

# PERU



## DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (EUR bn)	377
GDP per capita (USD)	4 471
Population (000s)	28 387
Labour force (000s)	
Employment rate	
Population over 65 (%)	
Dependency ratio <sup>1</sup>	

Data from 2008 or latest available year.  
 1. Ratio of over 65-year-olds the labour force.  
 Source: OECD, various sources.

## COUNTRY PENSION DESIGN

### STRUCTURE OF THE PENSION SYSTEM

#### Public pensions

- The social assistance programme, providing minimum benefits
- The public social insurance programme

#### Private pensions: personal (mandatory)

- It covers employees in both private and public sectors. However, self-employees and those in the informal sector are not covered
- New entrants need to choose between this pillar and the public pension as above
- It is a funded DC scheme.

#### Private pensions: personal (voluntary)

- The legal framework of this pillar is basically the same as the mandatory one
- Balance in this pillar is allowed to be transferred to the mandatory one

Source: OECD Global Pension Statistic.

## PENSION FUNDS DATA OVERVIEW

	2001	2002	2003	2004	2005	2006	2007	2008
<b>Assets</b>								
Total investments (National currency millions)	12,475	15,956	22,097	26,032	32,676	46,148	61,280	50,740
Total investments, as a % of GDP	6.59	7.99	10.35	10.94	12.49	15.27	18.25	13.46
Of which Assets overseas, as a % of Total investment:								
• Issued by entities located abroad	4.78	7.18	8.76	10.12	10.10	8.49	13.14	12.20
• Issued in foreign currencies	4.78	7.18	8.76	10.12	10.10	8.49	13.14	12.18
<b>By financing vehicle (as a % of Total investments)</b>								
• Pension funds	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
• Book reserves	NA	NA	NA	NA	NA	NA	NA	NA
• Pension insurance contracts	NA	NA	NA	NA	NA	NA	NA	NA
• Other financing vehicle	NA	NA	NA	NA	NA	NA	NA	NA
<b>By pension plan type</b>								
• Occupational assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
• % of DB assets	ND	ND	ND	ND	ND	ND	ND	ND
• % of DC (protected and unprotected) assets	ND	ND	ND	ND	ND	ND	ND	ND
• Personal assets	12,475	15,956	22,097	26,032	32,676	46,148	61,280	50,740
<b>Structure of Assets (as a % of Total investments)</b>								
Cash and Deposits	21.44	24.11	15.34	6.31	6.68	4.96	2.47	8.31
Fixed Income	51.20	39.42	40.40	44.16	40.96	42.11	43.62	54.68
Of which:								
• Bills and Bonds issued by the public and private sector	51.20	39.42	40.40	44.16	40.96	42.11	43.62	54.68
• Loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares	25.04	31.17	35.49	38.88	39.88	43.73	41.54	26.31
Land and Buildings	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Investments	2.32	5.30	8.77	10.66	12.48	9.19	12.37	10.70
<b>Contributions and Benefits</b>								
Total Contributions, as a % of GDP	0.78	0.92	0.96	0.92	0.94	1.23	1.56	1.27
• Employer Contributions, as a % of Total contributions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
• Employee Contributions, as a % of Total contributions	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Total Benefits, as a % of GDP	0.06	0.07	0.10	0.12	0.14	0.15	0.15	0.14
• % of benefits paid as a Lump sum	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
• % of benefits paid as a Pension	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
<b>Membership (in thousands of persons)<sup>1</sup></b>								
Total membership	2,740	3,006	3,210	3,421	3,668	3,919	4,142	4,341
• % of Active membership	99.71	99.59	99.46	99.31	99.15	99.07	99.01	98.97
Of which: % of Deferred membership	58.81	60.53	58.14	61.32	63.76	63.63	58.58	60.96
• % of Passive membership	0.29	0.41	0.54	0.69	0.85	0.93	0.99	1.03
Other beneficiaries	18.40	20.40	23.24	25.08	26.48	30.15	33.52	36.25
<b>Number of Pension Funds/Plans</b>								
Total number of funds	4	4	4	4	5	4	4	4
Total number of plans	3	3	3	3	3	3	3	3

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available

NA = data not applicable

Source: OECD, Global Pension Statistics

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## PERU: THE PENSION SYSTEM'S KEY CHARACTERISTICS

### **PUBLIC PENSION**

The public pension provision is made up of at least two different programs. The first program provides assistance and minimum benefits for low-income individuals. By the end of 2005, the minimum pension was 415 nuevos soles per month (US\$121). The government also provides the same amount of benefits for all members of the private pension system who, at retirement, have not accumulated enough funds in their personal accounts to finance a pension of an amount equal to or greater than the minimum pension, and who fulfill certain requirements as specified by law - including having contributed for at least 20 years.

The second program is the public Social Insurance system. It is a contributory, defined-benefit, pay-as-you-go system. Contrary to other pension reforms, which phased out the old public system, the public pension scheme competes with the private pension scheme. New entrants to the labor force have to decide whether to join the SPP or the SNP within a period of 10 days. If the worker does not make this choice, the employer will automatically affiliate the worker to the private system. Workers affiliated to the public system can remain there or switch to the private system at any time. However, workers in the private system are not allowed to switch back to the public system.

Under the SPP system, the employees contribute 13% of their taxable income for old age, survivor and disability coverage. It provides earning related benefits for those workers with 20 years of contributions who reach age 65 (for both men and women). Old-age benefits range from 30% to 45% of average earnings during the last 5 years of employment, plus 2% for each additional year of contributions exceeding 20, up to a maximum of 100%. Disability benefits are set at 50% of the reference salary, plus 1.5% for each year of contributions exceeding 3 years. Survivorship benefits are set at similar levels.

