IOPS Member country or territory pension system profile:

PANAMA

Report[1] issued on December 2011, validated by the Sistema de Ahorro y Capitalizacion de Pensiones de los Servidores Publicos (SIACAP)

[1] *This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.*

PANAMA

Demographics and Macroeconomics

Total Population (000s)	*3.5*
Percentage 65 or older	*6.7*
Dependency Ratio (a)	*55.4*
Life Expectancy at Birth (years) for Men	*73.8*
Life Expectancy at Birth (years) for Women	*79.1*
Labour Force (000s)[1]	
Statutory Pensionable Age - Men	*62*
Statutory Pensionable Age - Women	*57*
Early pensionable age - Men	*60*
Early pensionable age - Women	*55*
GDP per capita (USD)	*11391*

Sources see the Reference information section.

Country Pension Design

Structure of The Pension System

Public pensions (mandatory)

- Social security pension fund (Caja de Seguro Social), comprising DB and DC components
- covering public and private sector workers, including self-employed

Private pensions: occupational (mandatory)

- Mandatory Complementary Pension Fund (Sistema de Ahorro y Capitalizacion de Pensiones de los Servidores Publicos (SIACAP)) for civil servants operating on DC basis with individual accounts

Private pensions: occupational/personal (voluntary)

- DC private pension funds

Source: OECD/IOPS Global Pension Statistic

PANAMA: PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The Panamanian pension system was constituted in 1941 by Law 23 with the creation of the Social Security Fund (Caja de Seguro Social - CSS). As a result of more recent reforms, the Law 51 of 2005 introduced in the Panama social insurance system two components - the basic (social insurance) defined benefit component and the supplementary defined contribution component based on individual accounts. A new social security law, Law 51, came into effect on 27 December 2005.

In line with the new law, as of 1 of January 2006 the insured workers that had less or equal to 35 years of age could request to join the defined contribution component of the public pension system until the end of 2007.

The mixed system is mandatory for all new entrants to the labour force since 1 January 2007 and self-employed who were younger than age 35 on January 1, 2006 and who earn more than 500 balboas per month.

Members may join social security system at any age and normal retirement age for men is set at 62 years old and for women at 57 years old.

1. Coverage

Participation in the public pension system is mandatory for all workers in the private and public sectors, including civil servants.

2. Contributions

Contributions to the basic and supplementary component of social insurance programme depend on the employees gross monthly earnings.

The employee has to pay a minimum contribution of the approved monthly equivalent of the national daily minimum wage.

Employee with gross monthly earnings of 500 balboas or less currently contributes to the basic social security component 8.5 per cent of gross monthly salary and will contribute 9.25 percent as of January 2013; whereas, in this case, the employer contributes 4 percent in 2011 and will contribute 4.25 percent in 2013 to the social insurance component.

With gross monthly earnings above 500 balboas, 8.5 percent (and 9.25 percent as of 2013) of 500 balboas is paid to social insurance and 7.41 percent (8.16 percent as of 2013) of the earning above 500 balboas is paid by employee to the individual account; plus 1 % of the earnings above 500 balboas are paid for collective old-age and disability insurance and 0.0875 percent for solidarity contribution. In this case, employer pays additional 4 percent in 2011 and 4.25 percent as of 2013 to the employee's individual account.

Voluntary contributors (not subject to mandatory coverage) with gross earnings of 500 balboas or less pay 12.5 percent of salary to social insurance and will contribute 13.5 per cent as of January 2013. Voluntary contributors with the earnings above 500 balboas, in addition 11.41 percent (and 12.4 per cent as of January 2013) of salary will be paid to the individual accounts.

The minimum earnings for contribution calculation purposes are equal to the legal monthly minimum wage, 100 balboas for household workers and 300 balboas for the voluntarily insured. No maximum earnings for contribution calculation purposes exist.

Self-employed persons with gross declared monthly earnings of 500 balboas or less contribute 12.5 in 2011 and will pay 13.5 percent to the social insurance only. With gross monthly earnings above 500 balboas, in addition to the basic social insurance contributions, 11.41 percent is paid to the individual account (12.41 per cent in 2013).

Government pays an annual subsidy to the social security fund of 20.5 million balboas and make a deposit of 75 million balboas a year to a reserve fund for old age, disability and survivors social insurance benefits.

3. Benefits

Pension benefits are paid to individuals when retiring at statutory retirement age set at 62 ages for men or age 57 for women with at least 216 months of contributions (240 months as of 2013). Early pension, partial pension, deferred pension are allowed.

Old-age settlement is paid at normal retirement age if the insured does not meet the contribution conditions for an old-age pension.

