

Pension System of Peru

- I. Economy and demography
- II. Description of the sytem
- III. Reforms in recent years
- IV. Conclusions



Machupicchu

Integrants

- Ryanne Cox, Pensions Supervision – De Nederlandsche Bank
- Alvaro Gallegos, Consultant, former Superintendent of Pensions of Chile
- Carlos Chumpitaz, Pension Strategy Analyst – Superintendency of Peru
- Javier Chávez, Bank and Pension Funds Examiner - Superintendency of Peru



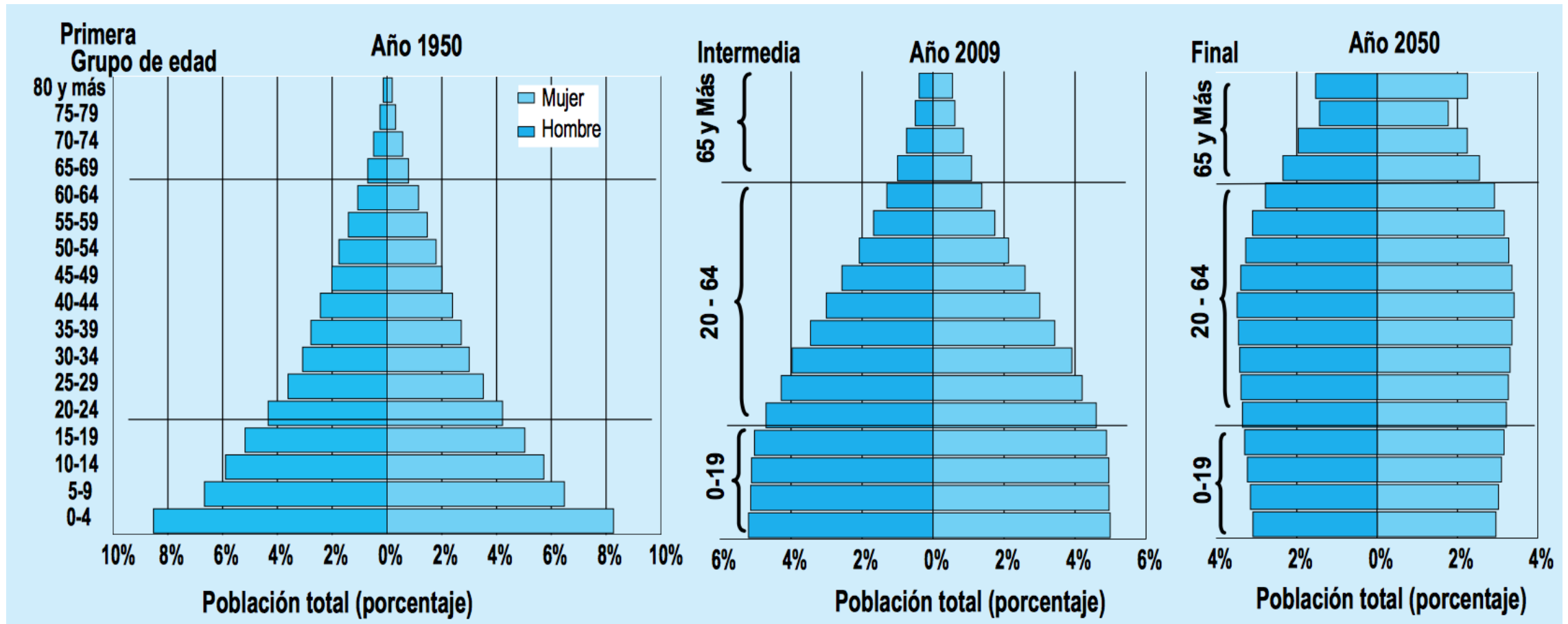
I. Peruvian economy and demography

According to World Bank 2015 data:

