



VITALIS®
experto en pensiones

Covid-driven responses on pensions throughout the world

July 27th, 2020



About the speaker



Abraham Hernández

- Past chairman of the Pension, Benefits and Social Security Section (PBBS) of the International Actuarial Association (IAA), member of the Strategic Planning Committee and Nominations Committee of the IAA.
- President and co-founder of VITALIS®, a Mexican company that provides consulting and services for private pension plans.
- He serves on the board and investments committee of public and private companies and large pension funds.
- Abraham actively participates in social causes related to diminishing poverty for the elderly, fighting labor informality, and promoting socially responsible investments.



VITALIS®

- Global company that provides actuarial consulting and asset management for private pension plans



Miles for Retirement

- Mexican company that allows people to save for retirement through consumption



About the speaker



Filipe Bello

- Currently working for VITALIS®, a global company that provides actuarial consulting and asset management for private pension plans.
- Master Student in Actuarial Science for ISEG, Lisbon School of Economics & Management, Universidade de Lisboa.
- Has more than 7-year experience in the Brazilian insurance market, mainly working as Life Pricing Actuary for Prudential Life Insurance.
- Full member of the Brazilian and Portuguese Actuary Association and member of Pension, Benefits and Social Security Section (PBBS) of the International Actuarial Association (IAA).



Student Research Case Study Challenge organized by SOA

- European Winner of the 2019 Student Research Case Study Challenge



Actuarial Science Club at ISEG, ULisboa

- Member of Managing Committee

Overview



Market



History



WORLD CASES

Overview



Market



History



WORLD CASES



The corona crisis: a global issue

Coronavirus Is Making the Public Pension Crisis Even Worse

The New York Times

The pandemic has handed the funds big losses after they ramped up their appetite for risk over the past decade.



What the coronavirus means for your pension

The Guardian

Someone with £250,000 in scheme at start of year will have seen it shrink to about £225,000

Coronavirus - latest updates



Savers are nursing losses approaching 10% in their pension schemes since the start of the coronavirus market

coronavirus

N.J. pension fund loses billions in coronavirus market chaos

Updated Mar 25, 2020; Posted Mar 25, 2020



Advertisement

Pension Funds Will Take a Big Coronavirus Hit

Bloomberg Aaron Brown
Bloomberg April 1, 2020

yahoo! finance



PENSION CRISIS

The COVID-19 Economic Collapse Is Absolutely Wrecking State Pension Systems

With some investment returns likely falling as far as 15 percent, states are facing a cumulative pension debt of between \$1.5 trillion and \$2.5 trillion over the next year.

Berkshire Hathaway Lost \$49.7 Billion in First Quarter Stung by Coronavirus

The huge loss reflects the hit that the crisis has inflicted on Warren E. Buffett's vast conglomerate.

