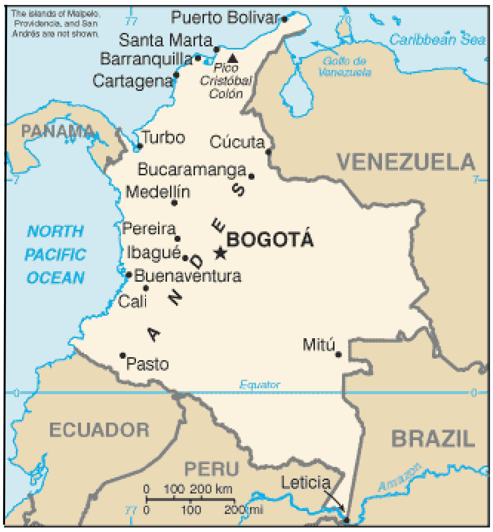
IOPS COUNTRY PROFILE: COLOMBIA



DEMOGRAPHICS AND MACROECONOMICS

Total Population (000s)	**49.7**
Percentage 65 or older	**8.4%**
Dependency Ratio (a)	**46.3%**
Life Expectancy at Birth (years) for Men	**74.3**
Life Expectancy at Birth (years) for Women	**79.8**
Labour Force (000s)	**27.249**
Statutory Pensionable Age - Men	**62**
Statutory Pensionable Age - Women	**57**
GDP per capita (USD)	**6.667**

(a) Population aged 14 or younger plus population aged 65 or older, divided by population aged 15-64.

Sources: see the Reference information section.
As of December 2020

COLOMBIA: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public/Private personal pensions (mandatory)

- Public DB (average premium) social security scheme or privately managed DC individual account system introduced since 1994
- Private DC scheme managed by Private Funds Administrators (APFs)

Private personal pensions: (voluntary)

- DC private pension funds based on individual accounts, managed by Private Funds Administrators, fiduciaries and insurance companies to which both employers and employees can contribute

COLOMBIA: PENSION SYSTEM'S KEY CHARACTERISTICS

PENSION SYSTEM

Overview:

Colombia has put in place a dual pension system (the General Pension System (GPS)) comprising both public pay-as-you-go (defined benefit average premium) social security scheme and privately managed defined contribution individual account system, introduced since 1994. In addition, two public funds form part of the pension system: The Minimum Pension Guarantee Fund (MPGF) and the Solidarity Pension Fund (SPF) that will be described in the following pages.

As of September 2020, there were 23.715.373 affiliates in the GPS with 6 815 601 members (29 percent) belonging to the social security scheme and 16.899.771 (71 percent) – individual account scheme. Only 38.9% of the members who belong to the individual account scheme and 43.7% of the members belonging to the social security scheme are active members[1].

Members cannot participate in both the public and private schemes at the same time. However, they may transfer between schemes every five years up to the last ten years before their legal retirement age in the pay-as-you-go system when they may no longer change schemes. Once the choice has been made, participation in the selected scheme is mandatory for the member.

The public scheme is managed by a public institution, Colpensiones, and the mandatory private pension scheme is managed by Pension Fund Administrators (AFPs).

These two systems cover most of the country's employees, including public-sector employees, household workers, and self-employed persons. New employees joining the state oil company (Ecopetrol) after 29 January 2003 are also required to join one of the parts of the pension system.

Voluntary coverage is also possible.

PUBLIC MANDATORY PENSION SYSTEM

Social security scheme:

Contributions:

Employers contribute with 12% of the employee's salary, which summed up to the employee's contribution equals to 16% of contribution for the employee's pension fund.

Covered persons are contributing 4% of salary plus 1% of their salary if it is greater than four times the minimum wage and between 0.2% and 1.0% of salary if it is greater than 16 times the minimum wage to finance the solidarity fund, which subsidizes low earners. The minimum salary for contribution calculation purposes is equal to the legal monthly minimum wage.

Self-employed persons contribute: 16% of their income, plus the contribution to finance the solidarity fund describe on the above-mentioned paragraph.

The maximum salary for contribution calculation purposes is 25 times the legal monthly minimum wage. The legal monthly minimum wage is 877,803 COP[2].

