

# IOPS COUNTRY PROFILE: COSTA RICA

## DEMOGRAPHICS AND MACROECONOMICS



GDP per capita (USD) <sup>1</sup>	11 744.1
Population (000 s)	4 890
Labour force (000s)	2 281
Employment rate	0.46
Population over 65 (%)	7.60
Dependency ratio <sup>1</sup>	16.29

Data from 2016

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

Source: SUPEN taken from various sources.

## COSTA RICA: COUNTRY PENSION DESIGN STRUCTURE OF THE PENSION SYSTEM

<sup>1</sup> Source: website of the Central Bank of Costa Rica (BCCR): Gross Domestic Product and Income per capita at current prices.

### Social assistance programme

- Non-contributory pension scheme, means tested for poor people aged 65 and above.

### Basic systems

- IVM - the main pension system, earning-related pensions provided as a part of the social security system.
- Alternative schemes for some public employees are financed from the National Budget (close to new entrants since 1992).
- Occupational alternative schemes for Teachers, Judiciary and Firefighters (latter is closed to new entrants since 1992). Earning-related pensions, these funds are backed by buffer funds.

### Complementary pension system

- ROP - mandatory supplementary DC pension scheme based on individual accounts run by Pension Operating Companies (OPC). Most important in terms of coverage.
- Special occupational schemes for some employees of SOEs and lottery ticket sellers. Some are DC while others are DB in design.

### Private pensions: personal (voluntary)

- Voluntary DC individual account system (separate from mandatory individual account) managed by OPCs.

Source: SUPEN

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

*The Costa Rican pension system is multi-pillar. Basic coverage is provided by the Regimen Invalidez, Vejez y Muerte (IVM) - a contributory, earnings related public pension. Supplementary coverage is provided through Régimen Obligatorio de Pensiones (ROP) - a mandatory savings program based on individual accounts - while voluntary DC Personal Pensions are available to those who wish to join them. A social assistance program - Pensiones del Régimen No Contributivo (RNC) - provides a means tested minimum income guarantee.*

*The Costa Rican pension system offers different levels of protection and different protection architecture to different population groups. Hence, there are two diversions from the relatively simple general structure described above. Firstly, some groups in the public sector are outside the IVM. Instead they are covered by Alternative Regime Schemes. Secondly, some groups in the public sector enjoy additional supplementary coverage through Special Occupational Schemes - such coverage comes on top of the coverage provided by the IVM and the ROP.*

## Social Assistance programme

A social assistance programme - Pensiones del Régimen No Contributivo (RNC) - provides a means tested minimum income guarantee for poor people aged 65 and above matching approximately 60% of the Costa Rican minimum wage. This programme is run by the Social Security Agency (CCSS) and is funded with resources from “Fondo de Desarrollo Social y Asignaciones Familiares” (FODESAF in Spanish) and some specific taxes.

## Basic systems

### *General system*

The main basic pension system – the IVM - is a contributory, pay as you go (PAYG) financed, earnings related, DB scheme. The IVM is supported by a buffer fund. Contributions to the IVM are paid by/for almost all employed workers. Workers who are covered by an Alternative Regime Scheme are outside the IVM and do not pay IVM contributions.

### *Alternative schemes*

A number of other public sector groups used to be covered by Alternative Regime Schemes. These have been merged into the Pension Scheme financed from the National budget. (Close to new entrants since 1992).

### *Occupational alternative schemes*

Alternative Regime Schemes are contributory, earnings related, PAYG financed, DB schemes. Two such schemes are in operation - Poder Judicial and Magisterio Nacional. Alternative Regime Schemes collect higher contributions and provide higher replacement rates. The third Alternative Regime Scheme for firefighters – Bomberos - is now closed to new entrants since 1992. Those Schemes are backed by buffer funds.

