

COMPARATIVE REGULATION OF PRIVATE PENSION PLANS

Flavio Marcilio Rabelo¹

I. Introduction

This paper develops a comparative study on the regulation of private pension systems in OECD countries and in Latin America. The major differences in the regulatory framework for private pensions of OECD and Latin American countries result from three basic factors: (a) the voluntary nature of these plans in OECD countries versus their compulsory nature in Latin America; (b) the predominance of defined benefit (DB) schemes in most OECD countries while the compulsory schemes in LA are all defined contribution; and (c) the reliance on employer provided private pension plans in OECD countries. These differences however must not be taken as absolute. Australia for example has a quasi-compulsory private pension system based on defined contribution plans provided by employers. Defined contribution schemes have been growing in importance in almost all OECD countries and personal pension plans offered by financial institutions are quite common in the U.S. and the U.K. This paper will analyze the distinct regulatory approaches resulting from each of these factors.

It is quite useful for regulatory purposes to distinguish private pension plans according to their benefit structure (defined benefit or defined contribution) and form of provision (occupational or personal pension plans). Defined benefit plans use a benefit formula based on years or service and salary averages. This promise is guaranteed by the assets allocated in the pension fund. Consequently in this type of plans there is always the concern about the adequate level of funding to finance accrued liabilities (pension promises). Regulation has, among other things, to mitigate the insolvency risk of these plans. In defined contribution plans, the final benefit depends on the value of the participant's accumulated account balance. There is no set benefit in these plans. These plans are by definition always fully funded and the investment risk is entirely borne by the participant. The pitfall in this case is that due to irregular or small contribution or poor investment returns the participant may not accumulate a sufficient amount of money to provide for an adequate replacement rate in retirement. Davis (2001) shows how each regulation applies to a kind of plan and is a response to a certain economic issue (Box 1).

Occupational pension plans, which can be defined benefit or defined contribution, are part of a firm's total remuneration package and are used to attract and retain qualified employees. As such they are not a commercial product and are not accessible to the general public. Since they may influence the employment decision, the regulator must care that the rules of these plans are clearly stated and that the employer abide by the established rules. Personal pension plans are a savings vehicle offered mainly by insurance companies to the general public. It must be noted that in some countries, personal pensions may be sold as a collective product, as in the case where a firm purchases a group personal pension for its

¹ Associate Professor at the São Paulo Business School (EAESP) of Getúlio Vargas Foundation (FGV). E mail: frabelo@fgvsp.br.

employees. Like any other insurance product, personal pension plans pose the question of asymmetry of information: the seller possesses much more information on the product than the buyer can obtain at a reasonable cost, which may lead to a case of misselling. The regulator must act in this case to assure that the client receives all the pertinent information, particularly regarding the costs of these plans, so as to make the best possible choice. Another item of concern is the degree of competition in the personal pensions industry to avoid anti-competitive pricing policies that harm the consumer. Personal pension plans are mostly defined contribution, although some of them have a minimum return guarantee or a smoothing factor. As in any other insurance activity, the regulator needs to monitor that providers observe the required solvency margins.

In all countries with private pension systems, the typical components of the regulatory structure are: (a) licensing (authorization) criteria; (b) governance rules; (c) asset segregation rules; (d) independent custodian; (e) external audit/actuary; (f) disclosure requirements; (g) investment regulation; (h) guarantees; (i) minimum capital and reserves; and (j) regulations on costs and fees. The relative emphasis given to each of these components depends on the factors listed in the first paragraph and also on the development of domestic capital markets and financial institutions.

Based on relative emphasis on the aforementioned factors and considering the three basic aspects of pension fund supervision - ex-ante licensing activities; ongoing monitoring and inspections; and remedial and punitive problem resolution – Rocha et al. (1999) distinguish two regulatory models: the proactive and the reactive model. The former, predominant in Latin America, is associated with systems based on a small number of relatively homogeneous pension funds, which function essentially as special purpose investment companies. Supervision in this model emphasizes the first two supervisory building blocks. There is extensive use of reporting requirements, in some cases on a daily basis. The reactive model is typical of OECD countries in the case of occupational pension funds. The supervisor usually intervenes only when problems are reported (whistle-blowing). Supervision is then more oriented to the third element: problem resolution. Rocha et al. (1999) argue that this last approach is only feasible in the context of developed economies with well established and reliable financial and legal institutions.

Four OECD countries were chosen for the purpose of this comparison: Australia, Ireland, the United Kingdom and the United States of America. All of these countries have well developed private pension systems based on occupational pension schemes. Australia is an interesting case since, besides a means-tested old-age benefit, the private system is the sole source of retirement provision and has a quasi-mandatory nature. The difference from a Latin American country like Chile is the emphasis on employer based provision. It should be noted that the private pension systems of these four countries include personal pension products that function on quite similar principles as the individual capitalization accounts in Latin America. These personal pension products are usually offered by banks, insurance companies and some other financial institutions.

II. A First Comparison: Looking at the Numbers

A first task to appreciate the regulatory challenges in a given country is to observe the size and structure of the private pension system. Table 1 provides a general picture of the Latin America private pension system. Four important facts are easily noted: (a) the disparity between the number of affiliates and the number of contributors; (b) the relatively small size (with the exception of Chile) of accumulated assets; (c) the low level of voluntary savings in the system; and (d) the small number of providers. Given that in half of these countries (table 2), the private pension system is the sole provider of social security benefits, the disparity between affiliates and contributors simply reflects the difficulty of extending social security coverage to very low earners and informal sector workers. These systems then have no effect as a mechanism to alleviate poverty and must be coupled with other social security programs (e.g. non-contributory pensions). With the exception of Chile, Latin America private pension systems have less than ten years, which partly explains the small amount of accumulated assets. It is clear though that their savings accumulation potential cannot be compared to that of OECD private pension systems. It is also evident that these systems have not been efficient in channeling voluntary savings in Latin America. This is worrisome since, in the countries where the private system is the only social security pillar mandatory, contributions represent 10% of remuneration (table 3). It is questionable if this contribution will be able to generate an adequate replacement rate. Finally, the small number of providers is an evidence of important scale economies in this business, but clearly raises the matter of excessive market concentration and anti-competitive pricing policies.

As seen in table 2, private pension systems represent the sole social security basis in only five Latin American countries and in three of them participation is not mandatory, although there are incentives for affiliation. In most systems, there are a minimum return and a minimum pension guarantees. The former guarantee is backed, in the last stance, by the assets of the provider and the latter is a State guarantee. The regulator thus has to verify if providers have constituted sufficient reserve funds and are abiding by the minimum capital requirements in order not to endanger the minimum return guarantee. Such returns are important also to limit the State exposure to risks associated with the minimum pension guarantee.

Tables 4 through 15 contain relevant information on the private pension systems of the chosen OECD countries. In Australia, the private system has become quasi-mandatory after 1992 and covers 88% of all workers. Half of total membership is covered by retail funds (personal pension plans), representing 35% of accumulated assets (table 4). There are over two thousand private sector funds (corporate and industry-wide). Defined benefit plans are practically irrelevant in terms of membership and assets. These factors establish Australia as probably the most near comparison to the Latin American private pension systems. In the three other OECD countries, the private pension system is voluntary and supplements, in varying degrees, a publicly managed pay-as-you-go social security pillar. In Ireland occupational and personal pension schemes cover 50% of the working population (table 5) and there are 950 occupational pension schemes with over 50 members. As of 2000, the assets of occupational pension funds in Ireland reached the sum of € 52.535 billions (Pickering, 2001).