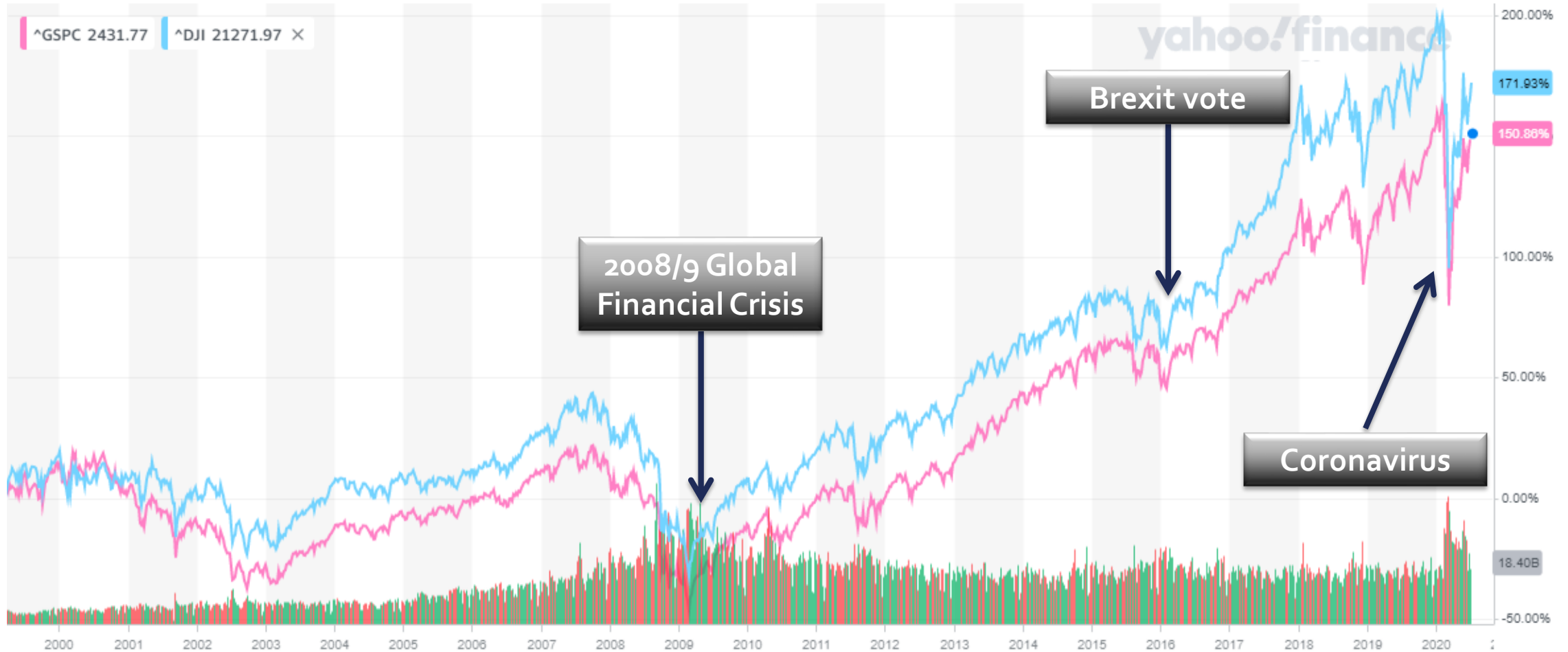


Warren E. Buffett conducting Berkshire Hathaway's annual shareholders meeting, which was livestreamed on Saturday from a nearly empty arena in Omaha. Yahoo