[1] Active members: Those members who have made at least one contribution for the last six months.
[2] As of November 30, 2020, the minimum wage was US$ 243

Solidarity Pension Fund: Employees with a monthly contributory base salary higher than four times the minimum monthly national salary must make additional contributions to the Solidarity Pension Fund (on a scale from 1 per cent on four times the minimum monthly national salary to 2 percent on 20 or more times the minimum monthly national salary).

Coverage

Membership to the GPS is mandatory for all public or private employees and also for the self-employed according to the law.

Membership to the GPS is voluntary for all residents in Colombia or Colombians who live abroad who do not fall in the mandatory category and for foreigners working in Colombia on a contract of employment and who are not covered by their own country's pension regime.

Qualifying conditions: Social security old-age pension

To qualify for the old-age pension, members must fulfil the following requirements:

1. Be fifty five (57) years old (women) or sixty (62) years old (men).
2. The member must have made contributions to the system for at least one thousand (1.300) weeks at any moment.

Old-age benefit payment:

Old-age pension- Cash benefits for insured workers (except permanent disability)

Social security old-age pension: The amount of pension is set between 55% and 65% of the basic average monthly salary of the last 10 years before retirement plus 1.5% for each 50-week of contribution of the minimum weeks required and up to 80% of the basic average monthly salary.

The maximum pension is equal to 25 times the legal monthly minimum wage.

The minimum social security pension is equal to the legal monthly minimum wage.

Benefit adjustment: Benefits are adjusted annually according to changes in the consumer price index.

Disability and survivors benefits are also provided by social security scheme, as well.

Administrative organisation:

The Financial Superintendence provides general supervision of both public and private individual account systems. Colpensiones administrates the pay as you go system.

PRIVATE PENSION PERSONAL (MANDATORY)

1. Types of schemes:

All covered persons must become members either of the public social security scheme or the private pension scheme based on individual accounts, without reference to their employers.

Two public funds (the Solidarity Pension Fund (SPF) and the Minimum Pension Guarantee Fund (MPGF)) provide a solidarity component for the private pension scheme.

The mandatory private pension scheme is a defined contribution type of scheme and assets are accumulated in individual accounts. The mandatory private pension scheme is managed by Pension Fund Administrators (AFPs).

Persons who opt for the private scheme may choose to become a member of any AFP by filling a membership application without reference to their employers. Members can also transfer the accumulated capital in their individual account to another AFP every six months.

AFPs must be established as public or private companies and may also be established by third sector organizations (cooperatives, trade unions and cooperative banks).

As of September 2020, there were 4 AFPs with assets under management of USD 83.13 billion.

Each AFP may administer several individual capitalization funds: mandatory pension funds, voluntary pension funds, alternative schemes, and a severance pay fund. Mandatory pension funds have a defined contribution scheme and the assets, which are accumulated in individual accounts, are the exclusive collective property of the affiliate members. Severance pay funds are mandatory for all workers with an employment contract and are financed by employers' contributions of 8.3 per cent of the insured's annual salary.

Since March, 2011 the multi-fund scheme began operations. This scheme was created with the law 1328 of 2009. The main goal of this scheme is to provide members, during the accumulation stage, with three types of funds according to their risk profile and manage the resources, in a separate fund, of those who are in the non-accumulation stage.

During accumulation stage, these types of funds (according to the risk profile) are:

1. Conservative fund: For members with low risk profile. Its priority is to preserve the capital of the individual account and its target are members who are close to receive their pension benefits and prefer to obtain less returns than to be worried about possible investment losses.

2. Moderate fund: For members with moderate risk profile. The members that take part of this fund should be willing to accept possible investment losses due to the risk exposure of this fund, looking for greater returns in the long term, in comparison with the conservative fund.

3. High risk fund: For members with high risk profile. This fund is for members who are far from receiving their pension benefits and are willing to accept higher volatilities that can result in important investment losses as a consequence of the risk exposure of this fund, looking for greater returns in the long term, in comparison with the moderate fund.

For the non-accumulation stage, the Programmed withdrawal special fund was created for those members of the individual scheme who chose to receive their pension benefits under the Programmed withdrawal option.

AFPs are responsible for the management of the contribution collection, asset management and benefit administration (programmed withdrawal option). However, they may contract out contribution collection to other organizations if they so wish. At the moment, banks and other financial institutions act as agents to collect contributions and pay out benefits on behalf of the AFPs.

