

COUNTRY PROFILE

ARGENTINA

I. Data Overview

II. Pension System

Overview

The Argentine implemented a new pension system, the Integrated System of Retirement and Pensions, in 1994. It is made up of a basic pension and a mandatory mixed contributory system where workers can choose between two alternatives schemes: a new pay-as-you-go (PAYG) government-run scheme and a private fully-funded scheme based on defined contribution individual accounts. Employees and self-employed could also contribute into voluntary complementary pension plans.

Public Pension

The public pension system consists of two different and independent programs. Both of them are run as a PAYG scheme, by the National Social Security Administration (ANSeS).

The first program is a non-contributory system financed by the employers' contributions (16% of gross taxable income, according to the law). It provides a non-earning related Universal Basic Benefit (PBU), which is a monthly flat amount of approximately 28% of average wages, that can be claimed by any worker with 30 years of contributions who reach age 65 (for men) and 60 (for women).

The second program is a mandatory system financed by the employees' contributions (PAP). This program is offered as an alternative to the mandatory privately managed pension system. Those members who chose the public pension receive about 0.85% per year of contribution paid after July 1994 of their average salary during the 10 years before retirement. Benefits are payable at age 65 (for men) and 60 (for women) with at least 30 years of contributions and service. The Social Security Administration also covers disability and survivor benefits. Disability pensions are set at 70% of the average monthly salary during the five years before the disability, regardless of career earnings and contributions. Survivorship pensions are set at equivalent levels.

Funded Pension System

Mandatory

Personal

The mandatory private pension system is a fully funded individual accounts scheme for those members who opt out the PAYG system.

Coverage

Participation in the contributory system is mandatory for both employees and self-employed. When workers enter the labour force they must choose between the publicly managed PAYG scheme (PAP) and the private scheme for their earnings related pension. Members cannot participate in both the new PAYG government-run scheme and the private scheme simultaneously. Members choosing the PAYG scheme can switch to the funded scheme at any time. However, those who chose the private scheme cannot switch to the PAYG scheme. Workers who do not chose between the public and private scheme are automatically placed in the private scheme. By the end of 2005, the number of members in the mandatory private pension system rose to 10.6 millions.

Contributions

Employees who chose to enrol the private scheme paid a total contribution of 7% of their taxable income, of which 4,481% goes into their individual account, 1,269% to the insurance company and 1,250% to the AFJP to cover the administrator's commission. The self employed contribute 23%, but only 7% goes to their individual account. The other 16% presumably cover administrative cost, survivors and disability insurance, and funding for other programs.

During the 2001 economic crisis, the government reduced employees' contributions to both PAYG and private scheme from 11% of taxable income to 5% for a period of one year extendible to two years. By the end of 2003, the contribution rate was increased from 5% to 7%.

Benefits

The system is defined contribution in nature. Retirement age is 60 for women and 65 for men. Benefits in the private pension system are paid in several ways. Members may purchase an annuity from an insurance company or receive programmed periodic payments until their account is exhausted. Workers may also withdraw as a lump sum any amount in excess of that necessary to finance a pension equal to 70% of their average monthly salary during the five years before retirement. A worker may retire early if the balance from an individual account is sufficient to pay for a pension equal to 50% of the average salary in the last five years of employment.

Tax

Employees' contributions to the private pension system and investment incomes are tax exempt. Benefits are taxed according to the general income tax rules.

Market

Individual accounts in the compulsory private system are managed by private pension fund managing companies (AFJPs). These companies are strictly regulated by The Superintendency of Pension Fund Management Companies (SAFJP). AFJPs were solely created for investing employees' contributions and for administering payments to retirees. Each AFJP may manage only one pension fund. Pension assets are independent and separated from AFJPs assets. Additionally, there is a financial institution wholly owned by the State that participates as AFJP providing a guaranteed minimum rate of return equal to the interest rates earned in savings accounts. Private AFJPs, on the contrary, are not allowed to offer this kind of minimum guarantee. Currently there are 11 AFJPs operating in the market.

AFJPs are allowed to invest in a variety of financial instruments, such as government bonds, mutual funds, corporate stocks, and derivatives. However, investment is subject to quantitative limits per instrument, per issuer and per risk rating levels. There are also investment limits on type of assets.

Pension funds administrators have accumulated assets equivalent to 74,756 million dollars as of December 2005 or 3.7% of GDP. At the end of 2005, 60.9% of total assets are invested in government bonds, 5.1% in securities issued by domestic financial institutions, 1.8% in domestic corporate bonds, 13.4% in domestic equities, 8.1% in mutual funds and 8.9% in foreign securities.

In order to ensure an appropriate combination of high yield and low risk in their investments, all AFJPs are required to guarantee a minimum return equivalent to the average for the industry minus 30% or two percentage points, whichever is smaller. Symmetrically, if returns of any fund exceed the industry average plus 30% or two percentage points, the share value has to be reduced to this maximum level and the excess is credited to a special account that serves as a profit reserve. When in any given 12-month period, a fund's return is below the minimum guaranteed, the AFJP must compensate the affiliates, transferring assets from the profit reserve and, if necessary, from an investment reserve¹. If both reserves are exhausted and

¹ Each AFJP must hold liquid reserves of 1% of the pension fund balance.

compensation is still due, the government must pay the difference, take over the administration of the fund and withdraw the license to the AFJP.

AFJPs are allowed to charge a variable commission for the management of pension funds. The variable commission is calculated as a percentage of the pensionable salary. Part of the variable commission constitutes net income for the AFJP. A certain fraction of it is transferred to the Life Insurance Companies as a premium for the disability and survivorship insurance used to provide coverage for contributors. By the end of 2005, the average commission is 2.59% of the pensionable salary.

Voluntary:

Personal

Voluntary contributions can be made by employees or by the employer. The voluntary contributions are registered in the mandatory individual account of each member. In this account the member can make deposits, either regularly or not. Voluntary contributions are 100% tax-exempt.

Coverage

Only members (employees and self-employed) affiliated to the private mandatory system can participate in the voluntary complementary pension regime. Member who chose the public system are not allowed to make voluntary contributions.

Benefits

Members are not allowed to withdraw part of their voluntary contribution before retirement. Benefits are paid in the form of annuities, schedule withdrawals or fragmented withdrawals.

Market

Voluntary pension funds are defined contribution funds managed by private pension fund managing companies (AFJPs). These companies have the same institutional framework as those managing mandatory funds.

There are no commissions on voluntary contributions. By the end of 2005, the total value of voluntary contributions accounts 218 million dollars.

Potential Reforms

On February 28, 2007, the Congress approved a pension reform bill in order to introduce changes into the pension system created in 1994. The government expects to approve the bill in 2008. The central components of the reform are: of taxable income

- Members in the private pension system could switch back to the publicly managed PAYG scheme.
- Workers entering in the labour force that do not choose between the private and the public pension system will be automatically placed in the public system by default.
- AFJPs could charge a maximum variable commission of 1% of taxable income.

Relevant legislation and supervisory authority

- Superintendency of pension Fund Management Company (SAFJP).
- Law 24,241 of 1993. It implemented the new pension system, the Integrated System of Retirement and pensions.

Comparative Charts

