

# IOPS COUNTRY PROFILE: COSTA RICA

## DEMOGRAPHICS AND MACROECONOMICS



GDP per capita (USD)	11 400
Population (000 000 s)	4 576
Labour force (000s)	2 170
Employment rate	92.7
Population over 65 (%)	6.4
Dependency ratio <sup>1</sup>	13.5

Data from 2010 or latest available year.

1. Ratio of over 65-year-olds / labour force.

Source: OECD, various sources.

## COSTA RICA: COUNTRY PENSION DESIGN

### STRUCTURE OF THE PENSION SYSTEM

#### Public pensions

- Earning-related public pensions provided as a part of the social security system
- Non-contributory pension scheme for low earners

#### Private pensions: personal (mandatory)

- Mandatory DC private pension schemes based on individual accounts

#### Private pensions: personal (voluntary)

- Voluntary DC individual account system (separate from mandatory individual account)

Source: OECD Global Pension Statistic

## COSTA RICA: PENSION FUNDS DATA OVERVIEW

	2001	2002	2003	2004	2005	2006	2007	2008
<b>Assets</b>								
Total investments (National currency millions)	ND	ND	1,063,598	1,299,762	1,815,119	2,295,938	2,559,458	ND
Total investments, as a % of GDP	ND	ND	15.23	15.96	19.03	19.93	18.86	ND
Of which Assets overseas, as a % of Total investment:								
• Issued by entities located abroad	ND	ND	ND	ND	ND	ND	ND	ND
• Issued in foreign currencies	ND	ND	ND	ND	ND	ND	ND	ND
<b>By financing vehicle (as a % of Total investments)</b>								
• Pension funds	ND	ND	100.00	100.00	100.00	100.00	100.00	ND
• Book reserves	ND	ND	ND	ND	ND	ND	ND	ND
• Pension insurance contracts	ND	ND	ND	ND	ND	ND	ND	ND
• Other financing vehicle	ND	ND	ND	ND	ND	ND	ND	ND
<b>By pension plan type</b>								
• Occupational assets	ND	ND	816,460	979,771	1,340,416	1,606,890	1,717,079	ND
• % 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	ND	ND	247,138	319,991	474,703	689,048	842,379	ND
<b>Structure of Assets (as a % of Total investments)</b>								
Cash and Deposits	ND	ND	3.07	5.25	4.82	5.32	0.00	ND
Fixed Income	ND	ND	89.26	85.07	84.92	84.33	93.71	ND
Of which:								
• Bills and Bonds issued by the public and private sector	ND	ND	83.68	81.41	82.42	82.55	93.71	ND
• Loans	ND	ND	5.59	3.66	2.50	1.78	0.00	ND
Shares	ND	ND	0.00	0.02	0.03	0.06	0.10	ND
Land and Buildings	ND	ND	0.00	0.00	0.00	0.00	0.00	ND
Other Investments	ND	ND	7.67	9.66	10.22	10.28	6.20	ND
<b>Contributions and Benefits</b>								
Total Contributions, as a % of GDP	ND	ND	ND	ND	ND	ND	ND	ND
• Employer Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	ND	ND
• Employee Contributions, as a % of Total contributions	ND	ND	ND	ND	ND	ND	ND	ND
Total Benefits, as a % of GDP	ND	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Lump sum	ND	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Pension	ND	ND	ND	ND	ND	ND	ND	ND
<b>Membership (in thousands of persons)<sup>1</sup></b>								
Total membership	999	1,030	1,037	1,111	1,174	1,252	ND	ND
• % of Active membership	79.00	83.34	83.41	84.39	85.17	85.86	ND	ND
Of which: % of Deferred membership	0.00	5.14	5.56	5.17	5.00	4.82	ND	ND
• % of Passive membership	21.00	16.66	16.59	15.61	14.83	14.14	ND	ND
Other beneficiaries	NA	NA	NA	NA	NA	NA	ND	ND
<b>Number of Pension Funds/Plans</b>								
Total number of funds	ND	ND	ND	ND	ND	ND	ND	ND
Total number of plans	ND	ND	ND	ND	ND	ND	ND	ND

Note: Data refer to only to Costa Rican pension funds.

