aimed at further boosting the labor force participation of Singaporeans aged 65 and over, who have already increased in number from 23.8% to 31.5% over the last decade. According to the government, more than 90% of Singaporean workers of retirement age who applied for re-employment contracts in 2023 received them.

Increases in retirement and re-employment age do not affect the ages of eligibility for withdrawal and payment from the Central Provident Fund (CPF) , which provides old-age benefits to most workers in Singapore. Under current CPF rules, participants born in 1958, or over the age of 55, can withdraw a lump sum of SGD 5,000 (approx. USD 3,672) from their accounts, or an amount exceeding the required minimum balance (full retirement sum, currently SGD 205,800 [approx. USD 151,152]), whichever is greater (additional rules apply to participants who own property in Singapore). At the age of 65, participants born in 1958 or later may withdraw up to 20% of their account balances (with some exclusions) as a one-time lump sum, or in periodic payments, while the remaining funds must be used to purchase a government-backed annuity (*CPF LIFE*). Participants who have account balances below SGD 60,000 (approx. USD 44,068) or who receive other private pensions or annuities that meet certain requirements may be exempt from the mandatory government-backed annuity purchase rule. Participants can choose to defer the purchase of the aforementioned CPF LIFE until 70 years of age to increase their monthly pension amount. ***(Source: SSA International Update; Date: May 2024)***

Europe

Germany

The country approved a new pension package to address population aging. On May 29 the Council of Ministers approved the new pension law (Pension Package II) to:

(i) **Ensure pensions continue to increase in line with wages**. Without these regulations, pensions would gradually decline as of 2025, and would be disconnected from the evolution of wages. To avoid this drop in perceptions in relation to salaries, the Executive established that the average pension compared to the average salary of the population (which is the main parameter used to adjust the pension formula[3]) will

[2] Singapore's public old-age pension system comprises the Central Provident Fund (CPF) and a social assistance program (the Silver Support Scheme). To fund the CPF, employees with monthly salaries above SGD 750 (approx. USD 551) contribute 20% (if 54 or younger), 16% (if 55-59), 10.5% (if 60-64), 7.5% (if 65-69), or 5% (if 70 or older) of covered monthly income, while their employers must contribute 17% (if 54 or younger), 15% (if 55-59), 11.5% (if 60-64), 9% (if 65-69), or 7.5% (if 70 or older) of covered monthly payroll (each change in contribution rate takes effect on the first day of the month after an employee reaches the applicable age; special rules apply to employees with monthly income up to SGD 750, or less than 2 years of permanent residence). Before participants turn 55, their CPF contributions are allocated to three different individual accounts managed by the government's CPF Board: an Ordinary Account (OA) that can be used to fund the purchase of a home, life insurance and mortgage, education, and investments in approved retirement-related financial products; a Special Account (SA) that is primarily for pension savings; and a MediSave account for certain medical and hospitalization expenses. At age 55, OA and SA savings up to a certain amount are transferred to a Retirement Account [RA] which is used for old age benefits. Singaporean citizens aged 65 and over who have up to SGD 140,000 (approx. $102,825) in CPF contributions before age 55 and who meet certain income, asset, and housing requirements, may be eligible to receive monthly benefits under the Silver Support Scheme.

[3] This parameter (average pension against average salary) is calculated each year by the Federal Statistical Office. In 2023,

remain stable at 48% of the average salary in the coming years, until 2039 (without this measure, it would drop below 45% in the long term, according to projections). Previous governments had recognized the demographic change that Germany has suffered for years in a pension formula that slowed the increase in expenditure and distributed the burden between payers and recipients (i.e., if there are fewer workers, they have to pay higher contributions, and pensioners will have to give up part of their pensions). However, the Social Democrats wanted to prevent pensions from dropping further at all costs. The Economic Research Institute (Ifo) estimates the additional costs for 2040 at EUR 32 billion, and EUR 45 billion in 2060. In the meantime, to cope with the additional cost, the Government agreed that the pension insurance contribution will remain stable at 18.6% of each worker's gross salary until 2027 but will rise as of 2028 to 22.3% by 2035.

(i) **Create an individually funded system that will help pay pensions in the future**. The reform creates the so-called generational capital, i.e., the country will invest millions of state subsidies in the capital market as an additional source of income for the pension system. However, it is estimated that this measure will not take effect until 2036. The pension fund estimates that by then it will be able to generate around 1% of its necessary income from the equity fund (an average of EUR 10 billion per year). For the leader of the Liberal Party and Minister of Finance, Christian Lindner, the fund represents a "turning point in German pension policy", since an individually funded pillar will be established in the legal retirement regime for the first time. ***(Source: El País; ; Date: 29.05.2024).***

Spain

The OECD and the European Commission have called for improving incentives for occupational pension plans. Spain faces the daunting challenge of boosting savings in employment plans. The second pensions pillar currently has two million members (savers) who accumulate a 'piggy bank' of 3% of GDP. After the last regulatory reform, the Government committed to extend these vehicles to ensure that 13 million workers have a savings product at the company level. The OECD and the European Commission have worked with the Ministry of Social Security during these months, culminating with conclusions that they must:

- Align financial incentives with the needs and capabilities of companies and workers.
- Simplify and stabilize tax rules, introducing non-tax incentives for young workers, low-income workers and women.
- Raise awareness of savings in these pension plans through social agents.