Market Performance

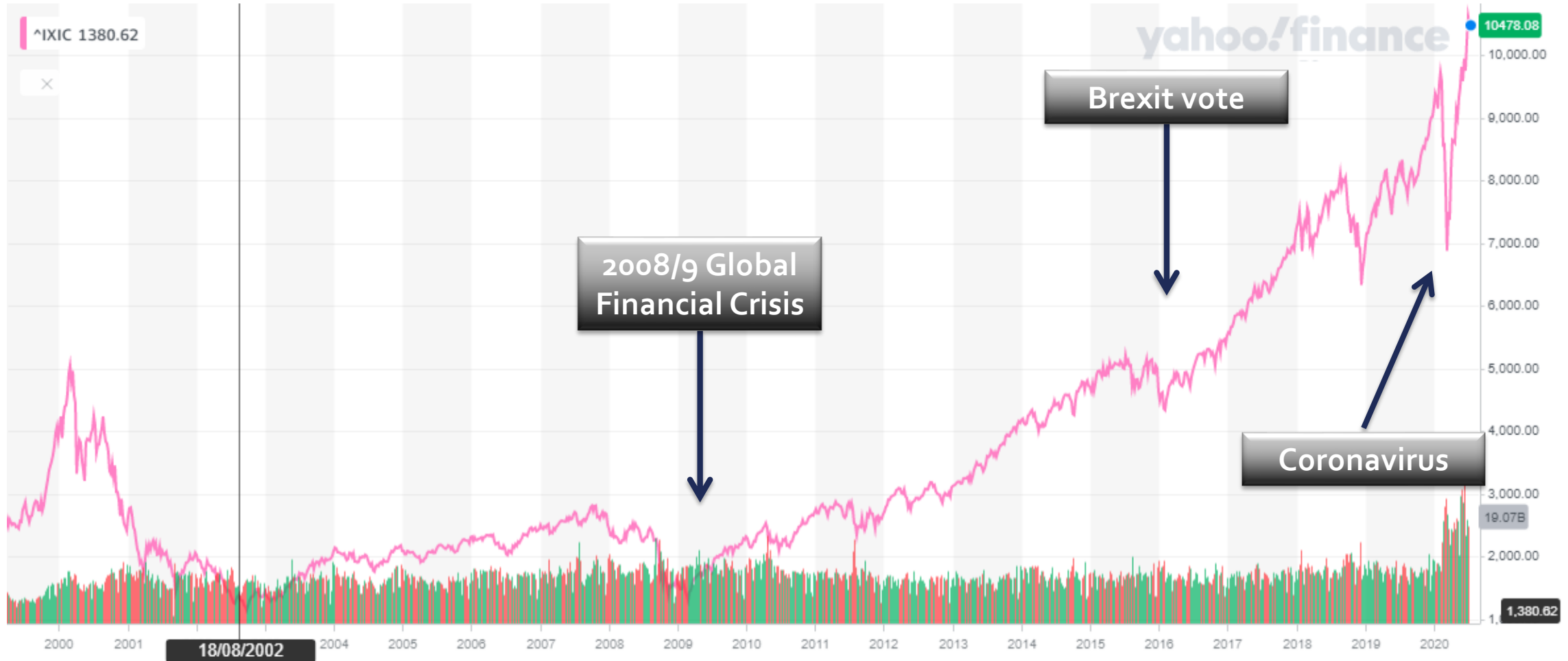
S&P 500 vs Dow Jones Industrial Average





Market Performance

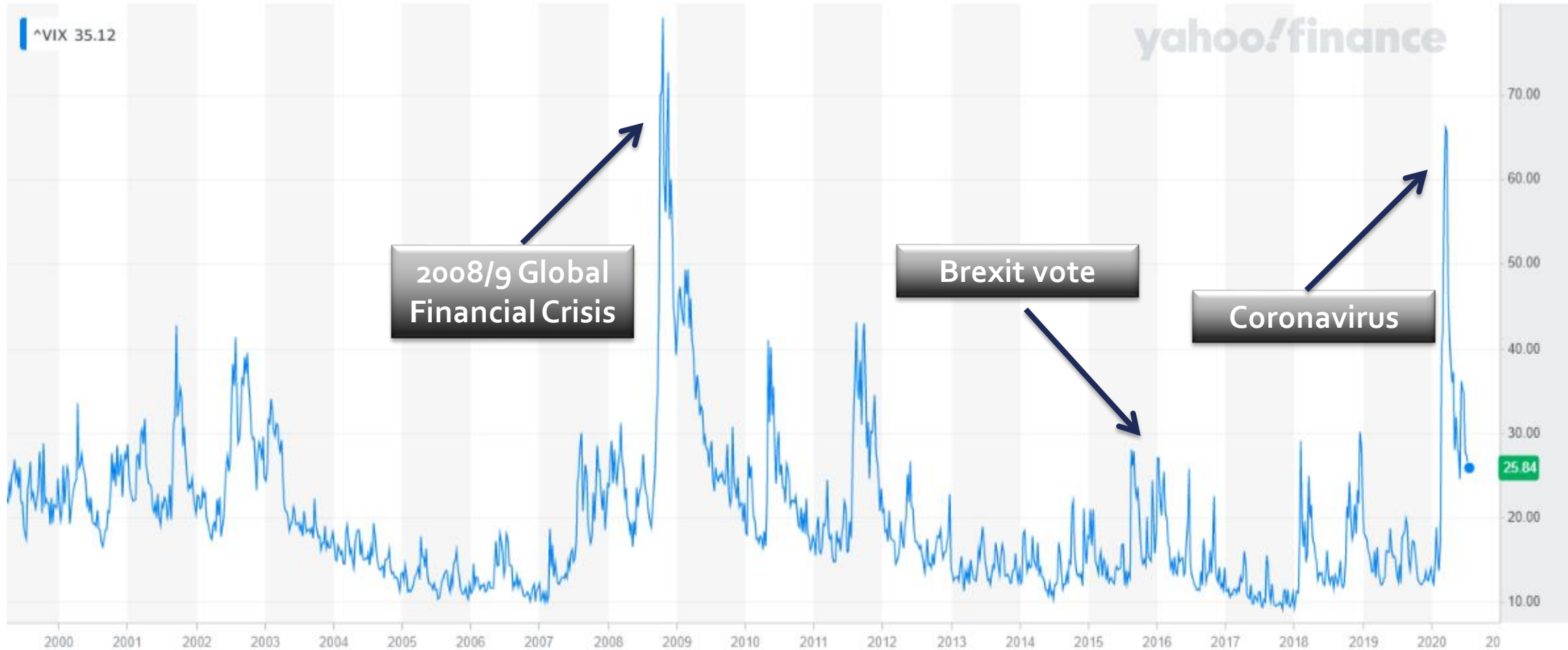
NASDAQ Composite





Market Performance

CBOE Volatility Index





Interest Rate - World

Country		Jan/2020	Current
USA		1.52%	0.11%
Euro Zone		-0.62%	-0.59%
Brazil		4.3%	2%
Mexico		7.2%	4.7%
Portugal		-0.5%	-0.4%
Japan		-0.09%	-0.09%
Canada		1.7%	0.2%
Spain		-0.5%	-0.5%

Overview



Market



History



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Overview