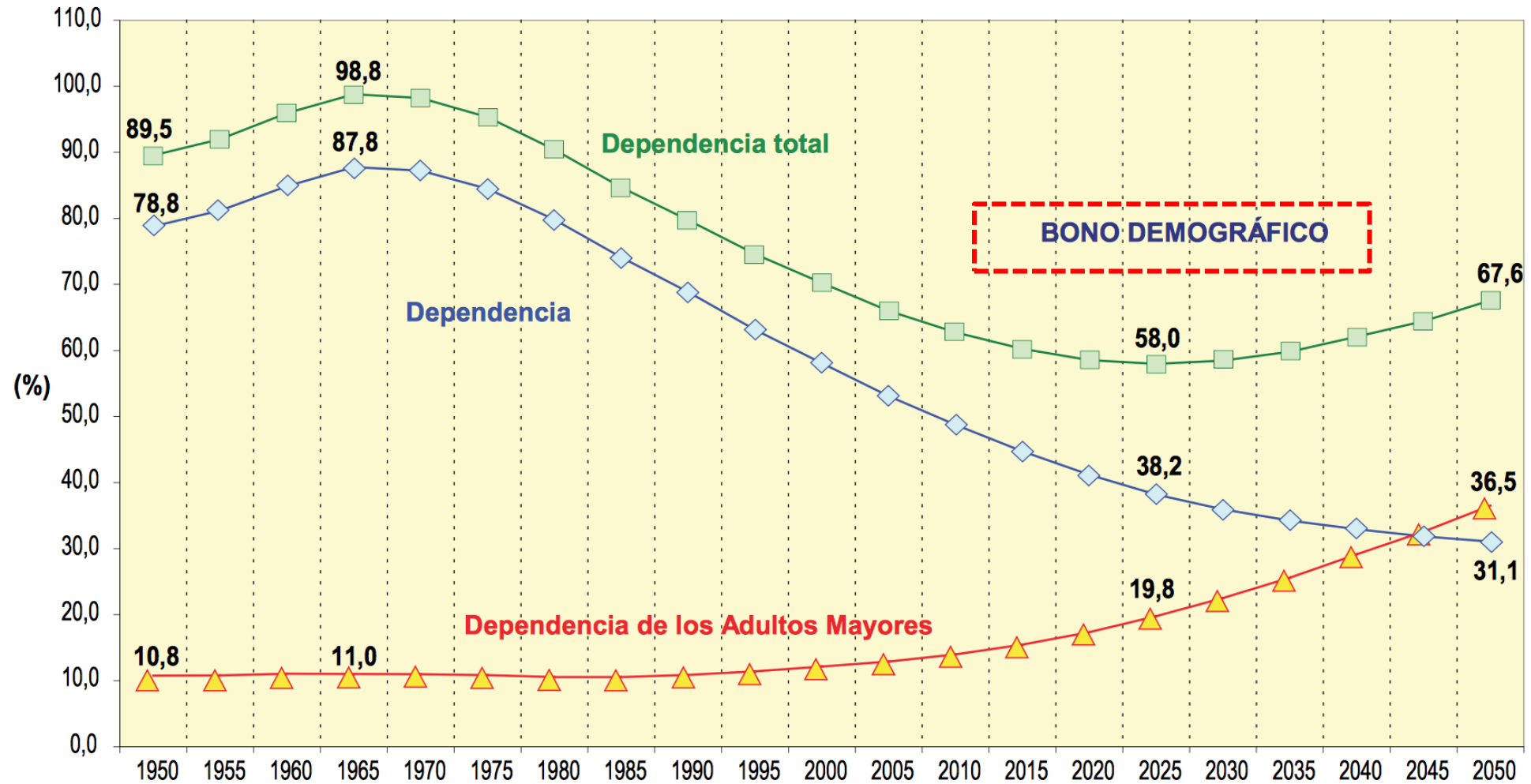
- Population: 31.4 million
- GDP: US\$ 189 billion (US\$ 6 019 per capita)
- GDP growth: 3.3%
- Inflation: 3.6%
- Informal labor: 68.8%
- Poverty: 21.8%
- Gini: 44.1
- Life expectancy at birth: 75 years