## Complementary pension systems

### *Supplementary mandatory pension scheme*

The most important private pension arrangement is the mandatory individual accounts schemes (ROP). It was set up in 2000, and participation is mandatory for all Costa Rican workers. ROP schemes are run by Pension Operating Companies (OPC).

The aggregate mandatory contribution rate to the ROP is 4.25% of wages. The employee pays 1%, while the employer pays 3.25%. Some of the contributions paid by employers came from reallocation of social contributions.

ROP pension savings can be paid out when the individual is eligible for pension benefits under the IVM scheme or an Alternative Regime scheme. The supervisory authority, the Superintendence of Pensions (SUPEN), has approved a wide range of benefit pay-out options - programmed withdrawal, permanent income<sup>2</sup>, annuity products with varying degrees of guarantee and lump sums. The latter is intended to be an exception and only applies if the

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<sup>2</sup> An arrangement where the investment returns are paid out to the individual, while the nominal capital stock is paid to dependants at the death of the individual.

accumulated savings for potential programmed withdrawal are less than 10% of the individuals' basic, i.e. state pension.

### *Special occupational schemes*

Special Occupational Schemes cover workers in particular public institutions – i.e. a number of state owned banks, the national oil company (closed), the Social Security Agency (CCSS), the national power company and the national tourism agency. Also, a small scheme for lottery ticket sellers exists. Some special occupational schemes are DC in design while others are DB schemes sponsored by employer and employee contributions. Contribution rates, accrual principles, pension age and pay-out regulations are defined in separate legislation and in the statutes of the schemes.

### **Voluntary pension system**

Personal pensions provide an opportunity for individuals to save on a voluntary basis. Personal pensions are provided by an OPC. Personal pension contracts can be set up individually, collectively or as a corporate arrangement - i.e. contributions paid by an employer into a personal pension can be part of a work contract or it can happen pursuant to a bilateral agreement between an individual worker and the employer. Benefits from Personal pension plans can be paid from the age of 57.

### **PERSONAL MANDATORY (ROP)**

#### *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 and other alternative schemes coexist with the private pension system, the members are registered in both systems. By the end of 2016, the number of members in the mandatory private pension system increased to 1.7 million.

#### *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 (DC) in nature. In the Social Security first pillar regime the retirement age is 65 years and 300 months of contributions, but you can retire early at 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 are taxed. Investment income is 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 Operating Companies, or OPCs (established as public limited companies with the single business). OPCs may establish and manage several pension funds.

As of December 2016, there were 6 OPCs in the market with accumulated assets equivalent to 8 132 million USD or 15% 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 regulations also apply certain criteria, such as the sector to which the securities belong, the issuing entity, a state guarantee, the degree of concentration in a single issuing entity and type of instrument. Finally, the Superintendence of Pensions 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), USD dollars, Euros, Pound Sterling and Yens. Foreign investment is limited to 50%. At the end of 2016, 58.73% of total assets were invested in government bonds, 11% in securities issued by domestic financial institutions, 3.43% domestic not financial institutions, 18.70% in securities issued by private sector, and 8.14% in foreign securities.

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

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## REFERENCE INFORMATION

### KEY LEGISLATION

- 2000: Law N°7983 establishes the structure of the reformed pension system and the establishment, operation and supervision of the OPCs and pension funds. OPCs are regulated and supervised by the Superintendence of Pensions (SUPEN).
- 1995: Law N°7523 reformed the public PAYG system and created SUPEN.

### KEY REGULATORY AND SUPERVISORY AUTHORITIES

- Superintendence of Pensions: regulates and supervises pension plan operators and service providers, [www.supen.fi.cr](http://www.supen.fi.cr). SUPEN is an autonomous legal entity under the Central Bank of Costa Rica – itself an independent institution.
- National Financial Oversight Council (CONASSIF), SUPEN operates under the direction of the CONASSIF. CONASSIF is a board covering all four financial supervision areas in Costa Rica (banking, pensions, insurance and securities).