Market



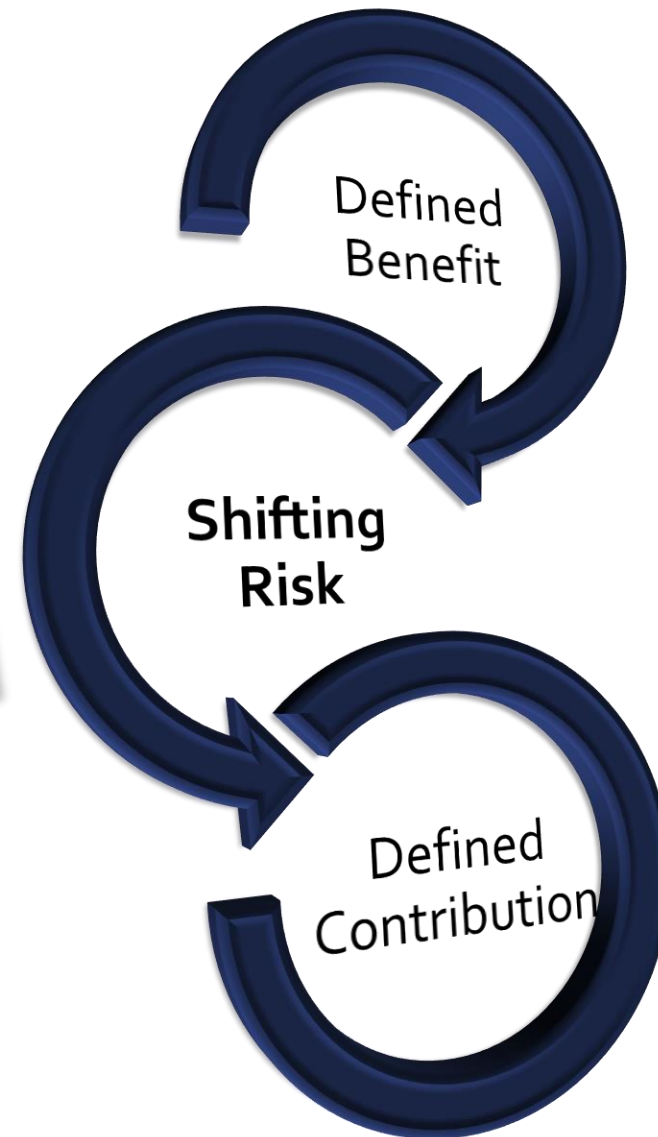
History



WORLD CASES



Shifting Risk





Defined Contribution vs. Defined Benefit Pensions



Defined Benefit

- Investment risk is borne by the employer



Defined Contribution

- Investment risk is borne by the employee

Overview



Market



History



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Overview



Market



History



WORLD CASES



Changes in pension system

Contributions due COVID-19

Changes in Contributions (Jan/2020 and Apr/2020):