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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## COSTA RICA: THE PENSION SYSTEM'S KEY CHARACTERISTICS

### PUBLIC PENSION

The Costa Rican public pension system is part of the Disability, Old Age and Death Benefits Social Security System. It is a pay-as-you-go earning-related state pension with defined benefits, administered by the Social Insurance Fund. It offers a retirement benefit, payable at age 62 (men) and 60 (women) with at least 20 years of contributions. The basic benefit is equal to 60% of the average of the worker's 48 highest monthly earnings during the last 5 years of coverage before retirement and increases by 0.0835% of the average for each month of contribution above 240. A disability pension is provided to workers who have lost two-thirds of their earning capacity, whilst a survivors pension is payable to widows, orphans, and other dependents. The total contribution is 6.25% of the employee's taxable income, with 4.75% is paid by the employer and 2.5% by the employee. In addition to the Disability, Old Age and Death Benefits Social Security System, there is a non-contribution pension scheme for low earners administered by the Costa Rican Social Insurance Fund.

OECD estimates that the gross replacement rate for an average worker is 89% (103.1% net).

### PERSONAL MANDATORY

#### *Coverage*

Participation in the private pension system is mandatory for all public and private employees. Members must submit proof of eligibility for benefits under the public social security program to be eligible for benefits under the mandatory private pension system. Given that the public PAYG system coexists with the private pension system, the members may be registered in both. By the end of 2005, the number of members in the mandatory private pension system rose to 1.4 millions.

#### *Contributions*

The total contribution rate for the mandatory private pension system is 4.25% of the employee's taxable income, 1% is paid by the employee and 3.25% by the employer.

#### *Benefits*

The system is defined contribution in nature. The retirement age is 59 years and 11 months for women and 61 years and 11 months for men. Additional conditions and benefits vary according to the contract between the complementary pension operators and the individual. Individual can choose either to purchase an annuity from an insurance company, or to make programmed withdrawals from their account.

#### *Taxation*

Employees' contributions and investment incomes are tax exempt. Employers' contributions are tax-deductible from profit. Benefits are taxed as income.

## MARKET INFORMATION

Mandatory private pension accounts are managed by companies known as Pension Plan Operators, or OPPs (established as public limited companies with the single business). OPPs may establish and manage several pension funds.

As of December 2005, there were 8 OPCs operating in the market with accumulated assets equivalent to 711 million dollars or 3.7% of GDP.

Pension assets may only be invested in instruments that have been specifically registered by the National Registry Office of Securities and Intermediaries and securities issued by supervised financial institutions. The investment regulation establishes maximum limits for investments in national securities and seeks to avoid concentrations. The regulation also applies certain criteria, such as the sector to which the securities belong, the issuing entity, a state guarantee, the degree of concentration on a single issuing entity and type of instrument. Finally, the Superintendence of Pension has issued regulations for financial instruments issued by private institutions, which are subjected to different rating processes depending on their type, prohibiting certain types of investment carrying high risk. Investments in the national market may be made either in the national currency (Colones) or in USA dollars. Foreign investment is limited to 25%. At the end of 2005, 72.1% of total assets were invested in government bonds, 13.2% in securities issued by domestic financial institutions, 5.3% in domestic corporate bonds, 0.2% in equities, 3.2% in mutual funds and 2.7% in foreign securities.

There are no legal requirements for a minimum rate of return to be credited to the member's individual account.

## PERSONAL VOLUNTARY

### *Coverage*

Members affiliated to the private mandatory system can participate in the voluntary complementary pension regime.

### *Contributions*

Voluntary contributions are registered in the name of each member, separately from the mandatory individual account. In this account the member can make deposits, either regularly or ad hoc, paid by the employer and/or the employee.

### *Benefits*

Workers are allowed to withdraw their voluntary contribution from age 57. Members with more than 66 monthly contributions are allowed to make a unique withdrawal. Additionally, workers are allowed to withdraw their voluntary social security savings at any point in their working life only if they have more than 66 monthly contributions.

### *Taxation*

Voluntary contributions are tax-exempt up to 10% of the employee's taxable income.

## MARKET INFORMATION

The voluntary pension system is managed by Pension Plan Operators. They have the same institutional framework as those managing mandatory funds.

Commissions on voluntary individual accounts are charged on investment return

At the end of 2005, the total members in the voluntary pension system is of 161,131 members and the accumulated assets equivalent to US\$365mn.

