



SEMINARIO FIAP

- FIAP Seminar 2005-

2005

PensionNews

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Welcome to our IX Meeting Year 2004: Positive Balance!



Dear Partners, we welcome you to the IX Meeting of the FIAP. When we are close to complete our first decade, gathering partners and collaborators of 21 countries of Latin America, the Caribbean, Europe and Asia, it is an honor for FIAP to be able to meet and make out a balance of the activities carried out during the year 2004, during which our objectives of promoting and broadcasting knowledge, practice and training of the Private Systems of Retirement Funds, representing our partners' questions,

cooperating with public and international entities and promoting the elaboration of laws aimed at promoting private initiative in the retirement industry, were fulfilled.

The reform of the traditional retirement systems and their substitution by individual capitalization and private administration of the savings is strengthening throughout the world. We are facing a change of paradigm of what has been the security concept in the world.

We are key actors of said

changes. We faced huge challenges and, at the same time, we are conscious of our enormous responsibility.

Nevertheless, it became necessary to clearly establish everyone's competency and responsibility in the social security that we are configuring, which is concerned with the Three Pillars of the Retirement System.

We know that our part in the improvement of the retirement funds did not escape from critics. For this reason we decided to take advantage of our meeting for celebration our FIAP 2005 Seminar, on May 19 and 20, during which we hope to be able to answer said critics and contribute to the highly necessary definition of the part of each Pillar and the interaction between them, in order to obtain the best retirement system and quality of life for people who have reached the age of retirement. **FN**

FIAP

CALENDAR OF THE MEETING

- Welcome speech and report of the President on the activities in 2004.
- Financial report of the year 2004.
- Presentation of strategic objectives and activity scheme for 2005.
- Budget 2005.
- Course of the retirement systems.
- Open discussion.
- Conclusions and agreements.
- Welcome offered by Colfondos y Protección (Plaza Hotel Charleston Cartagena Claustro de Santa Teresa).

Interview of the day

"THIS DAY WILL ENABLE US TO DEAL WITH THE THEME OF RETIREMENT WITH MORE TECHNICAL RIGOR."



Rodrigo Galarza Naranjo is Vice President of the Colombian Association of Administrators of Retirement and Ceasing Funds – Colombia.

¿What is the importance of this FIAP meeting for Asofondos?

For Asofondos, it is a privilege that the FIAP has selected Cartagena de Indias to be the site of its General Meeting of Partners together with the International Seminar, an important fact expressing confidence in Colombia and its people.

It is moreover a lucky coincidence that said events are celebrated just while a constitutional reform concerned with the topic of retirement is being discussed in the Congress of the Republic of Colombia and that the theme of the Seminar call to think about how to improve the systems of social protection in Latin America.

What objectives does the organizing committee intend

to fulfill through this Seminar?

First of all, that the Seminar awake a strong interest among FIAP members, and at the same time to obtain an increased participation of other persons concerned with the administration of retirement funds. In the present case, the convening has been totally successful, as we count with more than two hundred attendees, which is a record as far as I know.

On the other hand, the most important common objective is that the academic day enable us to deal with the retirement theme with more technical rigor and less prejudices, so that we can actually work together with the common objective of designing systems which will be financially sustainable on the long term for the profit, not only of the workers who are saving money in the Retirement Funds, but also of the national economies as a whole.

How many members are managing the Retirement Funds Administration Entities in Colombia?

The number of persons affiliated to the Retirement Funds of the

Individual Savings System, run by the AFP, is almost of 6 millions, somewhat more than 51% of the total of the system.

Please shortly explain what is the predominant foresight system in Colombia and what has been the evolution of the Colombian retirement industry.

The Law #100 of 1993 defined the retirement system as dual and competitive, consisting of two systems: one with defined benefits and run by a public entity, the Instituto de Seguros Sociales, the other one based on savings and capitalization run by the AFPs. During the eleven years of operation of said law, it became obvious that the new generations massively preferred the latest, due to its characteristics, the clearness and stability in the rules of the game. In this context, while the system run by the ISS from 2004 onwards has been requiring resources from the National Budget to be able to fulfill its obligations toward retired people under the responsibility of said system, the Retirement Funds administered by the AFP have been accumulating reserves for

an amount of 28.4 billions of Colombian pesos, equivalent to US\$ 12,142 millions.