The U.K. and the U.S. have, along with the Netherlands, the most developed private pension systems in the OECD. In the U.K. there are over 7,000 private sector occupational pension schemes with more than 99 members (table 7). This large number obviously has an enormous impact on the way regulation is structured. Besides, there is the question of public sector pension schemes. Both in the U.K. and in the U.S. these public plans abide by different regulations and are under the responsibility of a separate regulator, although they function in the same manner as private sector funded pension plans. Membership in occupational pension plans in the U.K. is slightly larger than the number of affiliates in Argentina, the larger Latin American country in the sample (table 8). More than 80% of membership remains in defined benefit plans. In mid 2000, occupational pension schemes in the U.K. had total assets of £ 860 billions (table 9). The personal pensions industry is also very strong in the country. The Association of British Insurers (ABI) reported that in 2002 there was £ 350 billion invested in insurance administered personal pensions, representing 11% of UK personal sector wealth. In this same year, personal pension providers collected £ 25 billion in net premiums. There are over 200 insurance companies authorized to carry pensions business in the country. Although there is no precise figure for market concentration in the pensions industry, it is known that the largest ten companies account for 68% of the long-term insurance market (Life Insurance, Pensions & Savings) in the UK.

Employer pension provision is highly related to employer size. As seen in table 10, 95% of firms with over 1000 employees offer some kind of pension provision. Group personal pensions and contributions to personal pensions predominate among smaller organizations. Private pension coverage is high among full-time workers (table 11), but is considered low among part-time workers and low earners. The government is trying to fill this gap with the new stakeholder pensions, as shall be discussed later in this paper.

As for the U.S., tables 12 and 13 depict the situation of the private sector occupational pension system. Around 73 million workers were covered by occupational pension plans in 1998. This represents 68% of the private non-farm wage and salary earners comprising the workforce in December 1998 according to the Current Population Survey (CPS) data. That would leave around 30 million workers without coverage. Tables 14 and 15 show that coverage in the private sector is highly influenced by the size of the employer and the employee's earnings level. In 1998, total assets in private sector occupational pension plans in the US reached the amount of US\$ 4 trillion. Defined contribution plans have already surpassed defined benefit plans in terms of total membership. Most of the recent growth in the US occupational pension system has been through the 401(k) plans, which are a defined contribution scheme. Public sector funded pension plans are quite important in the US, covering slightly over 20 million employees and amassing assets of US\$ 2,2 trillion by 2001 (table 16). Besides occupational pensions, Americans have at their disposal another important vehicle for retirement savings: Individual Retirement Accounts (IRAs). They are similar to other kinds of personal pensions and are commercialized by banks, insurance companies and other financial institutions. In 1997, IRAs held around US\$ 2 trillion in assets (EBRI, 1999).

III. Compulsory and Voluntary Private Pension Systems

Coverage

Given the mandatory nature of private pension systems in most sample Latin American countries, one basic regulatory issue is enforcing affiliation. As in other universal social security system, it is much easier to enforce compliance by those employed in the formal sector. Affiliation and collecting contributions from independent or informal sector workers is a highly difficult task, specially in poverty ridden Latin America. Some of these people simply do not have regular earnings that allow them to save and others may find it more interesting to use other savings vehicle. The contribution rate of independent workers are based on their declared earnings, which may be under-reported for income tax evasion. It is quite intriguing that not even in Chile, with over twenty years experience, the private pension system has not been able to attract voluntary savings.

In most OECD countries, the private pension system has a voluntary nature. Coverage thus depends on the extent of the public pension system and on incentives to participate in the private one, particularly a favorable taxation. This issue was emphasized in the Independent Report by Alan Pickering (2001) on the current state of the UK private pension system. As a way to increase pension coverage, the report recommends that employers should be allowed to make scheme membership a condition of employment². Pickering mentions the fact that figures from the *2000 General Household Survey* show that around 16% of full-time employees who have access to their employer's occupational pension scheme choose not to join. In order for this recommendation to be acceptable two other measures are required according to the report: immediate vesting in all type of pension arrangements and much easier pension transfer rules. In its consultation document (DWP 2002b) the government endorses the idea of immediate vesting, provided that schemes are allowed to transfer *de minimis* amounts without consent. The document also states that the government is considering options for employers, on a voluntary basis, to be able to make membership of their scheme a condition of employment for all new employees.

Still is the realm of measures to improve pension coverage is the challenge presented by small companies. The U.S. approach has been to adopt a lighter regulatory touch to smaller employers. Pickering, however, considers such a solution "intellectually and politically untenable", preferring a more proportionate regulatory framework that should be applicable to all types of schemes. The recommendation is that the legislative and regulatory framework encourage small employers to follow the multi-employer route.

Instead of aiming at a thorough change of the legislation and regulatory structure, as is the case in the U.K., a favored approach in the U.S. has been the creation of special types of plans, directed mainly to small employers, with much lighter regulatory requirements. This is a response to the already mentioned problem of the low coverage rate among small employers.

² Such a condition existed up to 1988.

The first of these special plans was the Simplified Employee Pension (SEP) plan introduced in 1978. It allows the employer to make contributions towards his (her) employees' retirement (or to his/her own retirement if self-employed) through an Individual Retirement Account (called a SEP-IRA). As such, the employer is not required to file an annual plan report with the IRS, but must provide an annual statement to participants informing them of the amount contributed to their IRA. The SEP-IRA is owned and controlled by the employee, and the employer makes contributions to the financial institution where the SEP-IRA is maintained. A SEP plan can be established by any kind of employer. The employer, however, must set a SEP-IRA for all employees who fulfill the following conditions: (a) has reached age 21; (b) has worked for the employer at least 3 of the last 5 years; and (c) has received at least \$450 in compensation (for 2001). It should be noted that employees are not permitted to make contributions to their SEP-IRA.

The Small Business Job Protection Act of 1996 introduced the Savings Incentive Match Plan for Employees (SIMPLE plan). Under a SIMPLE plan, employees can choose to make salary reduction contributions and the employer will have to make either matching or nonelective contributions. A SIMPLE plan can be set using SIMPLE IRAs (SIMPLE IRA plan) or as part of a 401(k) plan (SIMPLE 401(k) plan).

Only employers who meet the following requirements can establish a SIMPLE-IRA plan: (a) 100 or fewer employees who received \$5,000 or more in compensation in the preceding year; (b) provide no other qualified retirement plan (unless under collective bargaining). The employer must set a SIMPLE-IRA for each employee who received at least \$5,000 during any preceding 2 years. The employer is required to make either a matching contribution on a dollar-for-dollar basis up to 3% of the employee's compensation³ or a nonelective contribution of 2% of compensation on behalf of each eligible employee. A SIMPLE 401(k) is technically a qualified plan, but is not subject to nondiscrimination and top-heavy rules. The employer must also fulfill the 100-limit and is also required to make matching or nonelective contributions with the same standards as SIMPLE-IRA plans (except for the allowance to make smaller matching contributions for certain years).

It is difficult to evaluate the success of these plans in fostering pension coverage among small employers. According to results of the *2002 Small Employer Retirement Survey* published by the Employees Benefit Research Institute (EBRI) they are not the preferred retirement plan of private establishments of 99 or fewer workers. Of these establishments that offer defined contribution plans (88% of all small establishments offering retirement benefit plans), 22% use SIMPLE plans and 9% a SEP plan. Most (64%) use a normal 401(k) plan. This same survey makes it clear that administrative and regulatory costs are not the main obstacle to the diffusion of retirement plans among small employers. The major reasons are employee related (large portion of the workers are seasonal, part time, or high turnover) and uncertainty of revenues (see also Hinz and Turner, 1997).

³ The employer is allowed to make a smaller matching contribution of at least 1% for no more than 2 years during a 5 year period.

Recent legislation has tried to expand coverage by granting more tax privileges and diminishing part of the complex regulatory burdens. Two important examples are the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Job Creation and Worker Assistance Act of 2002. The box below presents the main changes introduced by EGTRRA

Licensing and Registration

In order to increase the security of the private pension system, regulation in Latin American countries imposes strict conditions, in terms of licensing and minimum capital requirement, on pension fund administrators. Such a procedure is justifiable given that in most of these countries the system is mandatory, in five of them it is the sole social security pillar and the existence of State guaranteed minimum pensions. These licensing and registration procedures are similar to those applied to insurance companies.