Demographic transition

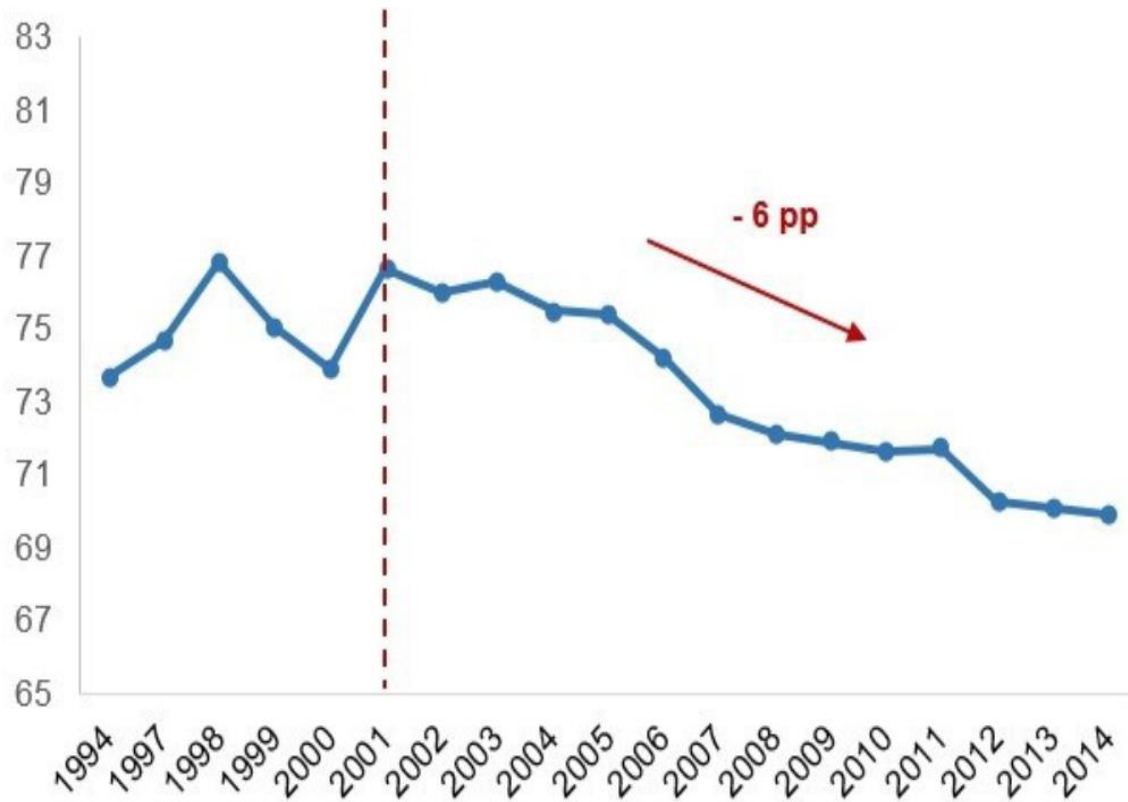


Demographic transition



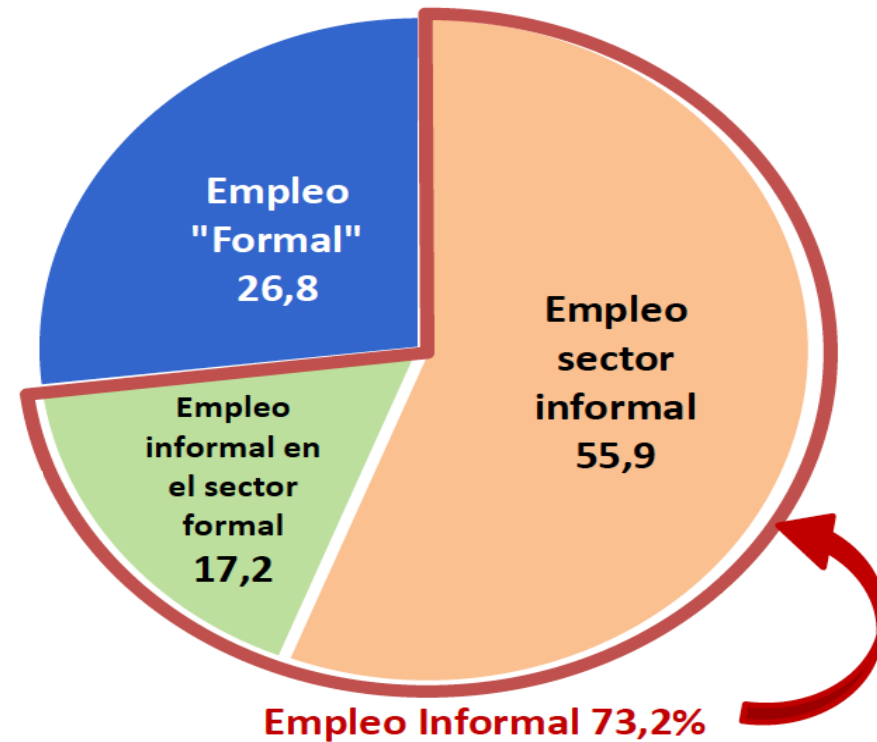
Labor market

Informality



2015