Austria, Belgium, Bolivia, Brazil, China, Finland, France, Germany, Greece, Hungary, Iceland, Jersey, Jordan, Lebanon, Malaysia, Malta, Montenegro, Morocco, Netherlands, North Macedonia, Norway, Peru, Poland, Portugal, Russia, Samoa, Spain, Switzerland, Thailand, Uganda, United Kingdom, Uruguay, Vietnam

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Changes in pension system

Pension benefits due COVID-19

Changes in Pension Benefits (Jan/2020 and Apr/2020):

Australia, Barbados, Brazil, Hong Kong, Iceland, India, Israel, Kazakhstan, Mexico, New Zealand, Peru, Samoa, Turkey, Ukraine

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Some Cases - Estonia



Estonia Approves Suspension of Contributions to Individual Account Program

Estonia's government approved a measure that will **allow** employers and employees to temporarily **suspend** their **contributions** to the country's mandatory individual account program. Under the measure, employer contributions to the program will automatically be suspended from **July 1, 2020**, through **August 31, 2021**.

This contribution-suspension measure was included in a supplementary budget that was adopted by the government to reduce the socio-economic effects of the COVID-19 pandemic. The total cost of this supplementary budget is expected to be around €2 billion (**US\$2.2 billion**), or about 7 percent of gross domestic product.

Pension System Overview

Estonia's pension system consists of the individual account program as well as social insurance, universal, and social assistance programs. The individual account program covers all persons born after December 31, 1982, who are covered by social insurance, including self-employed persons. The social insurance, universal, and social assistance programs cover permanent residents of Estonia, noncitizens residing temporarily in Estonia, and legal refugees. The social insurance program is entirely employer financed, while the government pays the total cost of the universal and social assistance programs.



Some Cases - Canada



Canada Announces Lump-Sum Payments to Seniors

Canada's federal government announced a new **tax-free lump-sum** payment of C\$300 (US\$216.41) to individuals eligible for the Old Age Security (OAS) pension, plus an additional C\$200 (US\$144.27) to those also eligible for the Guaranteed Income Supplement (GIS).

Other measures affecting seniors include a **25% reduction** in the **minimum withdrawal** amount in 2020 from Registered Retirement Income Funds (a retirement vehicle similar to an annuity), and **temporary extensions** of GIS and Allowance payments for pensioners whose 2019 income information has not yet been assessed. The measure is estimated to cost around C\$2.5 billion (**US\$1.8 billion**) and is aimed at helping vulnerable seniors cover increased living expenses caused by the COVID-19 pandemic.

Pension System Overview

Canada's pension system consists of the OAS/GIS program, the earnings-related Canada Pension Plan (CPP), and voluntary tax-advantaged private savings and employer-sponsored pension plans. OAS is a nearly universal pension paid to persons aged 65 or older and is financed through general revenue. To be eligible for an OAS pension, a person must be a legal resident of Canada for at least 10 years after reaching age 18.



Some Cases - Peru



Peru Allows Early Withdrawals from Mandatory Individual Accounts During Pandemic

Peru implemented new rules allowing participants in the country's mandatory individual account program (SPP) to make **one-time** early **withdrawals** from their accounts during the COVID-19 pandemic. The allowed withdrawal amount depends on a participant's account balance.

According to the four pension fund management companies that manage the individual account program, up to 30 billion soles (**US\$8.9 billion**) could be withdrawn as a result of the measure. At the end of March 2020, the individual account program had around 7.5 million active participants (or about 42 percent of Peru's labor force) and approximately 154 billion soles (US\$45.8 billion) in assets under management.

Pension System Overview

Peru's old-age pension system consists of a social insurance program (SNP) and a social assistance program. SPP and SNP operate in parallel to each other, and participation in either of the programs is mandatory for all public- and private-sector employees and voluntary for self-employed persons. Workers who do not choose to participate in SNP within 10 days of first becoming employed are automatically enrolled in SPP. The social assistance pension is paid to residents of Peru who are aged 65 or older, do not qualify for SPP or SNP pensions, and are members of households classified as extremely poor.