Licensing and registration requirements in OECD countries are only important to providers of personal pension plans (mostly insurance companies). In the case of occupational pension funds, this is not an effective item of the regulatory policy.

Taxation

In Latin America, taxation is not a very relevant issue in the pensions policy given the mandatory nature of the system in most countries. It is a common rule to apply to mandatory contributions the same tax exemption granted to contributions to a public pension system. Investment returns of pension funds are tax exempt and benefits are taxed according to the normal income tax rates. It was expected that this same taxation principle (EET) could foster voluntary savings into the pension system, but this has not been the case. It should be investigated if in the countries that allow voluntary contributions, there exists more tax privileged savings instruments that are being used by affiliates of the private pension system.

In the OECD countries, taxation is a prime factor in determining the expansion of the private pension system. Most countries apply the EET principle, taxing only distributed benefits. Australia is an exception, since taxes are applied in all three stages albeit in rates inferior to those used in other savings vehicles. It is thus a *ttt* system, that also gives some incentive to pension saving, though less than in the case of the other three countries. This structure may be partly due to the quasi-mandatory nature of private pensions in Australia.

In December 2002, the Treasury and the Inland Revenue in the UK released a consultation document (*Simplifying the taxation of pensions: increasing choice and flexibility for all*) proposing a comprehensive change of current pension tax policy. The aim of this proposal is to address the problems caused by the complexity of current rules, which according to the document impose “higher costs and more administrative work than can be justified” to pension providers.

As a result of previous changes in these rules, there are presently four different tax regimes applied to occupational pensions, since people were allowed to continue to save using the

previous rules until retirement. Besides, there is a distinct tax regime for personal pensions. The latest set of rules for occupational schemes (the 1989 tax regime) has the following features:

- (a) Employees may contribute with tax relief, up to 15% of remuneration up to the earnings cap (£97,200 in 2002-2003);
- (b) No specific limits on employer contributions with tax relief, but restrictions on overfunding;
- (c) Total benefits, including any lump sum, limited to two-thirds of final remuneration up to the earnings cap after 20 years' service;
- (d) The tax free lump sum at retirement is limited to 2.25 times initial or 3/80ths of capped final remuneration for each year of service up to 40 years;
- (e) Retirement at any age from 50 to 75;
- (f) Scheme members must either be active (working) or retired from work with the sponsoring employer; it is not possible to contribute and draw benefits simultaneously; and
- (g) Largely tax free investment growth.

As for personal pensions, the tax rules date from 1988, with some updating in 2001 when stakeholder pensions were introduced, allowing non-earners to participate, and have the following features:

- (a) Relief on contributions up to the higher of £3,600 a year or a percentage of capped earnings, irrespective of who makes the contributions. The percentage depends on age and varies from 17.5% (under 36) to 40% (over 60);
- (b) No limits on the size of pension benefits;
- (c) Tax free lump sum of up to 25% of matured pension savings; and
- (d) Largely tax free investment growth.

The document argues that these controls on the amount of contributions, on how much can be held in tax privileged pension funds and on the amount of pension that can be paid are more restrictive than necessary and cause distortions in the private pension system. Besides, they actually they only act as a brake for a small proportion of pension savers, while imposing administrative costs on all. The government also stresses the need to allow the combination of work flexibility with retirement.

The basic idea of this proposal is to replace the current limits on annual pension contributions and final benefits by a single lifetime limit on the total amount of pension savings that can benefit from tax relief. Along with this lifetime limit, there will be an annual limit on the value of the increase in each person's pension rights that qualify for tax relief. Administrative work will be diminished since pension schemes will then carry out one single test against the lifetime limit, levying a recovery charge on any pension savings that exceed this limit. This means that Inland Revenue controls will only be exercised when benefits are drawn from pension schemes.

The proposed lifetime limit is £1.4 million and the proposed annual limit on value inflows is set at £200,000 (both indexed to keep up with inflation). Both these limits are expected to affect a very small number of persons. The annual limit will take into account total contributions into defined contribution schemes and the whole annual increase in the value of the defined benefit pension rights in any scheme sponsored by the employer. The

recovery charge on amounts above the lifetime limit will be of one third of the excess. This figure was set so as to roughly neutralize the tax relief given initially on contributions and then on the growth of funds during investment. A crucial challenge for the implementation of this reform will be the establishment of a common and consistent method of valuing pension rights in the case of defined benefit plans. The Inland Revenue will have to publish actuarial tables valuing increases in defined benefit pension rights. Two examples of how these limits would work are given:

Example 1 (lifetime limit): Barbara decides to use £1.12 million of her pension right, using up 80% of the lifetime limit. When she comes to take the remainder of her pension benefits some years later, she has £750,000 – 50% of the then lifetime limit of £1.5 million. She can take £300,000 (20% of the current limit) subject to the standard rules, but she must pay a recovery charge of 33% on the remaining £450,000.

Example 2 (annual limit): Christina is 50 and earns £600,000 a year. Last year she was in a DB scheme which accrues benefits at $1/30^{\text{th}}$ a year of final salary. So last year her pension rights rose by £20,000 a year. The valuation tables give the value of a rise in the pension rights of a 50 year old woman at £11 per £1 of income. So her additional pension rights last year are valued at £220,000 and so she will to pay additional income tax on the excess amount of £20,000.

As for the manners on how pension benefits can be drawn, the major changes proposed by this consultation document are the following:

- (a) Generalization of the 25% tax free lump sum rule (up to the lifetime limit), meaning that many people in occupational schemes will be able to draw larger tax free lump sums;
- (b) Permission for people to draw pensions and work if they want to and the rules of the pension scheme allow it;
- (c) Elevate the minimum age at which tax privileged pension benefits can be drawn from the current 50 to 55 years by 2010;
- (d) Equalize the range of choice about available income patterns for members of both occupational and personal pension schemes in the future;
- (e) Introduce more flexibility about how people may determine the pattern of their income, including income drawdown (e.g. permitting limited period annuities).

In 2001, the US passed the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), which introduced important changes in the taxation of private pensions (both occupational pension plans and IRAs). The dollar limitation on annual benefits under a defined benefit plan was increased to \$160,000. For later years, indexation relies on a base quarter beginning July 1, 2001, and is made in \$5,000 increments. The dollar limitation on annual additions under a defined contribution plan was increased from \$35,000 to \$40,000. Indexation relies on a base quarter beginning July 1, 2001, and is made in \$1,000 increments. The compensation –based limitation was also changed from 25% to 100% of the compensation actually paid to the participant (up to a maximum of \$200,000 for 2002 subject to cost of living increases after that).

The limit on elective deferrals for participants in 401(k) plans (excluding SIMPLE plans) increases for tax years beginning after 2001. In 2006, the limit for 401(k) will be US\$

15,000 and US\$ 10,000 for the Simple Plan. These limits are subject to adjustment after 2006 and 2005, respectively, for cost-of-living increases. EGTRRA also introduced the concept of catch-up-contributions. For tax years beginning after 2001, a plan can permit participants who are age 50 or over to make catch-up-contributions. The maximum annual contribution limit for IRA contributions was raised from \$2,000 to \$3,000 in 2002, going up to \$5,000 by 2008. A special exception applies to individual age 50 and older. They are permitted to contribute an additional \$500 in 2002 through 2005 tax years and an additional \$1,000 in 2006 and thereafter.

The annual compensation limit that is applied when determining contributions or benefits under a qualified plan was increased from \$170,000 (adjusted for inflation in \$10,000 increments) to \$200,000 (adjusted for inflation in \$5,000 increments) beginning in 2002. This increased limit also applies to compensation used in performing nondiscrimination tests and determining deductible employer contributions. Such tests are an important part of the US regulatory apparatus and their purpose is to avoid that tax benefits are distorted in favor of highly compensated employees.