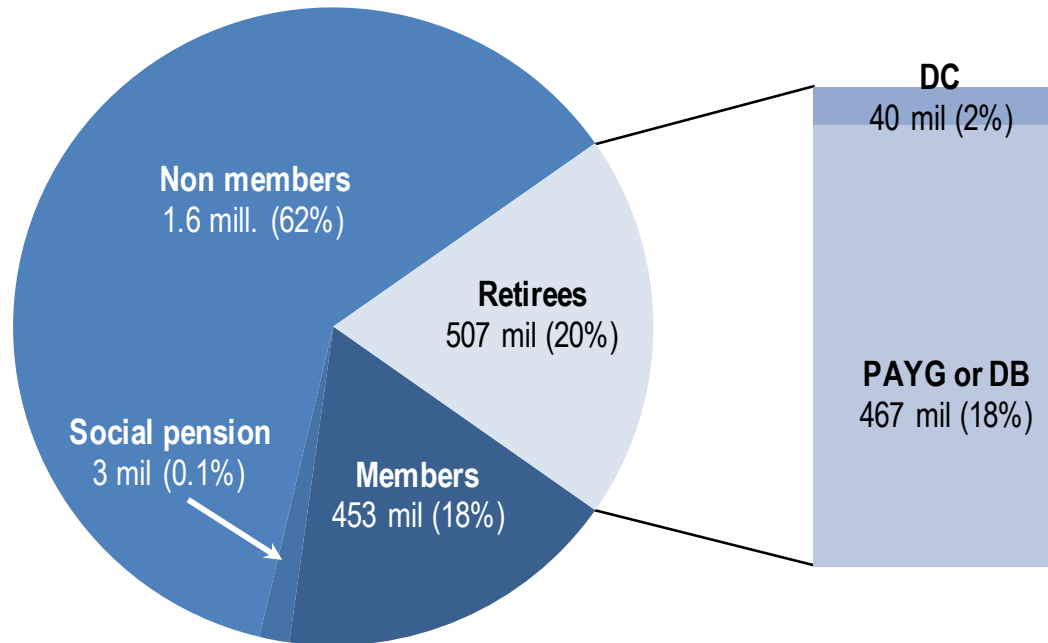
Población Ocupada:
15 millones 919 mil personas



Empleo Informal 73,2%

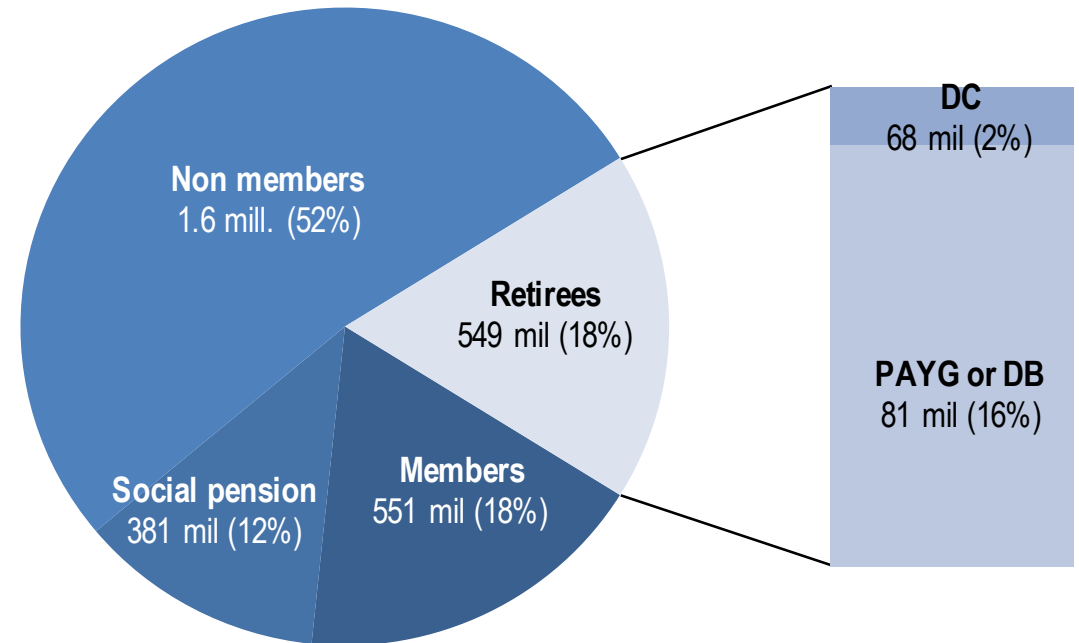
Structure of population over 60 years old