How does the future of the foresight system appear in Colombia?

As already mentioned, a reform of the Constitution is just being defined by the Congress of the Republic with the purpose of cutting down, in time as well as quantity, the financial weight of numberless privileged and exceptional systems, which still exist in parallel with the General Retirement System defined by Law #100 of 1993. If the reform is approved, and thanks to other legal modifications promoted by President Uribe's Government, the national liabilities would drop from about 200% of the GDP down to less than 140% of the same. In such conditions, the task of fiscal adjustment to the structural weaknesses of the system is practically completed. What comes in the future is the necessity of going ahead with the so called second generation reforms, which aim at improving the operation of the Retirement Funds and extending the coverage.

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Micro-titles (April/May)

What does happen in the industry?

MEXICO

Changes in the Law favor the affiliated. The CONSAR explained that the purpose of the changes to the Law of Savings Systems for Retirement is to make easier for the workers to find a cheaper Afore as regards commissions.

CHILE

In spite of the volatility of the markets, some Funds managed to obtain a positive profitability.

March, 2005. During the 30 months of Multifondos, the A and B funds registered 8 times negative variations, but the excellent results of the other 22 months amply compensated said negative yields.

THE UNITED STATES

Bush gives warning about the retirement crisis. The President pointed out that the retirement system might happen to collapse around year 2041 if it is not reformed.

ARGENTINA

Measures to promote investments are being analyzed. A series of measures to promote investment in the entities which administrate Retirement and Pension Funds (AFJP) are under analyze.

RUSSIA

Confirms its interest in the Chilean system of retirement funds. This experience might help to reach the goal fixed by the President of Russia, Vladimir Putin, of having duplicated the amount of retirements in the country in 2008.

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PENSIONS FOR ALL

The great challenge of the foresight models throughout the world, and in Latin America in particular, is that retirements reach a greater part of the people and be sufficient to allow a worthy life after retirement. For this purpose, the so called three pillars of foresight must be combined (a fourth pillar, dependency, understood as the necessity of providing service to invalid persons, specially old people, is even already mentioned in some countries). In various countries of Latin America, and also of Eastern Europe, the first pillar is based on a model of capitalization and individual accounts. Our purpose is not to discuss once more the advantages and drawbacks of said system, which is globally producing reasonably satisfactory results, but to evaluate that the first pillar is insufficient by itself. The average coverage of the first

pillar in Latin America is hardly of 30%. The fraud level is very high, which prevents many persons to be able to generate their future pension, and it still remains quite a lot to improve regarding the efficiency of the system and of its investments. The objective of the retirement funds is nothing else but to obtain adequate pensions for the persons, and this fundamental principle, the defense of the rights of the affiliated members and beneficiaries, has not always been the main preoccupation and have been outranked by other interests in the constitution and investment of the retirement funds.

Novaster, a Spanish consulting firm specialized in pensions, has been operating for many years with the foresight models in Latin America, and according to our experience, we believe that various aspects must be strengthened. In the first

pillar, a system of minimum pensions run by the state must be established as a means of assistance allowing the persons who could not subscribe, or not enough to generate a minimum pension, to receive an income. It is fundamental to fight poverty.

Also in the first pillar, the coverage must be widened, struggling hard against fraud. Subscription is obligatory and nonfulfillment must be persecuted. Investments of retirement funds must be in favor of subscribers and beneficiaries. This requires a regulation en favor of global diversification of the investments to prevent monopolies and promote competition, and highly efficient administrators of retirement funds to cut down costs (one fourth of the funds accumulated are used for the expenses of the system, not for subscribers' pensions).

Favorable conditions must be created to develop the second and third pillars. Obviously, nothing is easy when the level of per capita income is very low, but we must proceed to prepare the necessary conditions. In the second pillar, through introduction in the enterprises of the principle that part of the salary may be withheld for pensions (with the security required). In the third pillar, allowing the persons who want to and can afford it, to save money for when they will not be able to generate income any longer. Serious, firm and stable regulation frames are indispensable so that the pensions effectively be a fact in favor of the whole population and not something for few people.

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