For employee tax years beginning after 2005, 401(k) and 403(b) plans may permit employees to elect to be taxed up-front on all or a portion of their elective deferral contributions. These contributions are referred to as “designated Roth contributions” and have benefits similar to Roth IRA contributions. Upon distribution, designated Roth contributions and earnings thereon are not subject to taxation.

EGTRRA also introduced a nonrefundable tax credit to individuals for contributions or deferrals made to a qualified retirement plan. The tax credit is equal to 50% of contributions up to \$2,000 for single taxpayers with adjusted gross income up to \$15,000 or joint fillers with adjusted gross income up to \$30,000. Above those income levels, the tax credit is phased out. In order to stimulate pension coverage among small firms, employers with 100 or fewer employees will receive a tax credit for 50% of the start-up costs for creation and maintenance of a new retirement plan. The tax credit is limited to \$500 per year for any of the three years beginning with the year during which the plan becomes effective.

Investment Regulation

Two main issues emerge when investment regulation in Latin American and OECD countries are compared: (a) the choice of prudent man rules versus quantitative limits in portfolio allocation; and (b) restrictions for investments in foreign assets. The first issue has more to do with capital markets development. Brazil, for example, whose private pension system greatly resembles the US and UK models adopts quantitative restrictions to portfolio allocation. Besides, the prudent person approach requires a greater element of judgment by the supervisor and a judicial system that is knowledgeable in these matters and swift. The Chilean approach has been to ease restrictions as the systems matures, although it is still far from the prudent man rule. The strict limits imposed on investments in foreign securities is motivated by the macroeconomic fragility of Latin American economies. There is also the argument that these countries cannot afford to send domestic savings abroad, which should be directed to the development of local capital markets. Such policy prevents

an efficient risk diversification by pension funds and the recent crisis in Argentina clearly demonstrated its negative effects on the performance of pension funds.

Independent custody and asset segregation are important elements in any private pension system and are emphasized both in OECD and Latin American countries. Valuation, financial audits and disclosure requirements in Latin American pension funds resemble the ones adopted in OECD towards insurance companies. These include, for example, daily asset valuation on a “mark to market” basis. Disclosure requirements for occupational pension funds in OECD countries are generally less extensive. Reporting is generally conducted on an annual basis and there is greater discretion in terms of valuation. Valuation techniques based on projected revenues from assets are allowed in the case of occupational plans.

An important innovation in Latin America was the introduction of multiple portfolios in Chile in 2002. In the US, the move toward participant directed investments is quite strong and has been pioneered by 401(k) plans. The question is whether participants have sufficient financial knowledge to undertake this responsibility. Critics point out that even in developed countries like the US the great majority of private pension plan participants lack information to make adequate choices. As a consequence, this move in Latin America may lead to an increase in the costs of administration and compliance, without providing any gains in the actual performance of pension funds or on the welfare of participants.

Another issue is that market concentration and the minimum return guarantees based on industry average returns lead to a herding behavior in the investment of pension fund assets in Latin America. Herding by itself is not necessarily a problem, since a beat the market strategy, based on assuming higher market and credit risks, is hardly advisable for a pension fund which is the sole (or main) provider of social security benefits.

Guarantees and Insurance Mechanisms

Although many Latin American private pension schemes provide minimum return and minimum pension guarantees, the latter backed by the State, there is no insurance mechanism in the case of bankruptcy of the pension fund administrator. That means that if the liquidation process of one of these administrators ends with insufficient assets to cover benefit obligations (as in the case of a fraud), participants have no guarantee to receive the accrued value of their contributions (with the exception of Costa Rica). This fact emphasizes the role of the independent custodian and partly explains the use of restrictive investment regulations. Guarantees in Latin America attempt to deal primarily with incompetent/inefficient asset management, fraudulent behavior and other agency risks. They do not attempt to deal with market risk. The typical construction puts private capital at risk in some relation with the exposure before the government guarantee is called (Rocha et al. 1999).

Only two OECD countries have insurance mechanisms for funded private pension systems: the US and Canada (only in province of Quebec). The function of these mechanisms is to offer a State backed guarantee for benefits accrued under defined benefit plans, up to a certain limit. They are financed by periodical contributions by the insured defined benefit

plan and the value of these contributions are based on the degree of under-funding of the plan. There has been many criticism to these insurance programs based on the argument that they subject the government to moral hazard risks and imply a cross subsidy from well financed plans to those that are heavily under-funded. It is believed that in the US the Pension Benefit Guarantee Corporation (PBGC) acts as a sort of State support for the traditional industrial sector, whose plans are the main beneficiaries of the program. For the greatest part of its existence, the PBGC run a deficit. In the stock market boom of the nineties, it experienced its first surpluses, but it not clear how it will operate now that this boom is gone. It must be noted that the PBGC is still exposed to insolvency risks of large plans, which is a constant worry for the government. Another criticism to State backed insurance mechanisms is that they guarantee the benefits of a well off portion of the population at the potential expense of the entire population.

In the UK, there is a debate over the introduction of insurance mechanisms that would guarantee participants' rights in the case of scheme or employer insolvency. Two ideas were put forward for consultation by the government: the creation of a centralized arrangement or "clearing house" and the establishment of a Central Discontinuance Fund (CDF). In the first case, members of a scheme whose employer became insolvent could pay the funds they received in the wind-up process into this central fund, which would then negotiate the purchase of deferred annuities with providers (providing a better deal than the member would obtain if acting on his own). In the second case, there would be a type of mutual insurance mechanism financed by a levy on all schemes which would guarantee promised benefits up to a certain limit. In a certain manner, such measures would mean an enhancement of the existing Compensation Scheme, established by the Pensions Act of 1995. The function of this mechanism is to compensate schemes for losses due to dishonest practices. For defined benefit schemes it provides the amount required to restore the value of the scheme's assets up to 100% of its liabilities for pensioners and members within ten years of retirement, and 90% of its liabilities for other members or, if lower, the amount of the actual loss. In the case of defined contribution schemes, compensation is limited to 90% of the loss. The government is proposing to eliminate restrictions so that schemes with an insolvent employer can be compensated for the full amount lost as a result of acts of dishonesty.

IV. The Regulation of Defined Benefit and Defined Contribution Schemes

Funding Rules, Portability and Vesting

These regulatory matters are crucial in OECD countries, given the importance of defined benefit pension plans. Although there is a widespread trend in favor of defined contribution plans, most of the older and larger plans are still defined benefit. To the regulator, defined benefit plans represent certainly a greater challenge, since they require appropriate minimum funding, portability and vesting regulations. Minimum funding rules are a particularly delicate issue. Although tougher rules might provide greater security to participants, they may impose undue costs on sponsors (inhibiting the sponsorship of these plans) and affect negatively investment performance.

In the UK, the most important government proposal regarding the need for simplification outlined in the Pickering report is a new framework for scheme funding. The idea is to replace the Minimum Funding Requirement (MFR) introduced in 1997 with scheme specific funding requirements. This replacement should be complemented by new rules regarding, actuarial valuations, schedules of contributions and elimination of funding deficits, transparency and disclosure, duty of the scheme actuary and the role of the new regulator.

The scheme specific approach to funding will have to be set out in a Statement of Funding Principles, which will explain the scheme's strategy for funding its pension obligations and for correcting any funding deficits. This statement will be drafted by the scheme's trustees with the agreement of the employer, on the advice of the scheme actuary. In case the trustees and the employer cannot reach an agreement regarding the funding principles, the government proposes to give trustees the powers to (a) freeze the scheme, ceasing any further accruals or (b) wind up the scheme. Schemes will be required to carry out an actuarial valuation at least once every three years to assess the funding position. It will be for the trustees, with the agreement of the employer, and based on the advice of the scheme actuary, to decide the funding method to be used in the valuation, including the detailed economic and demographic assumptions appropriate to the specific circumstances of the scheme.