2010



Population: 2.6 millones

2015



Population: 3.1 millones



Source: Household survey.

II. Description of the pension system of Peru



Pillars

- Non-contributory social pension: Pensión 65 (2011)
- Contributory, mandatory pensions for workers:
 - Public Funded Defined Benefit: *Sistema Nacional de Pensiones* (SNP)
 - Private Funded Defined Contribution: *Sistema Privado de Pensiones* (SPP)

Voluntary contributory pensions in the private funded DC system

- **Non-contributory, social pension: Pensión 65**

Targeted to the most vulnerable ones that

- Are 65 or older
- Have an identity number (DNI)
- Meet the conditions of 'extreme poverty'
- Do not receive any other pension (SNP, SPP) or subsidies

Pays 125 PEN (~USD 38) per month; representing ~8.6% of income per capita

Currently paid to 500,000 beneficiaries (~25% of population 65+)



PERÚ

Ministerio de Desarrollo
e Inclusión Social

pensión65
tranquilidad para más peruanos

- # Contributory mandatory system

It is **mandatory** for new workers to join either SNP or SPP

- The *default option* (if participants do not make a choice) is to join SPP and the AFP of their choice
- Participants that make an active choice can choose between joining SNP or SPP

Existing participants of SNP can change to SPP and the AFP of their choice

- Participants that change from SNP to SPP receive a **recognition bond** representing the (implicit) pension promised accrued in SNP, provided they have contributed to SNP during a minimum of 48 months

Public system: SNP

- Funded Defined Benefit
- Administered by the *Oficina de Normalización Previsional* (ONP)
- Contributions: 13%
- Career average plan
- Accrual rate of 2%; from 50 years: 4%
- Minimum vesting period of 20 years: when pension is accrued for less than 20 years, no benefits are paid
- Maximum pension of PEN 857 (c. USD 264) per month
- Minimum pension of PEN 415 (c. USD 128) per month
- Benefits are paid as an annuity