Supplemental pension saving in Spain has historically focused on individual plans. In fact, the development of employment plans stalled in the middle of the first decade of the century. In 2005, the second pillar covered 8% of the working population and the assets of these plans amounted to 3.2% of Spanish GDP. The funds of the employment plans have remained almost unchanged since then, although the last pension reform wants to restructure the situation with the aim of obtaining more savings to complement pensions and for more people to be covered by social security. Specifically, they want to increase workers with employment pension plans from 2

this parameter stood at 4,479 euros gross per month. But the indicator does not determine the amount of the pension that a person receives, which depends on many variables. It only serves as a reference for an average pensioner who has contributed to pension insurance for 45 years.

million to 13 million this decade and provide 80% of the active population with an employment plan in the long term. Assets would grow threefold by 2030, already amounting to 9% of GDP, and tenfold by mid-century, accumulating 51% of GDP in employment plans by 2050. ***(Source: The Economist; Date: 05.06.2024).***

The Bank of Spain's prescriptions for guaranteeing future pensions. Spain should reduce the replacement rate (the retirement pension as a percentage of the last salary received by the worker) and evaluate the ability of private savings to supplement public pensions. These are some of the recommendations of the Bank of Spain (BoE) to guarantee the future sustainability of the system, threatened by population aging and a recent reform which, in the opinion of the supervisory body, will not serve to correct the imbalances in public accounts. This was stated by the governor of the institution, Pablo Hernández de Cos, during the presentation of the "Annual Report of the Bank of Spain" on May 7 before the Economy, Trade and Digital Transformation Committee of the Congress of Deputies. According to Eurostat projections, the dependency ratio (the ratio between those over 66 and the working-age population between 16 and 66) will increase by 27.2%, to 53.8% between 2023 and 2053, eight percent more than the European Union average (45.8%). Virtually the only source of population growth is net foreign arrivals (almost 5 million between 2002 and 2022). Residents born outside Spain already account for 17% of the census. These migration flows "will not be able to avoid the process of population aging or completely resolve" hypothetical imbalances in the labor market in the future. Thus, demographic change poses "numerous challenges" that require "decisive action in multiple areas." The key issues

a) Low birth rate: This demographic scenario will generate "a substantial increase in pension expenditure in the coming decades" for public accounts. According to the projections of the Independent Authority for Fiscal Responsibility (AIReF), the disbursement on those public benefits will increase to 16.2% in 2050. The governor of the Bank of Spain stresses that, according to "the available evidence," it would be "partially" associated with the difficulties "to reconcile family and work life." And he proposes assessing the effectiveness of "some of the public actions deployed" recently "to reconcile family and work life".
b) Delaying retirement: The Bank of Spain believes that, in order to achieve a "significant containment" of pension expenditure, "a very large percentage" of workers must decide to postpone their retirement. Incentives granted for delaying retirement would have "a limited effect on reducing pension expenditure," according to an analysis included in the Bank of Spain's report.
c) Social contributions: De Cos suggests "studying the effects" of the increase in social contributions on the labor market and the competitiveness of companies, as well as "its consequences on intergenerational equity."
d) Replacement rates: The retirement pension as a percentage of the last salary received by the worker. The one in Spain, Hernández de Cos reminds us, "is in the upper echelons of the countries around us." According to OECD data, this replacement rate is 80.4%, compared to an average of 50.7% among developed countries. Reducing this ratio would mean, de facto, cutting pension amounts.

Private savings: Finally, the Bank of Spain proposes to "examine the evolution of private pension savings, and their ability to complement

public system pensions." ***(Source: [El Correo](); Date: 28.05.2024).***

The 2024 Spanish Aging Report states that pension expenditure will rise to 17.3% of GDP by 2050, and the replacement rate will drop. The main points on the European Commission's 2024 Spanish Aging Report are:

- ✓ Public expenditure on pensions in Spain is projected to increase from 13.1% of current GDP to 17.3% of GDP by 2050.
- ✓ The pension replacement rate (ratio of the first pension to the last salary) is expected to drop by 4.1 percentage points.
- ✓ The 2021 and 2023 pension reforms, such as the repeal of the Sustainability Factor and the indexation of pensions to the CPI, put upward pressure on public pension expenditure.
- ✓ However, the introduction of a system of delayed retirement bonuses and early retirement reduction coefficients has partially mitigated this increase in expenditure.
- ✓ Overall, the report predicts that the measures adopted in the 2021 and 2023 reforms will increase public pension expenditure by an additional 3.3 percentage points of GDP by 2050, and 1.7 points by 2070.