In order for the scheme specific funding requirement to be effective, members must be able to monitor the adopted funding strategy. The government proposes, therefore, that the Statement of Funding Principles be made available on request and that trustees be required to send all members a document containing key information about the funding position of their scheme. It is also fundamental that the scheme actuary fulfills his proper role in terms of advising properly the trustees and reporting problem to pension regulator. Therefore the government's proposal envisages a Guidance Note prepared by the Faculty and Institute of Actuaries, which will have statutory backing from the Secretary of State for Work and Pensions. The actuarial profession will be responsible for enforcing this note. Scheme actuaries and auditors will be placed under duty to report to the regulator breaches of any of these procedures by the schemes and employers.

The Annuities Market

A private pension system based on defined contribution schemes requires the development of an efficient annuities market to fulfill the need of providing adequate pensions. There has been a large concern over the functioning of annuities markets in OECD countries with the growing number of individuals covered by defined contribution plans. The efficiency of this market is affected by the mandatory or voluntary nature of annuitization. Where it is voluntary, the market has to face the problem of adverse selection, which may transform the purchase of an annuity into a bad deal for the average participant. The UK is the only OECD country in this sample that mandates annuitization at the age of 75. In Australia and in the US, most participants of defined contribution plans withdraw their benefits as a lump-sum.

This question is of greater relevance in Latin America, given the fact that in many countries defined contributions plans are the only source of retirement income. Affiliates of the private pension system in Latin America are given in most countries three options for receiving their benefits: (a) programmed withdrawals; (b) immediate annuities; and (c) deferred annuities with temporary withdrawals. In none of these countries is annuitization mandatory. Callund's (2001) analysis of the Chilean annuity market points out that the programmed withdrawal option is a very competitive product when compared with the annuity, thus making pension fund administrators *de facto* competitors of the insurance companies. The problem with this option, of course, is that the participant must bear the longevity and investment risks. It might not be then the ideal option for a participant who relies on this pension as his only source of retirement income provision. A vital regulatory matter here is the role of regulator in determining the mortality tables and the long-term interest rate to be used in the calculation of annuities or leaving these rules entirely to the market. There is also the issues of annuity indexation, the use of single or joint annuities and permission for variable annuities. Important lessons could be extracted from the UK annuity market.

V. Employer Provided Schemes and Insurance and Financial Market Products

Fees and Commercialization

Probably the most common criticism of Latin American private pension systems relates to the costs of the commissions charged by pension fund administrators and insurance companies that provide death and disability insurance. It is also argued that competition among pension fund administrators was incapable of producing significant reductions in these commissions. In OECD countries, the issue of costs is a relevant regulatory concern in the case of personal pensions, although the PWBA in the US undertook a thorough study of the fee structure of 401(k) plans.

Restrictions on fees are a common feature in Latin America. Chile, for example, only permits certain categories of fees, prohibiting exit charges, asset based management fees and performance fees (table 17). Commissions for selling agents and annuity conversions on the other hand are held at a prescribed level. There is also the different charging structure of Latin American private pensions and personal pensions in OECD countries. Whereas an investment management fee is the preferred method in OECD countries, regulation in Latin America compels providers to charge a commission on contributions as a percentage of total salary. The comparison between these different approaches is not straightforward since the result depends on the time of the investment. An investment management fee on the balance of the portfolio may be preferable to the participant with a short term investment, while a fixed fee on contribution may produce a better result for the participant that keeps his investment for a longer period of time.

The comparison therefore demands the exercise of converting these different structures in an equivalent asset management fee. James et al. (2001) undertake this exercise for the Chilean case. Based on an average level of a 15.6% fee on contributions, they show that the equivalent asset based fee could vary from 0.45% to 33.37% depending on workers'

working and contribution history. The longer the worker stays in the system, smaller will be the equivalent asset management fee. Their guess is that an average annual expense would be .94%. Bravo (2001) however states that the contribution fee for the same period is around 21% of contributions (already subtracting the part of the fee destined for survivors' and disability insurance). He estimates that for workers that have contributed for less than 15 years, the management fees are above 4% of their funds.

The regulatory question here is whether it is efficient for the regulator to set limits on the fees charged by providers. The approach in most Latin American countries is to specify the types of commissions that may be charged and, in some cases, set a maximum limit which does not constrain pension fund administrators. It is hoped that a competitive market will lead to an efficient solution. That however has not been the case.

An interesting experience in the OECD countries is that of stakeholder pensions in the UK, which is being followed by PRSAs in Ireland. This a simple defined benefit product with a government set maximum fee of 1% of assets. Firms that do not offer occupational pension plans are required to offer its employees access to a stakeholder plan. That means that each firm must select a stakeholder provider and grant this provider direct access to its employees, so as to market the product. The firm also has to transfer employee contributions from the payroll to this provider, if the employee chooses to participate. The UK government's goal was to extend coverage to lower earnings individuals, reducing the gap in pension coverage. One immediate effect of the launching of stakeholder plans was to reduce the commissions charged by personal pension plans.

Competition and Market concentration

An interesting point is the high degree of market concentration in the Latin American private pensions industry compared to the more competitive structure of personal pension providers in the OECD countries. The role of scale economies in managing many relatively small accounts and, the smaller and poorer population of the sample Latin American countries may account for this difference. If on one side the small number providers facilitates a closer supervision, on the other it raises the problem of anti-competitive pricing policies. The regulator must then be attentive to identify and punish collusive practices by pension fund administrators.

The Role and Structure of the Regulator

The regulator in the Latin American private pension systems plays a role akin to the regulator of insurance companies (and personal pension providers) in OECD countries. As such, it can be argued that there are not so many differences between the regulation of personal pensions in OECD countries and private pensions in Latin America, as there is between the latter and the regulation of occupational pensions.

A common issue to both set of countries is the debate over an integrated versus a non-integrated regulator approach. In only three of the 10 sample Latin American countries, is

the pension regulator integrated with banking and insurance regulation (Bolivia, Colombia and Uruguay). In Bolivia, the regulator oversees pensions, securities and insurance, while in Colombia and Uruguay it includes also banks and other financial institutions. The fact that many pension fund administrators in Latin America have financial institutions among their major shareholders coupled to the role insurance companies play in providing death and disability benefits and annuities is a strong argument in favor of an integrated regulator (table 18). An integrated structure allows a better grasp of the interrelationships between the various business segments of the financial group. Table 19 presents the sanctions applied by the Central Bank of Uruguay of pension fund administrators since the beginning of the system.

The recent crisis with the AFP Magister in Chile illustrates well the role of the regulator and pinpoints the need for an integrated regulator. Magister, which is the smallest AFP in Chile, was put in a delicate situation by the collapse of its parent company Inverlink, which was involved in illegal financial operations. SAFP firstly required Magister to lay all its domestic securities under the custody of the Central Securities Deposit and its foreign securities under the custody of Brown Brothers Bank of New York. It also sent officials to all Magister branches around the country to supervise administrative and financial operations. Furthermore, all expenditures by Magister from 10th March 2003 had to be approved by SAFP. Recent investment decision would also be reviewed to detect any harmful action to participants. The public statement issued by SAFP ended mentioning the affiliates right to transfer his account to another AFP if he/she judges it necessary. Such situations can lead to two outcomes: the acquisition of the beleaguered AFP by a competitor or the liquidation of the AFP in case there is a stampede of affiliates to other providers eroding its market value. The former solution, which is clearly preferable to all parties involved, depends on the regulators ability to assure the remaining affiliates that their pension reserves are not at risk, thus avoiding the stampede.