Some Cases - Bermuda



Bermuda Introduces Lump-Sum Withdrawal Options for Certain Occupational Pension Plans

Bermuda's government implemented two amendments to the National Pension Scheme (Occupational Pensions) Act 1998 that **allow** members of defined contribution occupational pension plans to **withdraw a portion** of their account balances as **lump sums**. Under one amendment, members **younger than age 65** (the normal retirement age) who are not yet retired may request **one-time withdrawals** of up to B\$12,000 (**US\$12,000**) from their account balances. Under the other amendment, members aged **65 or older** who are retired may request one-time **withdrawals of up to 25%** of their account balances.

Pension System Overview

Bermuda's pension system consists of: (1) a social insurance program for employed and self-employed persons aged 18 or older working more than 4 hours a week, and temporary residents gainfully employed for more than 26 consecutive weeks; (2) the mandatory occupational pension program for private-sector employees aged 23 or older who have worked 720 hours or more for their current employer in any calendar year, and self-employed persons aged 23 or older with annual earnings greater than B\$20,000 (US\$20,000); and (3) a social assistance program that includes an old-age social pension (for Bermudian workers) and a disability social pension (for all Bermuda residents).



Some Cases - Chile



Chile Introduces Special Cash Transfer Program for Vulnerable Households During Pandemic

Chile began implementing a special **cash transfer** program called Emergency Family Income for the country's most socioeconomically vulnerable households, including those with at least one member aged 70 or older receiving an old-age solidarity pension.

The government estimates that around 1.9 million households (or about 4.9 million persons) will receive financial support from the IFE program at a **total cost** of at least 666 billion pesos (**US\$830 million**).

Pension System Overview

Chile's old-age pension system consists of a mandatory individual account program, a legacy social insurance program, and several noncontributory programs. Employees who have entered the labor force since 1983 are required to participate in the individual account program and contribute 10 percent of their monthly covered earnings (plus an administrative fee) to their accounts. The normal retirement age for the individual account and social insurance pensions is 65 for men and 60 for women; for two social assistance pensions, the normal retirement age is 65 for both men and women.



Some Cases - USA



USA Introduces Coronavirus-related relief for retirement plans and IRAs

Part of the CARES Act allowed individuals to tap IRAs or 401(k) retirement plans if they were impacted by the coronavirus and needed cash. The law permits withdrawals up to \$100,000, without penalty. The funds can be paid back, though it's optional.

- Withdrawals are limited to the lesser of \$100,000 or aggregated account balances across all IRA and 401(k)s.
- The account owner, the spouse or dependent must have been diagnosed with Coronavirus or impacted financially because of the pandemic. This includes parents who couldn't work because daycares weren't open.
- The CARES Act stipulates that while the coronavirus related distribution (CRD) is taxable as ordinary income, you can pay the tax over three years.
- You have the option to pay back the money within three years and can file amended tax returns to recoup the tax already paid.
- CRDs are exempt from the 10% penalty that typically applies to early withdrawals

Pension System Overview

The U.S. pension system consists of three pillars: public pension, occupational pensions and private pensions. Workers finance the public pension through a payroll tax; revenues are deposited in two trust funds which pay benefits and the operating expenses of the program. The "social credits" are collected during working life, maximum 4 credits per year, and 40 credits in total necessary to receive full retirement benefits.



Some Cases - EIOPA



EIOPA's Response to the Coronavirus Crisis

- Weekly basis to monitor the evolution of the relevant risk-free interest rate term structures (RFR) and the symmetric adjustment to equity risk (EDA).
- Recommendations on supervisory flexibility regarding deadlines of supervisory reporting and public disclosure by insurers.
- EIOPA will limit its requests for information from and consultations to industry, focussing only on essential elements needed to assess and monitor the impact of the current situation in the market.
- EIOPA extended the deadline of the Holistic Impact Assessment for the 2020 Solvency II Review by two months, to 1 June 2020.



Stay Home - Coronavirus





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