In summary, the 2024 Aging Report forecasts a significant increase in public pension expenditure in Spain, amounting to 17.3% of GDP by 2050, while a reduction in the pension replacement rate is projected. ***(Source: BBVA; CaixabankResearch; Future Retirement; Date: April/May 2024).***

Ireland

The proposed automatic enrollment ("AE") system, which will now become operational as of January 1, 2025, aims to increase the provision of private sector pensions by automatically enrolling eligible employees in a pension plan. On Friday, April 5, 2024, the Minister of Social Protection, Heather Humphreys, published the general outline of the Automatic Enrollment Retirement Savings Bill. The system aims to improve the pension savings of employees who are not currently participating in any pension plan. The key features include:

(i) Eligibility: Employees between the ages of 23 and 60 who earn more than EUR 20,000 in all jobs will be automatically enrolled unless they are already enrolled in an occupational pension plan or other pension arrangement. Those under the age of 23 or over the age of 60, or those earning less than EUR 20,000, can enroll voluntarily.

(ii) Contribution rate structure and gradual implementation: The system involves a matching contribution mechanism in which employees contribute EUR 3, employers contribute EUR 3, and the government adds EUR 1. This results in a total contribution of EUR 7 for every EUR 3 contributed by the employee. Contribution rates will gradually increase over the first ten years: both employees and employers will contribute 6% by year 10 (2034), and the government will contribute 2%, thus totaling a rate of 14%. Below is the level of the contribution rates of employees, employers and the State, according to the number of years since the rule came into effect:

	Worker	Employer	Status	Total
(Year 1 -3)	1.5%	1.5%	0.5%	3.5%
(Year 4-6)	3%	3%	1%	7%
Year 7-9	4.5%	4.5%	1.5%	10.5%
Year 10+	6%	6%	2%	14%

(iii) Employer Engagement and Sanctions: Employers must comply with EA obligations, including making contributions to their employees' pension funds. Failure to do so may result in penalties and possible prosecution.

(iv) Portability and flexibility: The EA scheme is designed with portability in mind. If employees change jobs after being enrolled, their pension plans move with them, managed by the National Automatic

Retirement Savings Authority (NAERSA). Employees can choose to opt out after six months, with a refund of their contributions, or suspend contributions at any time without a refund.

(v) Contribution limits: Employer and government contributions are capped at a gross annual salary of EUR 80,000.

(vi) Management: This plan will be managed by the newly created NAERSA, under the supervision of the Pension Authority.

(vii) Legislation: The Automatic Enrollment Retirement Savings System Bill of 2024 is the legislative basis for this plan. The bill is currently being discussed, with an effective date set for January 1, 2025. ***(Source: WTW; Eurodev; IAPF; Arthurcox; Zellis; Date: April/May 2024).***

Czech Republic

The country is considering reforms to reduce retirement benefits and raise the retirement age in an effort to stabilize its social security system. Parliament is considering state pension reforms aimed primarily at ensuring the long-term sustainability of the system, as well as simplifying certain processes. Many of the current proposed changes were initially considered as part of a 2023 reform package that took effect on October 1 of that year; however, due to opposition in parliament, most of the package's original proposals were put on hold. Some of the current proposals are also expected to face stiff opposition.

Key Details

These proposed changes include:

- Raise the official retirement age (NRA), currently 65 for those born after 1965, by two to seven months, depending on year of birth, for those born between 1966 and 1972. For individuals born in 1973 or later, the NRA in the year the individual turns 50 would be calculated as 65 years plus the difference between that year's future life expectancy and the 2015 life expectancy, subject to the resulting NRA being within two months (greater or less) of the NRA for individuals born in the previous year. The intent is to maintain an expected pension payment period after the NRA of 21.5 years.
- Modify the pension formula to result in lower retirement benefits after 2025 by:
  - (i) Reducing the percentage applied to the first level of the average monthly wage (i.e., The average wage to 19,346 kronor (CZK) in 2024). Currently, the percentage is 100%; the proposal would reduce it by one percentage point each year between 2026 and 2035, to 90%.
  - (ii) Reducing the benefit rate that is multiplied by the average salary and years of service when calculating the pension amount. The rate is currently 1.50%; the proposal would reduce it uniformly every year between 2026 and 2035, to reach 1.45%.