### **PERSONAL MANDATORY**

#### Coverage

Private and public employees who entered the labour market are required to choose between the public social insurance system and the mandatory private pension system. Participation is not mandatory for the self-employed, the unemployed, those in the informal sector or those who were covered by the old system. By June 2006, the number of members in the mandatory private pension system was 3.7 millions.

#### Contributions

All workers who opted out of the Social Insurance scheme contribute 10% of their taxable income to their private investment funds. Workers must contribute another 0.92% of gross earnings to cover term survivor and disability insurance and an average of 2.27% of gross earnings for administrative fee. There are not maximum earnings for contribution purpose. Employers are not required to contribute.

#### Benefits

The system is defined contribution in nature. The value of the old-age pension varies according to the member's contributions to the individual account plus accrued earnings, minus administrative fees.

Retirement benefits are available at age 65 for both women and men. Retirees may choose between four benefits options: programmed withdrawal from their individual accounts; individual life annuities; joint survivor life annuities; and deferred annuity accompanied by temporary programmed withdrawals.

Early retirement is available at any age if the member's individual account has accumulated assets that will replace at least 50% of average indexed earnings in the preceding 120 months.

For those participants who contributed to the public pension scheme and joined the private pension scheme a recognition bond was provided. This bond represents the contribution registered under the old social security scheme. The recognition bond is paid into an employee's pension account when he retires.

### Tax

Mandatory contributions are taxed. Investment incomes and benefits are tax exempt.

### Fees

AFPs are allowed to charge members only a variable commission as a percentage of contributions for the administration of pension funds. Each AFP is free to set these commissions; however, they are still required to charge the same fee to all of their affiliates. By June of 2006, the average commission was 2.75%. 0.91% was used to pay the premium for the employee's disability and survivorship insurance, whereas the remaining 1.83% covers the administration costs of the AFPs.

## **PERSONAL VOLUNTARY**

### Coverage

Both, employees and self-employed who are enrol in the SPP may contribute voluntarily to the mandatory individual account. Member who chose the public system are not allowed to make voluntary contributions.

### Benefits

Voluntary contributions are transferred to the mandatory individual account of each member, in order to increase the amount of their pension. Retirement benefits provided by voluntary contributions are available only when they retire. Early withdrawals before retirement are not allowed.

### Tax

Voluntary contributions are not tax-exempt.

## **MARKET INFORMATION**

### Personal mandatory

Pension funds under the private scheme are managed by specialized private pension fund managing companies (AFPs). These companies are in charge of managing participants savings deposited in individual retirement accounts. AFPs are not allowed to do any other business than pension fund management. They have to be set up as joint-stock companies. The net worth of the AFP is independent of that of the pension fund, and the AFPs must keep the accounts of the pension fund net worth separately. AFPs are licensed, regulated and supervised by a specialized agency, the Superintendence of Banking and Insurance (SBS). Currently there are 5 AFPs operating in the market.

Initially, AFPs could only offer one tightly regulated pension fund to their affiliates, with the allocation of assets limited by law. However, under a new regulation passed in the second half of 2003 and the regulations approved by the end of 2004, AFPs are now allowed to offer more than one pension fund. Nevertheless, there are limits of investment in the regulation for only three types of funds. Thus, each AFP offers three types of pension funds with different level of risk. The three funds are differentiated by the proportion of their portfolio invested in equities and fixed income securities. The more conservative fund is

allowed to invest up to 10% in equities, the balanced fund up to 45%, whereas the more aggressive fund can invest up to 80%. The three funds started to operate by the end of 2005.

Pension funds administrators have accumulated assets equivalent to 11,153 million dollars as of June 2006 or 14% of GDP. The annual average rate of return of the pension system (excluding administration fees) was around 8.4% between December 1992 and June 2006. By mid of 2006, 21% of total assets were invested in government bonds, 10% in securities issued by domestic financial institutions, while investment in domestic corporate bonds represented around 12%. Local equities and mutual funds represented 39% and 2% respectively, whilst foreign securities have increase to around 8.4%.

The private scheme set up a minimum profitability guarantee in order to protect affiliates from strong fluctuations in the returns of the funds. The minimum return was defined, as the lower between 25% of the average 12-month real rate of return of the system or 3 percentage points under the real rate of return. If an AFP underperformed, the shortfall had to be made up from the mandatory reserve.

### Personal voluntary

Voluntary contributions are managed by the AFPs. The regulatory framework for managing voluntary contributions is basically the same as for the mandatory contributions.

Voluntary personal schemes in Peru are not very attractive because there are not tax incentives for voluntary contribution and there are not maximum earnings for mandatory contribution.

### **POTENTIAL REFORM**

On March 27, 2007, the president of Peru promulgated a controversial law to permit members of the SNP to return to the publicly managed PAYG scheme if they think it will benefit them more than their private pension. The government will send out details of this regulation to all workers within 90 days so they can decide which pension system would be better for them.

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## **REFERENCE INFORMATION**

### **KEY LEGISLATION**

- Law Decree 25,897 of 1992. It established the system of private pension schemes.
- Supreme Decree 054-97-EF. It provides the regulatory framework for the licensing, regulation and supervision of the AFPs.

### **KEY REGULATORY AND SUPERVISORY AUTHORITIES**

- Superintendency of Bank and Insurance (SBS)