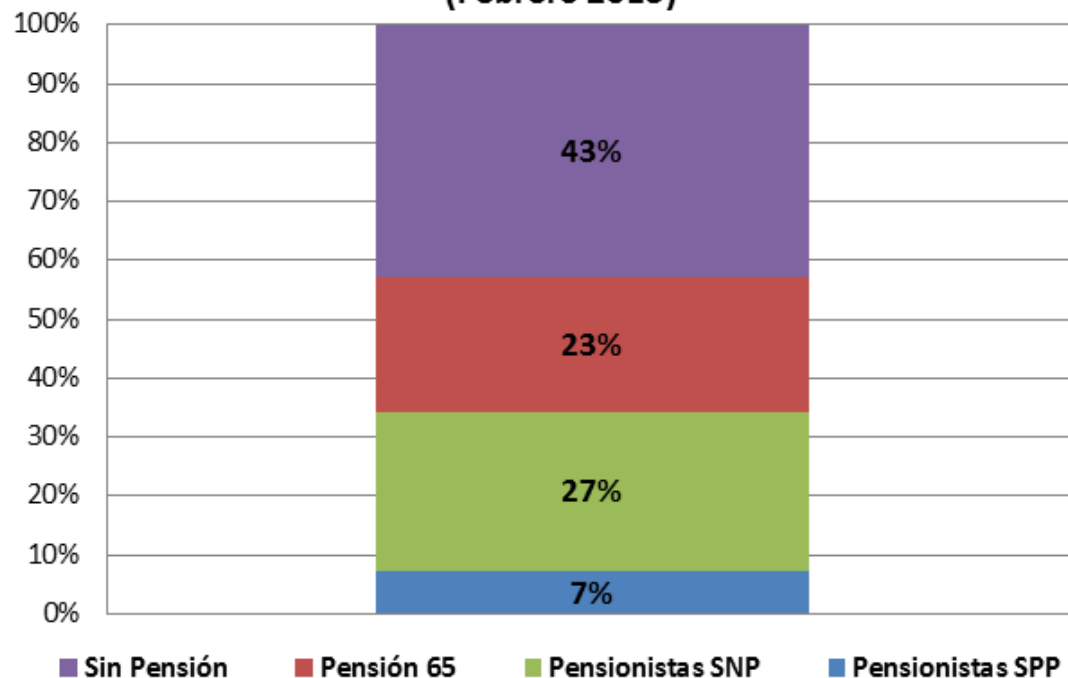
Private system: SPP

- Created in 1992 to develop and strengthen pension provision
- Defined Contribution; assets are accrued in individual accounts
- Pensions are provided via private *administradoras de fondos de pensiones* (AFP)
- Benefits include old-age, disability and survivor pensions and cover burial costs
- Contributions: 10% + AFP commission (variable) + disability and survivor insurance premium (1.33%)
- Self-employed can use SPP on a voluntary basis; participants can make additional voluntary contributions in SPP
- Accumulated assets in personal accounts are inherited by survivors in case of death
- APFs are supervised by *Superintendencia por Bancos, Seguros y AFP* (SBS)



Sources of income of Peruvians aged 65+

Peruanos Mayores de 65 Años por Tipo de Pensión
(Febrero 2015)