The independent custodian provision greatly reduces the risk of fraud, but in a situation like this, the AFP would still be able to make investment decisions that could be excessively risky (to compensate losses by the parent company) or fraught with conflict of interests (purchasing securities in the interests of the parent company). In time, such operations would be detected by the regulator, but prompt action would reduce potential losses. This argument would support the need for an integrated regulator. Once problems were detected in a parent company, the AFP would be immediately put under detailed observation. As table shows, in all Latin American countries, pension fund administrators have among their major shareholders banks, insurance companies and other financial institutions.

In the four OECD countries there different degrees in integration in the regulation, with the US in one extreme and Australia in other. In the US, occupational pension funds are supervised both by the Pensions Welfare Benefits Administration (PWBA) of the Department of Labor and the Income Revenue Services (IRS). There is no specific body for the regulation of IRAs or insurance provided pension products. Insurance companies are regulated at the state level and there are various organs dedicated to the regulation of banks. It must also be stressed that the regulatory powers of the PWBA and the IRS do not apply to public sector occupational pension plans. Each state and locality supervises its own plans.

The discussion over the fundamentals of private pension regulation and the role of the regulator in the United Kingdom produced very interesting insights. The main argument behind the Pickering report (2002) is that pension regulation has become excessively complex in the U.K., acting as a disincentive to pension accumulation. The report urges for a new Pensions Act that would consolidate much simpler private pension legislation. The report proposes four principles that should guide the drafting of this new Act: (a) each statutory requirement (whether set out in primary or secondary legislation) should include a statement of that legislation's underlying policy aim; (b) statutory requirements should focus on the objective to be achieved rather than the process needed to achieve it; (c) statutory requirements should be proportionate to the stated policy aim and should avoid unnecessary complexity; and (d) each new piece of legislation should not be considered in isolation, but should have regard to the existing law applicable to pension arrangements.

The report emphasizes the need for non-prescriptive primary legislation underneath these principles and greater reliance on professionals exercising and backing their judgment. It recommends the use of a small number of Codes of Practice/Guidance Notes, which would be drafted by the regulator or by the appropriate professional body. Furthermore, the report states that the disclosure of information to members has been sought as panacea for regulatory problems. This has led to the requirement of a large of information being automatically sent to members, raising costs and not necessarily improving the degree of security. It thus advises a much more targeted approach to communicating with scheme members. The government's consultation document, in response to these observations, requested views on the following aspects: (a) what information items that are currently supplied automatically could instead be made available on request; (b) what particular pieces of information should continue to have specific time limits attached to them; and (c) what other areas of legislative prescription could be removed without having an adverse effect on members and their understanding of their pension arrangements (DWP, 2002b).

Another issue addressed in the Pickering report is the need for the regulatory framework to treat evenhandedly employer and commercial pension providers, which implies the eradication of as many differences as possible between the rules governing occupational pensions and individual pensions.

Also of interest are the Pickering report's comments on the role of the pension regulator. The report advocates the need of a new kind of regulator, with greater scope to exercise its judgment and to offer appropriate advice. It argues that the current regulator (the Occupational Pensions Regulatory Authority – OPRA) has given too much emphasis on detailed compliance, limiting its ability to exercise judgment. The report makes the case for a more proactive regulator. The report addresses the question of whether there should be a single regulator dealing with all aspects of pensions provision, rather than have two regulators as at present. The conclusion is that there is a continuing place for two regulators: one which has the experience and knowledge-base to regulate the wide-ranging commercial retail marketplace, and one with expertise in work-base pensions.

The need for a new kind of regulator is upheld in the *Quinquennial Review* of OPRA. The Review calls for a pro-active and risk based regulator; while OPRA was being perceived as a reactive and “tick box” regulator. The two basic tasks of a pro-active pensions regulator

according to Davis are: (a) undertake surveys and other research and, where possible share information with other bodies, which will inform risk profiling, risk analysis and the identification of risk indicators; and (b) apply the resultant risk model to their work in such ways that surveys, compliance visits and on-site investigations can be well targeted and carried out on a regular basis (Davis, 2002: 19). An important assessment that may apply to pension regulators in many countries is the following: “An impact of the current legal framework is that Opra has processed high volumes of relatively low value reports and breaches – this is not consistent with a risk focused and pro-active approach and must be addressed.” Such a policy by a regulatory body will inevitably lead to a “devaluation of the regulatory currency”.

The pro-active approach, however, does not imply that the new regulator will cease to use the process of whistle blowing to report breaches, which proved to generally effective with OPRA. The Review recommends the inclusion of investment and fund managers among the professional who have a duty to whistle-blow and to enable all professionals with this duty to exercise discretion as to which breaches constitute a matter of material significance. Davis (2002) argues that the new regulator, as part of the pro-active approach, should encourage compliance with legislation through education and guidance. He therefore recommends that the regulator (a) give support and advice to those seeking to achieve compliance with legislation; (b) provide guidance to trustees, pension professionals and employers on regulatory matters; and (c) work with appropriate professional bodies to produce Codes of Practice in particular technical areas.

Regarding the issue of a single or separate regulators for private pension arrangements, the Reviewer indicates his preference for a single regulator (amalgamating the pensions regulator with the Financial Services Authority –FSA in the U.K.), but acknowledges that the majority of respondents to the review believed that the present separation of the FSA and OPRA should continue.

Regulatory changes recently implemented in the U.S. are far more modest than the ones envisaged for the U.K. The bulk of supervisory activity over the private pensions industry in the country is undertaken by the Internal Revenue Service (IRS) with the purpose of avoiding abuses of the tax privileges granted to pension plans. One of the important controls is the non-discrimination tests, which verify if the plan is excessively tilted towards highly remunerated employees. There seems to be wide agreement that current regulations and reporting requirements impose significant administrative costs to pension providers.

VII. References

- Association of British Insurers – ABI (2003). “UK Insurance 2002/3 – Key Fact” (www.abi.com.uk).
- Australian Prudential Regulation Authority – APRA (2003). “Superannuation Trends – December Quarter 2002”, Sydney NSW.
- Bravo, Jorge (2001). “The Chilean Pension System: A Review of Some Remaining Difficulties After 20 Years of Reform”, paper presented at the International Seminar on Pensions, Hitotsubashi University, Tokyo, Japan.
- Callund, J. (2001). “Annuities in Latin América”, paper presented at the World Bank Annuities Workshop.
- Central Statistics Office – CSO (2003). “Quarterly National Household Survey – Pension”, First Quarter 2002, Dublin, Ireland.
- Davis, Brian (2002). **Report of the Quinquennial Review of the Occupational Pensions Regulatory Authority (OPRA)**, Department for Work and Pensions (DWP), London, U.K.
- Davis, E. P. (2001). “The Regulation of Funded Pensions: A Case Study of the United Kingdom”, Occasional Paper Series n° 15, Financial Services Authority, London: UK.
- Department of Labor (DOL) and Pension Welfare Benefits Administration (PWBA) (2002). Private Pension Plan Bulletin – Abstract of 1998 Form 5500 Annual Reports, Number 11, Winter 2001-2002.
- DWP (2002a). **Simplicity, Security and Choice: Working and Saving for Retirement**, Presented to Parliament by the Secretary of State for Work and Pensions, London, U.K.
- DWP (2002b). **Simplicity, Security and Choice: Technical Paper**, London, U.K.
- DWP (2002c). **2000 Employer Pension Provision Report**, London, U.K.
- EBRI (2002). The 2002 Small Employer Retirement Survey (SERS): Summary of Findings.
- Federal Retirement Thrift Investment Board – FRTIB (2003). Financial Statements of the Thrift Savings Fund – 2002 and 2001 (in www.tsp.gov).
- GAO (2002). **Private Pensions: Improving Worker Coverage and Benefits**, GAO-02-225, Washington, D.C.