Disability and survivors benefits are also paid.

Social insurance old-age pension represents 60 percent of the insured's average earnings in the best 10 years of earning plus 1.25 percent of earnings for each 12 month period of contributions exceeding 216 months period (240 months as of 2013).

Minimum and maximum monthly pensions represent respectively 185 balboas and 1500 balboas.

Benefits are adjusted on ad-hoc basis depending to the economic conditions.

Old-age individual account pension is calculated based on the insured's contributions plus accrued interest divided by an accrual value linked to life expectancy and paid as programmed withdrawals. If an individual outlives its accumulated capital, collective insurance will complete the payment of old-age pension.

The maximum old-age pension for individual accounts is 500 balboas.

4. Fees

The government subsidizes the administrative fees that represent the 0.8% of the salary of all workers from public and private sectors.

5. Taxation

Social security contributions made by employers and employees are not tax deductible.

PRIVATE PENSION OCCUPATIONAL (MANDATORY)

MANDATORY COMPLEMENTARY PENSION FUND (SIACAP)

Overview:

The Law 16th of March 31rst, 1975 set up a mandatory complementary pension fund for civil servants, known as *Fondo Complementario de Prestaciones Sociales* with the aim to provide state employees with a pension representing 100% of their base salary. Public servants were to contribute 2 percent of their salary to the mandatory complementary pension fund. Due to financial unsustainability of the fund (49 millions of deficit accumulated in 1996), the government saw the need to abandon special retirement objective for public servants representing 100% of the base salary and pursue the reform programme. The Law 8th of 6th February 1997 introduced at a beginning a voluntary pensions savings scheme for state employees, the *Sistema de Ahorro y Capitalización de Pensiones de los Servidores Públicos* (SIACAP) to operate in addition to the mandatory occupational pension fund (Caja de Seguro Social – CSS). Since 1 January 2002, the system became mandatory for all new civil servants. The scheme is defined contribution in design, with individual savings accounts and is managed by one registrar entity, which is responsible for opening/closing of individual accounts, collecting contributions, delivering of statements and payments of benefits to the members and three Pension Fund Administrators, of which two are private entities and one public (Social Security Fund Administrator). The governmental entity SIACAP supervises the mandatory complementary private pensions system for civil servants.

The Law 60, October 11th 2010 introduced further changes to the system. One of the principal changes consisted to make more flexible the investment rules for SIACAP to enable pension fund administrators to handle more effectively the large volume of funds under management.

Currently SIACAP funds may be invested as follows: Panamanian state bonds - maximum 50%; Panamanian internal and external state debt - maximum 50%; Bank deposits, mortgages - maximum 30%; Investment grade shares in Panamanian companies - maximum 30%; Foreign credits, deposits with entities superior to "BB"+ or "Ba1" - maximum 10%.

At September 2011 the three Pension Fund Administrators of SIACAP had a total of USD 632.4 million under management.

1. Coverage

Participation in the SIACAP programme is mandatory for civil servants.

2. Contributions

The civil servants are mandated to contribute a 2% of their base salary, however in future they may contribute a larger percentage. An additional 0.3% contribution is paid by the government. Contributions are directed to the individual account of each civil servant.

3. Benefits

The benefits are paid in a lump sum at normal retirement age for men 62 years old and for women 57 years old. Early pension is allowed at age 60 for men and 55 for women as recognized by the Social Security Fund (in accordance with the Law 51, 2005). Pension benefits could be paid to civil servants when reaching 55 years old (for men) and 50 years old (for women) with 28 years of service and having accumulated the amount that corresponds to that age under the provisions of the Social Security Fund (the accumulated amount should not be less than the pension paid for the same number of years of contributions from the Social Security Fund).

The Law 29 of 2001 which partially modified the Law 8 of 1997, established that since January 2002 the civil servants who leave the government service prior to reaching the retirement age could receive the benefits from their individual account in a lump sum.

There is no indexation of pensions.

Portability or transferability of pension benefits is not allowed.

4. Fees

The Law 8 of 1997 requires that every 5years a public tender should be organised to select two private entities that would become Fund Administrators of the SIACAP´s Pension Fund and one register entity to manage all individual accounts.

In the public tender regulated by Panamanian Law for Public Contracts, fees are determined for asset managers, custodian services, etc. and should be clearly indicated in the 5 year Agreement signed by the legal representative of the system operators. Actually, the Fund Administrators charges 0.2700% of the total pension fund assets and the Register Financial Entity charges 0.1396% on the opening services, registration and payment of active individual accounts. The total charge is of 0.4382% or 0.043 basis points spread which includes all charges (asset manager and custodian services, etc.).