- Eliminating employees' contribution to social security (6.5% of covered salary) for retirement, death, and disability benefits, for retirees who continue to work after the NRA, to incentivize older workers to remain employed.
- Crediting social security contributions for periods of unpaid family leave based on the average national salary, for the purpose of calculating income-related pensions. This would gradually replace the monthly pension supplement of CZK 500 (introduced in 2023) for parents who are primarily responsibility for the care of a child.
- Allow couples to choose a joint pension (distributed equally) that is calculated based on their combined salary history, for pensions that start being paid after 2026.

The aging of the Czech Republic's population, driven by a low birth rate and longer life expectancy, has raised concerns about the sustainability of the social security system. The reforms aim to reduce pressures on public spending by gradually reducing retirement

benefits and encouraging employees to work longer; however, as the reforms would greatly reduce benefits, they are generally unpopular and therefore face strong opposition. Just under 60% of employers, according to surveys, offer some form of supplemental retirement benefit, usually contributions to employees' voluntary individual retirement plans, but employer and employee contribution rates to the plans tend to be low (3% each in the median). Reducing Social Security retirement benefits may encourage employees to become more interested in supplemental retirement benefits. Companies should monitor the status of these reforms. ***(Source: WTW; Date: 30.05.2024).***

Switzerland

The country is raising the retirement age for women to match that of men and offering more flexible retirement options for all genders. Switzerland's AHV/AVS 21 law, which was passed by parliament and then passed by public referendum in 2022, came into effect on January 1, 2024. Among other things, the law will raise the normal retirement age (now called the "reference age") for women in the AHV/AVS social security retirement program[4] as well as for pension plans providing BVG/LPP mandatory retirement benefits[5].

Key Details:

- The reference age for women (currently 64) in the AHV/AVS and BVG/LPP pension plans will be increased in four stages (three months each year between 2025 and 2028), to 65 (thus aligning with the current reference age for men).
- To offset the effect of this change, women closer to retirement will receive a lifetime pension supplement based on their year of birth (for women born between 1961 and 1969) and their income level.
- More flexible retirement options are offered; early retirement is possible from age 63 (although pension funds may allow it from age 58) and retirement deferral is possible until age 70, provided employment is maintained; partial (early/deferred) retirement is possible.
- The contributions to the AHV/AVS of men and women who keep on working beyond their retirement age will result in higher AHV/AVS benefits (which was not previously the case), which could incentivize deferred retirement.

Further AHV/AVS reforms are also planned, which could also affect BVG/LPP pension plans. In March 2024, the initiative for a thirteenth month AHV/AVS pension payment was adopted by public vote; however, the financing and implementation modalities have yet to be defined. Currently, the reform is expected to result in an AHV/AVS pension increase of 8.33% to be paid monthly or annually as of 2026. The introduction of the thirteenth AHV/AVS pension will have an impact on pension schemes when occupational benefit schemes are based on the AHV/AVS pension, particularly as regards the BVG/LPP threshold amounts, the BVG/LPP benefits and the AHV/AVS "bridge" pensions. ***(Source: WTW; Date: 30.05.2024).).***

European Union

New directive on the employment situation and protection of platform workers. The Parliament and the Council of the European Union (EU) approved the provisions of a new directive aimed at improving working conditions and the protection of individuals performing "platform" work in the EU. The directive will introduce measures to correctly determine the employment status of such individuals and promote transparency, human supervision and accountability in the management of such work. Platform work can be broadly defined as work organized through a digital work platform that uses automated monitoring or decision-making systems (examples include people transportation,

[4] Old-age and survival insurance.

[5] Federal law governing professional occupational old-age, survivor, and disability pensions.

food delivery, data entry, and translation services). The Council estimates that in 2022, more than 28 million people were working on platforms in the EU (projected to increase to 43 million by 2025), of which possibly more than five million were misclassified as self-employed or contractors, rather than employees. Once the directive is formally adopted by the EU Parliament and Council, member states will have two years to implement compliant national legislation. Employers should closely follow the new EU directive on platform work, which could bring changes to the employment status of those working through digital platforms.

Key Details:

- The directive does not specify uniform criteria for determining whether individuals performing work on platforms should be considered employees of the platform organization; rather, it states that there must be a rebuttable legal presumption of a contractual employment relationship if the platform exercises control and direction of the worker in accordance with national law, collective agreements, or practice. Each member state shall establish criteria and procedures to define and support the presumption that such workers are employees. The burden of rebutting any such presumption will fall on the platform.

Platforms shall ensure human oversight of their automated monitoring or decision-making systems and periodically conduct (at least every two years) an assessment of the impact of individual decisions made or supported by such systems on individuals performing work on the platform (whether or not they are employees), including, where appropriate, their working conditions and equal treatment at work. Workers' representatives should be involved in the evaluation process. The directive also imposes substantial limitations on the processing of personal data by these systems. ***(Source: WTW; Date: 30.05.2024).***

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