- Government Actuary's Department – GAD (2003). “Occupational Pension Schemes 2000 – Eleventh Survey by the Government Actuary”, April, London.
- James, Estelle; Smalhout, James and Vittas, Dimitri (2001). “Administrative Costs and the Organization of Individual Account Systems: A Comparative Perspective”.
- Pickering, Alan (2002). **A Simpler Way to Better Pension: An Independent Report**, Department of Work and Pension, London, U.K.
- Rocha, R.; Gutierrez, J. and Hinz, R. (1999). “Improving the Regulation of Pension Funds: Are There Lessons From the Banking Sector”.
- U.S. DOL (2002). **Private Pension Plan Bulletin – Abstract of 1998 Form 5500 Annual Reports**, Pension and Welfare Benefits Administration, Number 11, Winter 2001-2002.
- The Pensions Board (2002). Annual Report and Accounts.
- U.S. Census Bureau (2003). “State and Local Government Public Employee Retirement Systems – 2001” (www.census.gov).

TABLES AND GRAPHS

BOX 1 – Logic of the Regulation of Private Pension Schemes

Source: Davis (2001).

Section: Issue	Regulation	Type of Fund	Main Economic Issue
Are portfolios adequately diversified?	Portfolio distributions	Both	Monopoly/asymmetric information
Are there adequate funds to pay pension promises?	Funding	Defined benefit	Monopoly/asymmetric information
Who should benefit from assets accumulated in excess of benefit promises?	Surpluses	Defined benefit	Fiscal/equity
Are contributions net of charges actually being made and sufficient for adequate pensions?	Contributions and commissions	Defined contribution	Monopoly/fiscal
Should individuals and companies be obliged to have private pension schemes?	Membership	Both	Moral hazard/fiscal
Should pensions be inflation-indexed?	Indexation	Both	Monopoly
Should private pensions be an addition or partly a substitute for social security?	Integration	Both	Fiscal
Should individuals be forced to take annuities, or are lump sums acceptable?	Annuities	Largely defined contribution	Adverse selection
Should benefits be insured?	Insurance	Largely defined benefit	Monopoly/asymmetric information
Can losses be avoided when individuals change job?	Portability	Largely defined benefit	Monopoly/economic efficiency
How fair is the distribution of costs and benefits from pension schemes?	Benefits	Largely defined benefit	Monopoly/equity/efficiency
How can one organise oversight of investment and member representation?	Trustees	Both	Asymmetric information/monopoly
essential for members to judge the soundness of plans?	Information	Largely defined contribution	Asymmetric information
How best to organise these various regulatory tasks?	Regulatory structures	Both	Economic efficiency

Table 1 – The Private Pension System in Latin America

Country	Number of Affiliates	Number of Contributors	Assets US\$ thousands	Voluntary Savings US\$ thousands	Number of Administrators
Argentina	8.977.362	2.859.052	9.734.563	-	12
Bolivia	702.808	665.090	1.053.743	-	2
Chile	6.480.819	3.423.806	35.362.950	476.190	7
Colombia	4.563.993	2.207.834	5.610.557	152.720	6
Costa Rica	1.044.568	989.831	71.588	39.035	9
D. Repub.	84.609	54.966	184.190	-	
El Salvador	956.583	480.768	896.705	-	3
Nicaragua					
Peru	2.877.081	1.107.821	3.989.271	-	4
Uruguay	606.118	316.451	861.037	-	4

Source: FIAP (2002)

Table 2 – Structure of Latin American Private Pension Systems

Country	Private Scheme Sole Basis of Social Security	Participa-tion in the Private Scheme Mandatory	Minimum Return Guarantee	Minimum Pension Guarantee	Integrated Regulator
Argentina	No	No	Yes	Yes	No
Bolivia	Yes	Yes	No	No	Yes
Chile	Yes	Yes	Yes	Yes	No
Colombia	No	No	Yes	Yes	Yes
Costa Rica	No	Yes	No	No	No
D. Repub.	Yes	Yes	Yes	Yes	No
El Salvador	Yes	Yes	Yes	Yes	No
Nicaragua	Yes	Yes	No	Yes	No
Peru	No	No	Yes	Yes	No
Uruguay	No	Yes	Yes	No	Yes

Source: FIAP (2003).

Table 3 – Countries with only the Private Mandatory Pension System

Country	Employee Contribution*	Employer Contribution	Contribution Salary Ceiling	Voluntary Contributions
Bolivia	10%	-	Na	Yes
Chile	10%	-	60 Foment Units	Yes
D. Republic	2.88%	7.12%	20 minimum wages	No
El Salvador	3.25%	6.75%	No	No
Nicaragua	4%	6.5%	US\$ 1,5000	No

* Net of fees and insurance premiums.

Source: FIAP (2003).

Table 4 – Private Pensions in Australia (December 2002)

	Number of Funds	Members (thousands)	Assets (AU\$ billion)
By Fund Type			
Corporate	2,045	1,419	65
Industry	109	7,601	52
Public Sector	78	2,946	102
Retail	240	12,684	175
Small Funds	251,756	439	103
Annuities, life office reserves	na	Na	21
Total	254,228	25,089	518
By Benefit Structure			
Accumulation (DC)	253,506	20,981	338
Defined Benefit	322	555	18
Hybrid	400	3,552	140
Total	254,228	25,089	497*

* This total does not include the AU\$ 20.7 billion of annuities and life office reserves etc.
Source: APRA Superannuation Trends – December quarter 2002

Table 5 – Pension Coverage in the Republic of Ireland for Persons in Employment aged 20 to 69 years

	Occupational Pension Only	Personal Pension Only	Both	Total Coverage
Employees	43.3	5.4	3.5	52.2
Self-Employed and Assisting Relatives	–	44.0	-	44.0
Total	35.2	12.6	2.9	50.7

Source: CSO – Quaterly National Household Survey – Pensions – First Quarter 2002

Table 6 – Occupational Pension Schemes in the Republic of Ireland (31st December 2001)

Scheme Size	No. of Schemes	No. of Members
Non-Group		79,792
1-50		17,189
51-100	421	26,693
101-500	407	85,630
510-1000	64	42,758
1000+	58	340,084
Total	97,931	670,498

Source: Pensions Board – Annual Reports and Accounts 2001

Table 7 – UK Pension Schemes (mid 2000) – Number of Schemes

	Private Sector				Public Sector*	Total
	Defined Benefit	Hybrid	Defined Contribution	All		
10,000+	182	39	-	221	93	314
5,000 – 9,999	141	43	11	195	28	223
1,000 – 4,999	844	66	198	1,108	66	1,174
100 – 999	4,150	363	1,120	5,633	60	5,693
12 – 99	6,610	145	4,920	11,675	46	11,721
2 -11	27,300	1,040	57,800	86,140	31	86,171
Total	39,300	1,700	64,100	105,100	324	105,424

*All public sector schemes were defined benefit as at mid-2000.

Source: GAD (2003)

Table 8 – UK Pension Schemes (mid 2000) – Number of Active Members (millions)

	Private Sector				Public Sector*	Total
	Defined Benefit	Hybrid	Defined Contribution	All		
10,000+	2.4	0.1	0.1	2.6	4.3	6.8
5,000 – 9,999	0.5	0.0	0.0	0.5	0.1	0.6
1,000 – 4,999	0.8	0.0	0.3	1.1	0.1	1.2
100 – 999	0.7	0.0	0.2	0.9	0.0	1.0
12 – 99	0.2	0.0	0.1	0.3	0.0	0.3
2 -11	0.0	0.0	0.2	0.2	0.0	0.2
Total	4.6	0.1	0.9	5.7	4.5	10.1

*All public sector schemes were defined benefit as at mid-2000.

Source: GAD (2003)

Table 9 – Assets in UK Pension Schemes in £ billions (mid 2000)

	Private Sector	Public Sector	Total
10,000+	502.0	90.0	592.0
5,000 – 9,999	57.4	6.0	63.6
1,000 – 4,999	85.4	2.0	87.7
100 – 999	60.2	-	60.3
12 – 99	13.3	-	13.3
2 -11	43.5	-	43.5
Total	762.0	98	860.0

Source: GAD (2003).