5. Taxation

Any contributions to the system are tax deductible up to a limit not exceeding 10% of annual taxable gross income to the taxpayer.

The investment income or pension benefits are tax exempt. However, the Law 29 of 2009 established a tax of 7 % for any commission that overcomes bank services which means that the system operators have to withhold the taxes from the civil servants.

PRIVATE VOLUNTARY PENSION (OCCUPATIONAL/VOLUNTARY)

Overview:

The legal framework for the operation of private voluntary pension plans was set with adoption of the Decree Law 1, on 8 July 1999. There are still a small number of voluntary private funds, all of which are operating on a defined contribution basis. Voluntary personal pension schemes can be established to allow individuals to make additional contributions to enhance their savings for retirement.

Voluntary retirement plans can be set up by employers or individuals and are operated by private institutions as banks, trust companies, insurance companies and investment trust companies. Insurance companies participate in voluntary private pension market only as providers of savings policies, such as universal life policies.

The Superintendency of Securities Markets (previously Comisión Nacional de Valores (CONAVAL)) supervises the private voluntary pension plans.

1. Coverage

Private and state workers can participate in voluntary personal pension arrangements. No funds may be withdrawn before the fund has been in place for a minimum of five years and after 10 years all funds may be withdrawn regardless of the member's age.

2. Contributions

Contribution rate is usually defined under the rules of the private plans.

3. Benefits

Private pension funds are established on a defined contribution basis.

Vesting: No funds may not be withdrawn unless the retirement fund plan has been in force for at least five years since opening an individual account. After 10 years in a retirement fund plan, all funds may be withdrawn regardless of the member's age.

Portability: Members may transfer the resources of their funds to another fund manager four times a year.

The benefits can be taken in one of three ways:

- the withdrawal of the accumulated fund in a lump sum
- the purchase of an annuity
- a programmed withdrawal of capital

4. Fees

The minimum average that charges the Private Pension Fund Administrators is of 2.5% or 0.0250 basic points spread.

5. Taxation

Contributions of up to 10% of gross income are deductible by the individual employee for tax purposes if the plan is established under Pensions Law 10 of 1993.

REFERENCE INFORMATION

- Key Legislation

2005: Law 51 of December 27: The Social Security Law, modified the organic law of the Social Security in Panama (Law 23 of 1941), www.css.org.pa;

1999: Decree Law 1, July 8, modified by Law 67, September 1, 2011: Private Pension Law, regulates the establishment and supervision of voluntary private pension plans in Panama, www.conaval.gob.pa;

1997: Law 8 of February 6 and its modifications: SIACAP Law, provides legal framework of the operation of the Mandatory Complementary Pension Fund (SIACAP) in Panama, www.siacap.gob.pa;

1993: Pensions Law 10 .

- Key supervisory authorities

Systema de Ahorro y Capitalizacion de Pensiones de los Servidores Publicos (SIACA)

http://www.siacap.gob.pa/

Superintendency of Securities Market (former Comisión Nacional de Valores (CONAVAL))

http://www.conaval.gob.pa/

Social Security Fund (Caja de Seguro Social (CSS))

http://www.css.org.pa/

Sources for Demographic and Macroeconomic data, page 2 of the report:

1. National Institute of statistic and census of Panama;

United Nations Population Division, Department of Economic and Social Affairs. World Population Prospects: The 2006 Revision Population Database, available at http://esa.un.org/unpp

Human Development Report 2007, prepared for the United Nations Development Programme (Gordonsville VA: Palgrave Macmillan, 2007)

U.S. Central Intelligence Agency. The World Factbook, 2007 (Washington D.C.: Central Intelligence Agency, 2007)

Notes: Footnotes c and d apply to certain scheme description

GDP = gross domestic product

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

b) General early pensionable age only; excludes early pensionable ages for special group of employees

c) Country has no pensionable age; has one only for specific groups, or information is not available

d) Urban workers

<u>Data to be provided for the past five years</u>

1. Private Pension plans

2. Pension funds data overview: N/A

- *Total assets* (bn national currency)
- Total assets as % of GDP

By financing vehicle as a % of Total assets N/A

- Pension funds
- Book reserves
- Pension insurance contracts
- Other financial vehicles

Occupational assets N/A

- % of DB assets

- %of DC assets

Personal assets N/A

Structure of assets: N/A

- Cash and deposits
- Bills and bonds issued by public and private sectors
- Shares
- Loans
- Buildings
- Private Investment funds
- Other investments

Total contributions as % of GDP N/A

Total benefits as % of GDP N/A

Of them paid as lump sums N/A

as pensions

Total number of pension funds N/A

N/A: information not available