Solidarity Pension Fund: The Solidarity Pension Fund (SPF) is administered in a separate account by the Ministry of Labour. The SPF has a solidarity account and a subsistence account. The fund is used to increase coverage to those members of the population, such as low-income workers, indigents or those in extreme poverty, who could not otherwise participate in the social security system.

Minimum Pension Guarantee Fund: The Minimum Pension Guarantee Fund (MPGF) guarantees minimum benefits. National government determines the organization and administration of the scheme, as well as which entity or entities will administer it. At the moment, it is administered by each AFP in a special account, due that the government has not defined which entity must do it.

Employees and the self-employed may also participate in voluntary complementary pension plans outside the GPS.

2. Contributions

Employers contribute with 12% of the employee's salary, which summed up to the employee's contribution equals to 16% of contribution for the employee's pension fund.

Covered persons are contributing 4% of salary plus 1% of their salary if it is greater than four times the minimum wage and between 0.2% and 1.0% of salary if it is greater than 16 times the minimum wage to finance the solidarity fund, which subsidizes low earners. The minimum salary for contribution calculation purposes is equal to the legal monthly minimum wage.

Self-employed persons contribute: 16% of their income, plus the contribution to finance the solidarity fund described on the above-mentioned paragraph.

The maximum salary for contribution calculation purposes is 25 times the legal monthly minimum wage. The legal monthly minimum wage is 877,803 COP.

Solidarity Pension Fund: Employees with a monthly contributory salary higher than four times the minimum monthly national salary must make additional contributions to the Solidarity Pension Fund (on a scale from 1 per cent on four times the minimum monthly national salary to 2 percent on 20 or more times the minimum monthly national salary).

Contributions are distributed as follows:

- 11.5% for the individual's account
- 1.5% for the Minimum Pension Guarantee Fund
- 3% between the disability and survivor insurance and the management fee

Employees may make voluntary contributions to individual accounts if they wish.

- Employers' contributions

As mentioned above

- State participation, if any

Solidarity Pension Fund: The fund, in addition to the employee contributions, receives contributions from the nation, as set out in the Budget.

The fund may complete contributions for employees whose contributory salary base or self-employed income is less than the minimum monthly national salary (877,803 COP) and for members aged 58 or more who have not accumulated enough capital to provide the minimum benefit.

3. Coverage

Membership to the GPS is mandatory for all public or private employees and also for the self-employed according to the law.

Membership to the GPS is voluntary for all residents in Colombia or Colombians who live abroad who do not fall in the mandatory category and for foreigners working in Colombia on a contract of employment and who are not covered by their own country's pension regime.

Men aged 55 or more and women aged 50 or more when the new system came into force (i.e. in 1994) are also excluded from the private individual saving scheme, unless they voluntarily decide to become members and contribute for at least 500 weeks. If they do, then the employer contributions also become mandatory.

As of September 2020, the private individual account system accounted 16.899.772 members and 202.501 pensioners.

4. Benefits

- Retirement benefits (form of payment)

Retirement benefits are based on the amount accumulated in the member's individual account.

Members can decide between seven benefit options:

- Life pension annuity, in which case they transfer the accumulated capital in their individual account to a life insurance company of their choice in order to purchase a monthly annuity of at least the minimum benefit. Once made, this choice is irrevocable;

- Programmed withdrawal, in which case the Pension Fund Administrator (AFP) holds the accumulated capital in the individual account and pays the retirement benefit. Whilst a member is receiving programmed withdrawal benefits, the remaining accumulated capital in the individual account must be enough to finance a life annuity at least equal to the minimum monthly national salary 877,803 COP).

- Programmed withdrawal with deferred life annuity, in which case part of the accumulated capital in their individual account is transferred to a life insurance company of their choice in order to purchase a life annuity payable from an agreed date. The remaining capital is used to provide a temporary income until the beginning of the annuity. The deferred annuity must not be lower than the minimum benefit.

- Defined Temporary income with deferred life annuity, in which case the beneficiary arranges the payment with a life insurance company of a specific income and a deferred life annuity, which will begin at the moment the defined temporary income period ends.

- Variable temporary income with deferred life annuity, in which case the member can elect to receive a higher benefit payment during the variable temporary income period and lower during the deferred life annuity, or vice versa, depending on the member's needs.