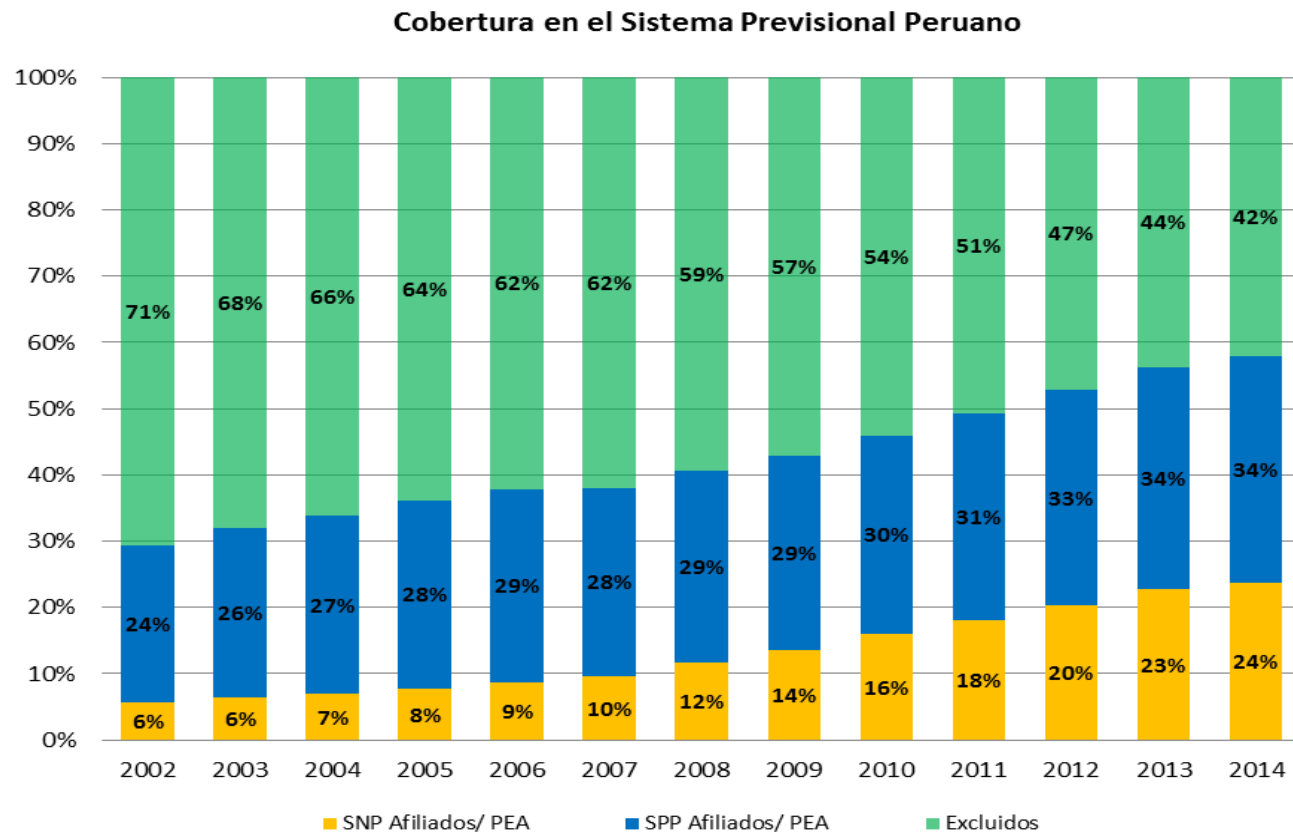


Elaboración: Asociación de AFP
Fuente: INEI, SBS, ONP y Pensión 65

- 43% do not receive any pension
- 23% receive the social pension: Pensión 65
- 34% receive a SNP or SPP pension

SPP still small in pay-out phase

Coverage in SNP and SPP as % of economically active population



- Old-age coverage increases gradually but is still low due to large informal sector (over 70% of economically active population)
- SNP continues to grow; growth in SPP stabilises
- Contributors to SNP and SPP are mainly higher earning workers

Replacement rates in SNP and SPP

SNP - Public	Gross RR				Net RR			
Ave earnings	0.5	1	1.5	2	0.5	1	1.5	2
RR (%)	76.8	70.6	47.0	35.3	88.3	81.1	54.1	40.6

SPP - Private	Gross RR				Net RR			
Ave earnings	0.5	1	1.5	2	0.5	1	1.5	2
RR (%)	68.3	39.1	39.1	39.1	78.4	44.8	44.8	44.9

Source: OECD (2014), Pensions at a Glance, Latin America and the Caribbean

SPP: how the AFPs work

- AFPs are for profit, single purpose entities for the administration and asset management of pension accounts
- At present there are four AFPs active
- The AFPs can invest participants' assets in four standardised investment funds, with different risk/return profiles.
- AFPs periodically have auctions to determine which AFP will take on any new participants

AFP **Integra**
Una empresa **SURA**

Profuturo
AFP del grupo **Scotiabank**

PRIMA^{AFP}
Grupo **Crédito**

AFP
HABITAT

Choice in SPP

Participants have freedom of choice as to:

- Whether to enter SNP or SPP
- When in SPP: which AFP to use (including option to transfer to another AFP at any time)
- In which fund category to invest the contributions
- Which type of pension to receive:
 - annuity (via an insurance company)
 - programmed withdrawal (via an AFP)
 - Programmed withdrawal with deferred annuity
 - Combination of annuity (50%) and programmed withdrawal (50%)
 - Bi-currency annuities (PEN and USD)

III. Reforms implemented by regulator in recent years



- Enhancement of the Risk Management regulation
-

- Improvement of corporate governance of SPP

Definition of responsibilities for the Directory, Risk Committee, and Investment Risks Unit.

- Tools for investment risk management

Adoption of risk models, stress tests, back testing of models and contingency plans



- Promote the competition in the SPP: Auction mechanism

- In 2012 the regulator implemented the auction mechanism as a way to reduce the administration fees charged by AFP.

- The winner has the right to incorporate for 2 years all new affiliates in the system.

- There have been 3 auctions to date.



Comisiones ganadoras por licitación

COMISIÓN	LICITACIÓN		
	Primera	Segunda	Tercera
Flujo	0.47%	0.38%	0.18%
Saldo	1.25%	1.25%	1.25%
Oferta	0.548%	0.5105%	0.394%

Fuente: SBS

2016

VI. Conclusions

- Peru is a young country (demographic bonus for the next 10 years) but with a very high informal sector (around 73%).
- The pension system has 3 pillars: social (Pension 65) , mandatory (SNP and SPP) and voluntary (SPP).
- SPP is the most important pension scheme in Peru, however, around 43% of people 65+ do not receive any kind of pension and recently the Congress passed a law that allows pensioners to take out up to 95.5% of their funds in SPP.
- The SPP regulator has implemented some reforms in order to increase the investment opportunities, enhance investment risk management regulation, and promote competition in the system.
- Ideas such as a minimum pension in SPP and promote voluntary contributions (tax incentives, behavioral mechanisms, or matching contributions) are important to analyze in the context of a integral reform of the pension system.



Thank you!