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## REFERENCE INFORMATION

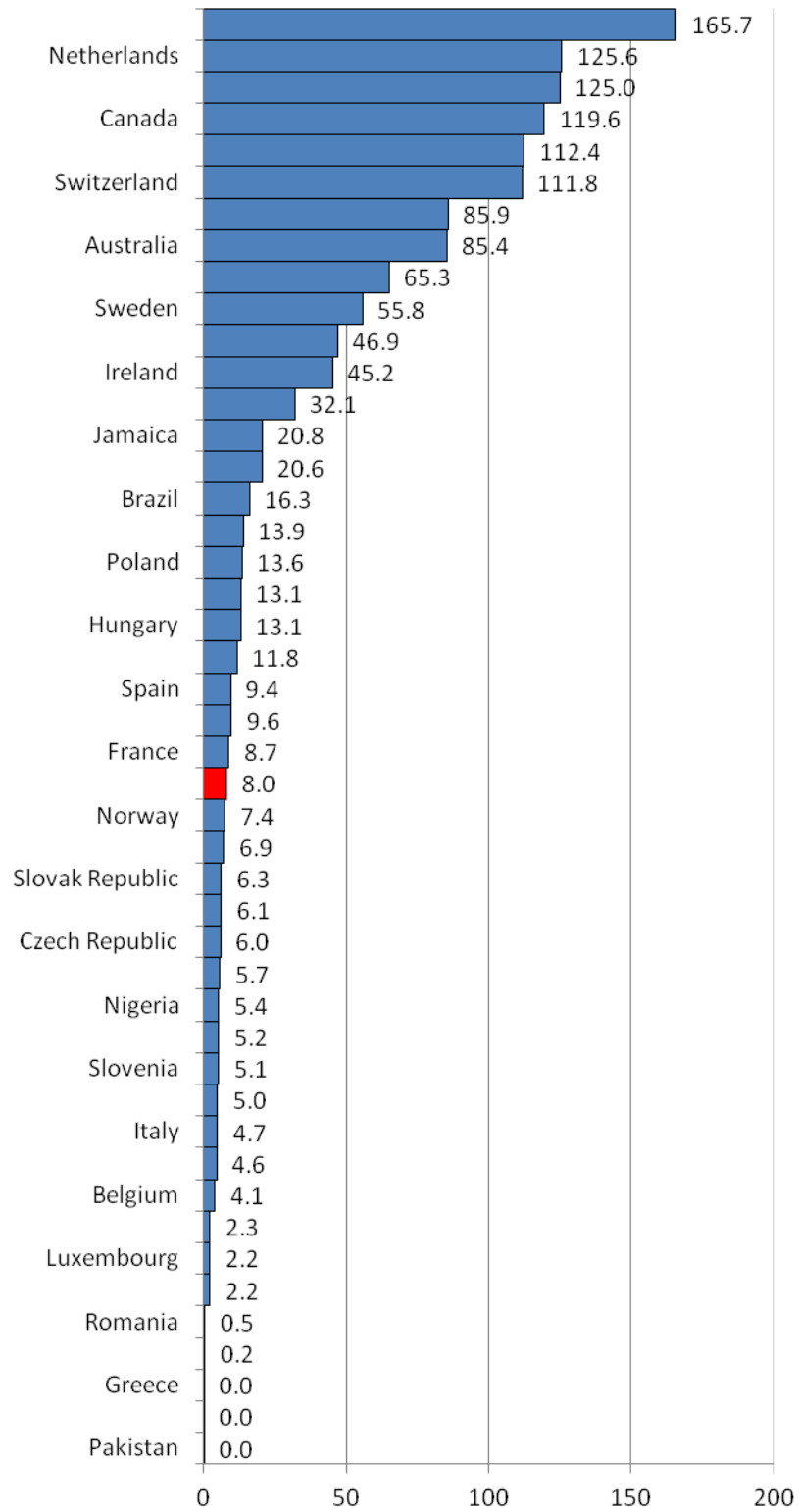
### KEY LEGISLATION

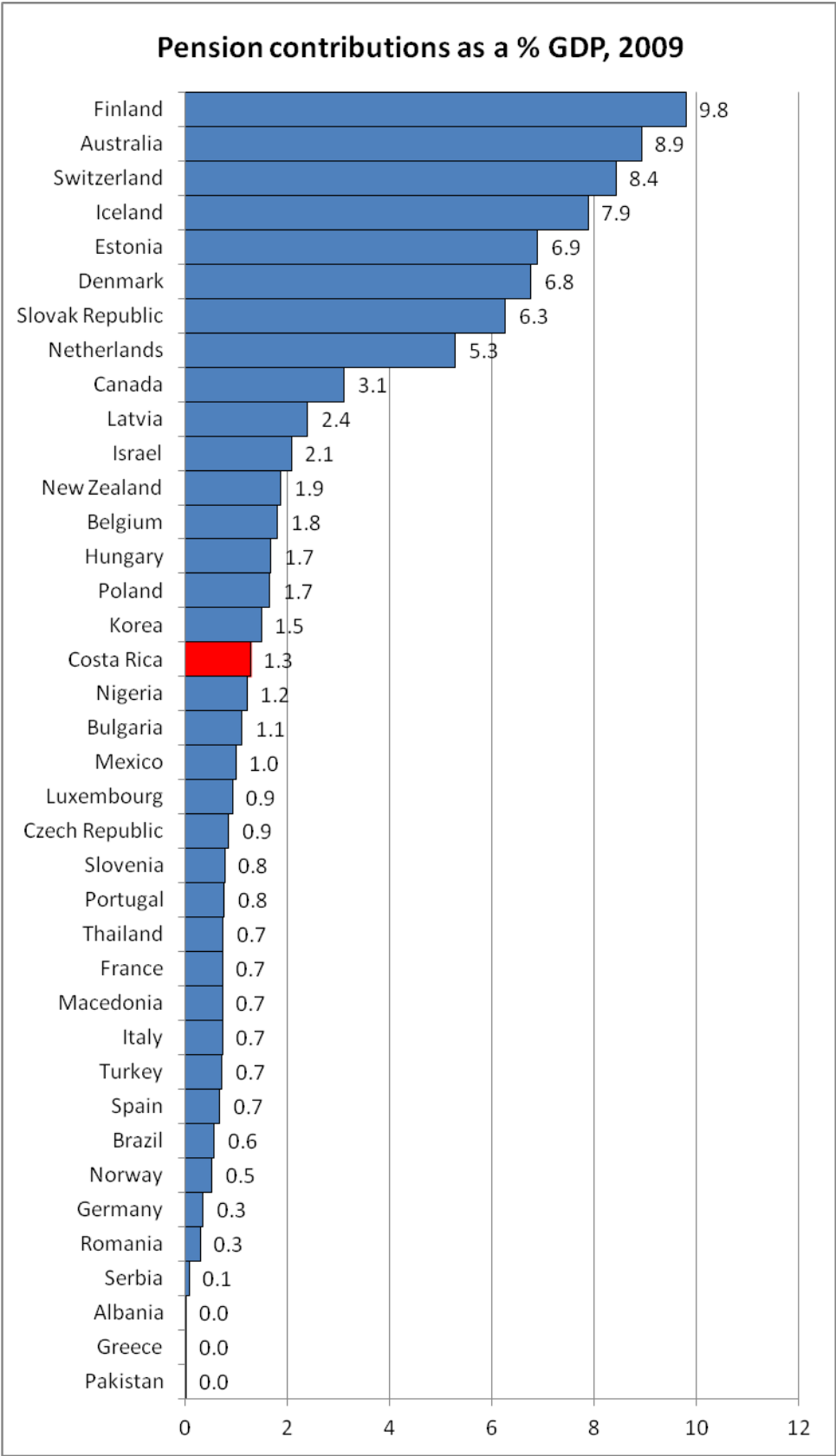
- 2000: Law 7983 establishes the structure of the reformed pension system and the establishment, operation and supervision of the Pension Plan Operators (OPPs) and pension funds. OPPs are regulated and supervised by the Superintendence of Pensions (SUPEN).
- 1995: Law 7523 reformed the public PAYG system and established the SUPEN.

### KEY REGULATORY AND SUPERVISORY AUTHORITIES

- Costa Rican Social Insurance Fund, administrates social insurance programme, [www.ccss.sa.cr](http://www.ccss.sa.cr)
- Superintendence of Pensions: regulates and supervises pension plan operators and service provides, [www.supen.fi.cr](http://www.supen.fi.cr)
- National Council for the Supervision of the Financial System (Consejo Nacional de Supervision del Sistema Financiero – CONASSIF), composed of the representatives of different financial supervisory authorities and relevant ministries, ensures the co-ordination of supervisory activities and promotes co-operation between financial sector supervisors.

## Pension Fund Assets as a % GDP 2009





## Pension Benefits as a % GDP, 2009