- Programmed withdrawal without negotiating the recognition bond, in which case the member begins to receive the benefit before redemption of the recognition bond issued, under the programmed withdrawal program without negotiating such bond.

- Variable temporary income with immediate life annuity, in which case an insurance company pays the member an immediate life annuity at the moment of retirement, holding in the individual account the necessary resources for the AFP to pay simultaneously a variable temporary income during the period agreed with the AFP.

- Qualifying conditions/withdrawal before retirement

Qualifying conditions: individual saving scheme: The member can retire at any time by the AFP if the balance in a member's account is enough to finance a monthly benefit of more than 110 percent of the minimum monthly national salary (877,803 COP).

Members aged 62 (men) and aged 57 (women) who have contributed for at least 1,150 weeks, but whose individual account balance is not sufficient to finance a monthly benefit of at least the minimum monthly national salary (877,803 COP), are entitled to obtain the minimum pension from the Minimum Pension Guarantee Fund.

Members aged 62 (men) and 57 (women) who have contributed for less than 1,150 weeks, and whose individual account balance is insufficient to finance a monthly benefit of at least the minimum monthly national salary (877,803 COP), are entitled to a refund of their individual account balance.

Members may withdraw voluntary contributions six months after making the withdrawal request.

- Portability/transferability

Members who transfer from the public defined benefit average premium scheme to the mandatory private pension scheme, and have made contributions to the public scheme for at least 150 weeks, are entitled to a recognition bond (Bono Pensional), valued on an actuarial basis and will be redeemed if the member qualifies for a disability or survivorship pension or if the member is male and turns 62 years old or if it's a woman and turns 60 years old.

Individual saving scheme: Members may transfer their accounts from one Pension Fund Administrator (AFP) to another once every six months. Each pension fund has 30 days to transfer the resources to the requested AFP by the member

Members who transfer from the private to the public scheme also transfer the individual account balance to the public scheme.

- Benefits adjustments

Individual saving scheme: Benefits from annuities and programmed withdrawal are adjusted annually every January according to the Consumer Price Index for the previous year. Pensions based on the minimum monthly national salary are adjusted according to increases in the minimum monthly national salary.

However, according to the law, in the Programmed Withdrawal program the benefits must be re calculated every year

- Minimum benefits

The minimum monthly retirement benefit cannot be less than the minimum monthly national salary (877,803 COP).

5. Fees

Individual saving scheme: Pension Fund Administrators (AFPs) may charge a maximum fee of 3 per cent of the contributory base salary. It is used to meet the costs of administering mandatory contributions and to pay the disability and survivorship insurance.

AFPs may charge additional fees for programmed withdrawal benefit management (maximum 1 per cent of monthly returns on the individual account balance, not exceeding 1.5 per cent of the benefit paid), for the management of a fund of the members that currently do not contribute (maximum 4.5 per cent of the monthly return on the individual account balance), for members' scheme transfers (maximum 1 per cent of the last contributory base salary and up to a maximum of 1 per cent of four times the minimum monthly national salary), and for receiving voluntary contributions (commission on voluntary contributions may range between 0.75 percent and 3.9 percent annually on the balance registered on the individual account).

For voluntary pensions, fees are fixed according to each fund's regulations.

6. Taxation

- Taxation of members' contributions

Tax-exempt

- Taxation of employers' contributions

Tax-exempt

- Taxation of investment income

Tax-exempt

- Taxation of benefits

Tax-exempt up to 50 times the minimum monthly national salary (877,803 COP). Benefits over this amount are taxed according to general income tax rules.

PRIVATE PENSION PERSONAL (VOLUNTARY)

Employer, employees, self-employed and persons who receive any kind of income may make voluntary contributions to an individual account if so they wish.

1. Coverage

Members voluntarily decide to join a voluntary pension fund.

2. Contributions

- Members' contributions

Employers/members voluntary contributions to individual accounts are defined by the terms of the contract signed with the AFPs.

3. Benefits

- benefits (form of payment): Unique form of payment divided into Temporary annuity (disability and old age) and life annuity.
- Qualifying conditions/withdrawal before retirement: Established in each plan, but in every one of them it is declared that one of the payment forms is the saved balance which can be

withdrawn at any moment. In some cases, pension funds charge a retirement fee if they do it before completing the plan’s time horizon

- Portability/transferability: Members can transfer between any AFP

4. Fees

Fees are charged according terms of the contract.