Table 10 – Pension Provision by UK Firms (2000)

<i>Column percentages</i>									
Type of pension provision	Size of organization (number of employees)								
	Up to 5	6 -12	13 -19	20 - 49	50 - 99	100 - 499	500 - 999	1000+	All
Occupational scheme	5	3	16	14	21	40	62	80	7
GPP	5	9	22	32	46	51	40	29	9
Contributions to personal pensions	17	15	18	22	27	24	20	19	17
Any provision	24	25	47	54	75	88	92	95	29
No provision	76	75	53	46	25	12	8	5	71

Source: Occupational Pensions Survey (2002)

Table 11 – Private Pension Coverage in Great Britain (1996)

	Age					
	18 - 24	25 - 34	35 - 44	45 - 54	55 and over	Total
Men Full-Time						
Occupational Pension	23%	53%	69%	71%	59%	58%
Personal Pension	16%	35%	28%	23%	17%	26%
Any Pension	36%	77%	84%	84%	70%	75%
Women Full-Time						
Occupational Pension	27%	56%	64%	61%	58%	53%
Personal Pension	9%	24%	22%	15%	12%	18%
Any Pension	34%	72%	76%	70%	65%	65%

Source: General Household Survey (1998).

Table 12 – US – Participant in Private Sector Pension Plans (1998)

Total Plans	Total Plans			Single Employer Plans ⁽¹⁾			Multiemployer Plans ⁽²⁾		
	Total	Defined Benefit	Defined Contribution	Total	Defined Benefit	Defined Contribution	Total	Defined Benefit	Defined Contribution
Total Participants	99,455	41,552	57,903	87,930	32,634	55,296	11,525	8,918	2,807
Active Participants	73,328	22,994	50,335	66,390	18,283	48,107	6,938	4,710	2,228
Fully Vested	50,606	13,139	35,468	45,965	12,557	33,408	4,641	2,582	2,060
Partially Vested	9,618	605	9,010	9,524	544	8,980	92	61	30
Nonvested	13,106	7,249	5,857	10,901	5,182	5,719	2,205	2,067	138
Retired or separated participants receiving benefits	9,860	9,213	647	7,434	6,829	606	2,426	2,385	41
Separated participants with vested right to benefits	16,267	9,346	6,921	14,106	7,522	6,583	2,161	1,823	338

(1) Includes single employer plans, plans of controlled group of corporations and multiple-employer noncollectively bargained plans.

(2) Includes multiemployer plans and multiple-employer collectively bargained plans.

Source : DOL (2002)

Table 13 - Assets in US Private Sector Pension Plan

Number of Participants	Total Plans			Single Employer Plans ⁽¹⁾			Multiemployer Plans ⁽²⁾		
	Total	Defined Benefit	Defined Contribution	Total	Defined Benefit	Defined Contribution	Total	Defined Benefit	Defined Contribution
TOTAL	4,021,849	1,936,600	2,085,250	3,642,656	1,599,303	2,043,353	379,193	337,297	41,896
None of not reported	18,859	13,056	5,803	18,509	12,986	5,523	350	70	280
2-9	134,226	11,646	122,580	134,183	11,603	122,58	43	43	0
10-24	102,625	3,473	99,153	102,625	3,473	91,153	0	0	0
25-49	86,090	3,655	82,435	88,078	3,644	82,434	12	12	1
50-99	100,788	7,838	92,950	100,485	7,703	92,782	303	135	168
100-249	131,956	19,942	112,014	129,729	18,690	111,039	2,227	1,253	974
250-499	127,094	30,983	96,111	120,943	26,409	94,534	6,151	4,574	1,577
500-999	158,331	53,927	104,404	142,308	41,670	100,638	16,023	12,257	3,766
1,000-2,499	290,363	124,923	165,440	252,182	95,866	156,316	38,181	29,057	9,124
2,500-4,999	294,706	134,683	160,023	256,679	105,409	151,270	38,026	29,274	8,753
5,000-9,999	401,136	200,103	201,033	355,077	159,415	195,662	46,059	40,688	5,372
10,000-19,999	463,381	239,417	224,445	413,641	193,765	219,876	50,220	45,651	4,569
20,000-49,999	670,488	349,468	321,020	615,425	299,358	316,066	55,063	50,109	4,953
50,000 or more	1,041,325	743,485	297,840	914,791	619,311	295,480	126,534	124,174	2,361

(1) Includes single employer plans, plans of controlled group of corporations and multiple-employer noncollectively bargained plans.

(2) Includes multiemployer plans and multiple-employer collectively bargained plans.

Source: DOL (2002).

Table 14 – Sponsorship of Pension Plans by Firms in the United States

Firm size (no. of workers)	Percentage of firms sponsoring plan
<10	12.9
10 - 24	28.6
25 - 49	39.7
50 - 99	53.5
100 - 249	67.5
250 - 499	76.7
500 - 999	79.3
> 1000	86.3

Source: GAO

Table 15 – Coverage and Earnings in the US.

Employee annual earnings	Employer sponsors plan %	Employee participating %
< \$ 20,000	42	29
\$20,000 - \$39,999	65	54
\$40,000 - \$59,999	78	72
> \$60,000	80	74

Source; GAO

Table 16 – US Public Sector Funded Pension Schemes

	Number of Systems	Members	Assets (in US\$ thousands)
Federal (TSP)	1	3,100,000	102,311,629
State	220	15,241,440	1,781,663,859
Local	1,988	1,780,010	375,946,250
Total	2,209	20,121,450	2,259,921,738

For State and Local Schemes data refers to the Fiscal Year 2000-2001.

Sources: U.S. Census Bureau (2003) ; TSP (2003) Financial Statements of the Thrift Savings Fund 2002 and 2001.

Table 17 – Commission in the Private Pension Systems of Latin America

	Fixed Commission (US\$)	Variable Commission (as % of salary)		Variable Commission (% of funds managed)	Variable Commission (% over returns)
		Administrator Commission	Insurance Commission		
Argentina	-	1.85	0.41	-	-
Bolivia	-	0.50	1.71	From 0.2285 to 0.0067 according to size	-
Chile	0.77	1.46	0.80	-	-
Colombia	-	1.58	1.92	-	-
Costa Rica	-	-	-	-	7.39
D. Repub.					
El Salvador	-	2.05	0.93	-	-
Nicaragua					
Peru	-	2.28	1.34		
Uruguay	0.18*	1.93	0.90	0.0027 independent of size	-

* Just one AFP charges a fixed commission of US\$ 0.70.

Table 18 – Pension Fund Administrators in Latin America that have Banks, Insurance Companies and Other Financial Institutions Among its Controlling Shareholders (2002)

	Banks	Insurance Companies	Other Financial Institutions	% of Total Administrators
Argentina	6	3	-	67
Bolivia	1	1	-	100
Chile	3	1	3	100
Colombia	4	-	2	100
Costa Rica				
D. Republic	2	-	-	50
El Salvador	2	-	1	100
Nicaragua				
Peru	4	-	-	100
Uruguay	3*	-	-	75

* In one case, the AFAP is controlled by a State owned bank.

Source: FIAP (2002)

Table 19 – Sanctions Applied in Uruguay (1996-2003)

Type of Sanction	Number of Sanctions	Motives for Fines
Observation	56	Transgression of quantitative limits in portfolio allocation (8) Breach of investment norms stated in articles 53 and 73 of AFAP Control Norms Collection (3) Investments transactions outside formal markets (2) Unauthorized transactions in the stock exchange (1) Investment is securities that did not meet required risk profile (1) Transgression of publicity norms (7) Breach of minimum capital requirements (6) Irregular trespassing of affiliates (2) Irregularity in the lists of affiliates (1) Irregular estimates of pension benefits (1) Breach of single purpose requirement (2)
Reprimand	20	
Fine	34	

Source: Central Bank of Uruguay (2001-2003).