5. Taxation

- Taxation of members’ contributions: The voluntary contributions that are part of the mandatory ones are a non-charged income of up to 30% of the labour or taxable income of the year.
- Taxation of investment income: Investment incomes that are withdrawn during the first 5 years are taxable.
- Taxation of benefits: Benefits withdrawn during the first 5 years are taxable.

REFERENCE INFORMATION

KEY LEGISLATION

2020: Decree 1291. Related to investments in private equity funds.

2020: Decree 1207. Related to voluntary pension funds.

2020: Decree 1393. Modified the investment regime of the pension funds.

2018: Decree 1486. Created the limit for the investments made in securities issued by entities that belong to the same financial conglomerate which cannot be higher than 8% of the fund's value, including deposits.

2018: Decree 059. Changed the investment regime of the Programmed Retirement Fund, allowing the investment in REITs, Collective Investment Schemes that invest in real estate and Private Equity Funds, among others. It modified the calculation of the Minimum Return for this type of fund, changing the accumulative period and the procedure, as well. This Decree also allows that up to 30% of the fund's portfolio can be valued at amortized cost and the rest at reasonable value.

2016: Decree 765. Modified certain investment classes of the investment regime, including new kinds of allowed asset classes such as REITs, ETFs linked to commodity and currency prices and CIS that invest in real estate and hedge funds, also including the investment limits of such investments. The Decree also restricted investments in other asset classes.

2015: Decree 1385. Allowed investments in Private Equity Funds issued, accepted, guaranteed or owned by the PFM, its subsidiaries, HQs or affiliated companies if those investment vehicles allocate 2/3 of the fund's value in infrastructure projects as established under Decree 816 of 2014.

2014: Decree 816. Created an alternative to invest in private equity funds that invest 2/3 of the fund's value in infrastructure projects under private-public associations.

2013: Decree 1242. Regarding the investment in collective investment schemes.

2011: Decree 857 (Incorporated into Decree 2555 of 2010) Investment regime of the resources of the mandatory pension funds and also for the severance payment funds.

2010: Decree 2949 of 2010 (Incorporated into Decree 2555 of 2010) Calculation of the Minimum return for the different mandatory pension plans and short and long term portfolios of the severance payment funds.

2010: Decree 2241 of 2010 (Incorporated into Decree 2555 of 2010) Rules of consumer protection of the members of the pension system.

2010: Decree 2373 of 2010 (Incorporated into Decree 2555 of 2010) Introduced the multi fund scheme for the resources of the mandatory pension funds.

2009: Law 1328 of 2009: Introduced the regime of information and protection of the members. New fees regime. The periodic economic benefits and programmed savings managed through financial entities will be the vehicle for the construction of assistance for the old age that are not part of the benefits payment.

2005: Legislative Act 01: The nation must guarantee the pension system sustainability and eliminated regimes (only special pension regimes for public force, the president, teachers and high risk occupations were preserved until July, 2010)

1993: Law of Pensions No. 100 of 23 December, implemented in 1994, modified by the law 797 of 2005.The law created the General Pension System, which introduced the mandatory private pension scheme; regulates the establishment and operation of Pension Fund Administrators (AFPs), asset management and the protection of members and beneficiaries' rights.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

The Financial Superintendence of Colombia provides general supervision to the pension system, including both public and private parts, and its administrators. (http://www.superfinanciera.gov.co/).

SOURCES FOR DEMOGRAPHIC AND MACROECONOMIC DATA (page 1 of the report):

- https://www.indexmundi.com/colombia/demographics_profile.html#:~:text=65%20years%20and%20over%3A%208.39,2%2C390%2C725)%20(2020%20est.)

- https://data.worldbank.org/indicator/SP.DYN.LE00.FE.IN?locations=CO

- https://www.indexmundi.com/facts/colombia/labor-force#:~:text=The%20value%20for%20Labor%20force,value%20of%2014%2C182%2C280%20in%201990

- https://datatopics.worldbank.org/world-development-indicators/

- National Administrative Department of Statistics (Departamento Administrativo Nacional de Estadísticas (DANE)): www.dane.gov.co Law 100 of 1993.